# TRADE UPDATE
## Food & Agriculture

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Provided by CRA

**HIGHLIGHTS**

- **U.S. – China:** The Senate passed The American Innovation and Competitiveness Act last week calling for $250 billion in technology and other domestic investments to counter China's growing economic influence. The bill now moves to the House of Representatives.
- **U.S. – USMCA:** USTR and the Labor Department will pursue a USMCA labor complaint against an auto plant in Mexico for alleged workers' rights violations as requested by the AFL-CIO, the second U.S. filing under USMCA's labor provisions.
- **U.S. – U.K.:** Ambassador Katherine Tai will hold bilateral trade talks with her British counterpart, Liz Truss, in London on July 16th raising expectations of advancing talks to resolve the steel and aluminum tariffs and the civil aircraft subsidies dispute.
- **WTO:** WTO Director-General Okonjo-Iweala urged member countries to reach an agreement on curbing harmful fisheries subsidies ahead of the July Ministers' meeting. Leaders at the G-7 Summit issued a communiqué entailing a list of WTO reform issued, many aimed at curbing China's trade and economic practices.

**Quote:** "We want to lift up women, communities of color, and rural America – people that have been systematically excluded or overlooked." (*USTR Katherine Tai outlining a "worker-focused" trade policy in a speech at the AFL-CIO*)

**China Trade**

- The Senate passed The American Innovation and Competitiveness Act last week. The $250 billion act is meant to mainly counter China's growth by furthering the infrastructure and technology of the U.S. The bill was passed 68-32, with senators from both parties praising the bill. Senate Majority Leader Chuck Schumer said, "Passing this bill— now called the U.S. Innovation and Competition Act—is the moment when the Senate lays the foundation for another century of American leadership." The bill, which includes increased National Science Funding and semiconductor production investment, will now head to the House of Representatives.
- According to the China Ministry of Commerce, China and the U.S. agreed in recent talks to solve "specific problems for producers and consumers." China's Ministry of Commerce, spokesman Gao Feng said that U.S. cabinet officials Janet Yellen and Katherine Tai agreed with Liu He on the need to find common ground. Gao emphasized U.S. and Chinese economic and trade officials "have begun to communicate normally" and that "seeking common ground while reserving differences is a consensus." "Both sides believe that Sino-U.S. economic and trade relations are very important, and there are many specific areas for cooperation," Gao continued, suggesting the U.S. and China should "start with pragmatic problem-solving." "The two sides agreed that the next step is to work together from the perspective of benefiting China and the United States and the world as a whole, to pragmatically solve some specific problems for producers and consumers and promote the healthy and stable development of Sino-U.S. economic and trade relations."

*Gao Feng, Spokesperson China Ministry of Commerce*

**USMCA**

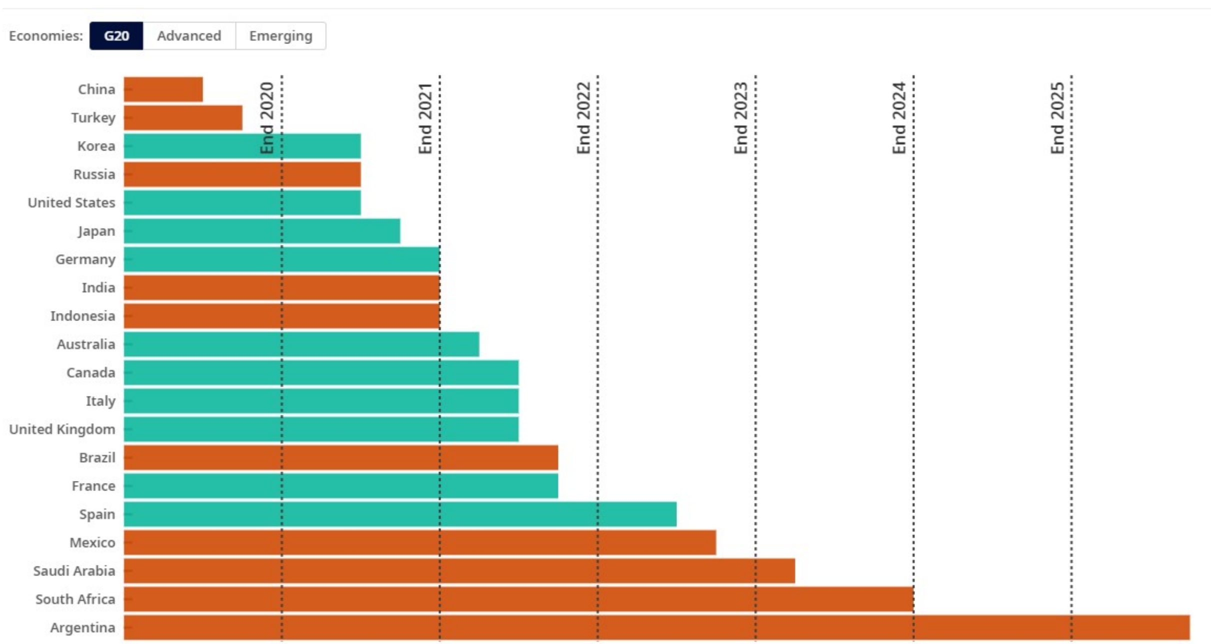
- The Office of USTR and the Labor Department confirmed the U.S. will pursue a USMCA labor complaint against an auto plant in Mexico for alleged workers' rights violations, based on an earlier request from the AFL-CIO. Last month the AFL-CIO filed a complaint under USMCA's rapid-response mechanism against Tridonex, an auto parts factory in the Mexican state of Tamaulipas. The labor group asserts that the firm is denying workers free association and collective bargaining rights. After reviewing the complaint, USTR and the Labor Department determined sufficient credible evidence of worker violations existed and now is formally asking Mexico to review the allegations. According to a USTR statement, "Mexico has 10 days to agree to conduct a review and, if it agrees, 45 days from today to remediate." USTR touted the decision as "the second time ever, and the second time in the past month" that the Biden administration has put USMCA's labor dispute tools to use, "demonstrating the Biden-Harris Administration's commitment to labor enforcement." The first complaint initiated in May targeted a General Motors facility in Mexico for workers' violations.
- The Mexican Economy Ministry responded to the action confirming receipt of the U.S. complaint and agreed to review with the Mexican Labor Ministry whether workers' rights were being violated. "The Mexican government is committed to guaranteeing compliance with USMCA and recognizing workers' rights in Mexico and in North America," the Economy Ministry said in a statement released on twitter.
- The first USMCA Labor Council meeting will be held virtually on June 29. The meeting will consist of senior government officials from trade and labor agencies to discuss matters relating to the implementation of USMCA Chapter 23 (Labor). The government-to-government session will not be available to the public, but there will be a public session on the same day.
- As reported earlier, USTR requested the first USMCA dispute settlement panel concerning Canadian dairy practices. The U.S. is challenging Canada's allocation of dairy tariff-rate quotas (TRQs), specifically the set-aside of a percentage of each dairy TRQ exclusively for Canadian processors, according to the USTR statement. Canadian International Trade Minister Mary Ng vowed to defend Canada's position. "We are confident that our policies are in full compliance with our CUSMA TRQ obligations, and we will vigorously defend our position during the dispute settlement process." She continued, "Our government will continue to stand up for Canada's dairy industry, farmers and workers and will continue to preserve, protect and defend our supply management system."

**COVID-19 Developments**

- According to a report released by the Food and Agriculture Organization of the United Nations, global food trade is set to have a "resilient" 2021 year. The report notes that food trade flows reached new highs during the COVID-19 pandemic, performing better than the broader merchandise sector. The current forecast for 2021 global food trade is set to be at $1.72 trillion, a 12 percent increase from 2020. Much of the growth is fueled by demand in East Asia, with China's recovering livestock sector covering much of this. The report also highlighted how cereal production should experience moderate growth for a third consecutive year, with the bulk of the foreseen growth coming from corn. Global corn production is projected to increase by 3.7 percent in 2021.
- The Census Bureau announced the international trade deficit in goods and services decreased to $68.9 billion in April from $75.0 billion in March (revised), as exports increased, and imports decreased. April exports were $205.0 billion, $2.3 billion more than March exports. April imports were $273.9 billion, $3.8 billion less than March imports. The April decrease in the goods and services deficit reflected a decrease in the goods deficit of $6.2 billion to $86.7 billion and a decrease in the services surplus of $0.1 billion to $17.8 billion.



- The OECD reported that prospects for the world economy have improved but it expects an uneven recovery across the global economy. Global economic recovery is expected to remain uneven and dependent on the effectiveness of vaccination programs and public health policies, according to the OECD Economic Outlook. Some countries are recovering much faster than others, such as Korea and the United States, which are reaching pre-pandemic per capita income levels after about 18 months. Much of Europe is expected to take nearly 3 years to recover. In Mexico and South Africa, it could take between 3 and 5 years.




Recovery to pre-pandemic level: a sustained increase in real GDP per capita above its Q4 2019 level. For countries recovering after Q4 2022, calculations are based on average quarterly growth rates in 2022. • Source: OECD (2021), OECD Economic Outlook No 109 (Edition 2021/1)

**USTR**

- In a highly publicized trade policy speech at the AFL-CIO, Ambassador Tai said the Biden administration will represent the interests of American workers — not just corporations — in trade talks and multilateral organizations. Tai noted that workers and many communities were left behind under prior trade policies creating a "trust gap with the public on free trade." Some specific changes in a "worker-centered trade policy" approach include, "The first step to achieving this goal is creating a more inclusive process. Workers are the real engine of growth and not just a line item in a spreadsheet. In order to understand how trade affects them, we want to come meet with, listen to, and learn from them." She further emphasized that "By bringing workers from all backgrounds and experiences to the table, we will create inclusive trade policy that advances economic security and racial and gender equity. We want to lift up women, communities of color, and rural America – people that have been systematically excluded or overlooked." The virtual AFL-CIO town hall with Amb. Tai available here.

**Section 232 Investigations**

- Resolving the tariff disputes on steel and aluminum, and civil aircraft is a primary purpose of USTR Katherine Tai's visit to Brussels for the US- EU Summit according to reports. A USTR spokesperson said Tai is optimistic ahead of expected "intense negotiations" to end two disputes with the European Union as well as work with European allies to address trade challenges from China. Specifically, regarding the U.S. Section 232 tariffs on EU steel and aluminum and the European retaliatory tariffs, Tai said she's hopeful both sides can "find a path forward" to end the trade friction. Tai alluded to the pending tariff discussion in a recent speech to the AFL-CIO stating, "These talks (in Brussels) will give us a chance first and foremost to champion the rights and interests of our workers … while also creating new standards to combat the harmful and industrial policies of China and other countries."
- EU officials have expressed a willingness and optimism for talks to resolve the tariff issues in the past several months. In a press conference in late May, Valdis Dombrovskis, European Commission Executive Vice President cited progress in discussions on steel and aluminum overcapacity – as "positive" developments in the U.S.-EU relationship. Portuguese Foreign Minister Santos Silva indicated the European ministers had a "very positive dialogue" with Ambassador Katherine Tai during a recent meeting and there was "clear convergence" between the two trade partners moving forward. According to Dombrovskis, the U.S. and EU also are looking to conclude their dispute over U.S. steel and aluminum tariffs this year. "Our objective remains a full and final removal of all U.S. Section 232 tariffs towards the EU and, correspondingly, our countermeasures – and to do this as soon as possible, but in any case by the end of the year," he said.
- Earlier the EU announced suspending planned retaliatory tariff hikes for June 1st on U.S. goods, as EU and U.S. trade officials agreed to work collaboratively to address global steel and aluminum excess capacity. In a joint statement the two trade partners stated that, "European Commission Executive Vice President Valdis Dombrovskis, United States Trade Representative Katherine Tai and U.S. Secretary of Commerce Gina M. Raimondo today announced the start of discussions to address global steel and aluminum excess capacity. During a virtual meeting last week, the leaders acknowledged the need for effective solutions that preserve our critical industries and agreed to chart a path that ends the WTO disputes following the U.S. application of tariffs on imports from the EU under section 232." The trade leaders said the talks would include discussions on how overproduction in China depresses prices and threatens the viability of domestic metal producers. "The United States and EU Member States are allies and partners, sharing similar national security interests as democratic, market economies," said the joint statement.

**Section 301**

- As reported earlier, USTR announced section 301 Tariffs in retaliation for digital service taxes levied by six countries but then immediately said it would suspend tariff implementation while negotiations continue on international tax issues. In last week's press release, USTR announced completion of its Section 301 investigations of Digital Service Taxes (DSTs) that have been adopted by Austria, India, Italy, Spain, Turkey and the United Kingdom. For each country, USTR determined that it would take action in the form of additional duties of 25% on certain designated products from each country. However, such additional duties have been immediately suspended for a period of up to 180 days – until November 29, 2021 – to provide additional time to complete ongoing multilateral negotiations on international taxation issues. In making the announcement, USTR Katherine Tai stated, "The United States is focused on finding a multilateral solution to a range of key issues related to international taxation, including our concerns with digital services taxes … The United States remains committed to reaching a consensus on international tax issues through the OECD and G20 processes. Today's actions provide time for those negotiations to continue to make progress while maintaining the option of imposing tariffs under Section 301 if warranted in the future." The USTR has prepared six notices that indicate in Appendix A to each notice the specific products/tariff subheadings upon which these duties will be placed for Austria, India, Italy, Spain, Turkey, and the United Kingdom.

**U.S. – Taiwan Trade**


*U.S. Trade Representative Katherine Tai and Taiwan Minister John Deng*

- The U.S. announced it will commence talks with Taiwan "in the coming weeks" under the two countries' Trade and Investment Framework Agreement (TIFA), according to the Office of the USTR. Ambassador Katherine Tai met virtually with Taiwan Minister-Without-Portfolio John Deng last week to discuss "the importance of the U.S.-Taiwan trade and investment relationship" and the U.S.' "continued interest in working together with Taiwan on issues of common concern in multilateral organizations," the agency reported. The two countries agreed to convene the 11th TIFA Council meeting "under the auspices of the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office in the United States," in coming weeks reported USTR.
- Prior to the USTR announcement Secretary of State Anthony Blinken signaled the potential talks stating, "I know we are engaged in conversation with Taiwan – or soon will be – on some kind of framework agreement and those conversations should be starting," Blinken told the House Foreign Affairs Committee at a budget hearing last week. Blinken emphasized he would defer to UST Katherine Tai to provide additional details. Blinken's comments respond to pressure from several Congressional lawmakers seeking the Administration to launch free trade negotiations with Taiwan as a counter to China. The U.S. and Taiwan have a TIFA, which frequently is a precursor to a free trade agreement. The last TIFA discussions were held in 2016.

**U.S. – Kenya Trade**

- Since Ambassador Katherine Tai's appearance before the Senate Finance Committee hearing on President Biden's trade agenda, there has been no further indication on U.S. engagement on bilateral trade talks. Ambassador Tai responded to questions on the status of the Kenya free trade agreement by stating, "In 2020, the United States and Kenya officially launched and completed two rounds of negotiations to pursue a free trade agreement. Since announcing the negotiations, the United States completed two rounds of negotiations with Kenya…I will review the U.S.- Kenya bilateral relationship, and the African Growth and Opportunity Act (AGOA) program. The United States' economic relationship with the African continent will be a priority..."
- The bilateral trade talks remain paused as the Biden administration reviews the progress on the two rounds of trade negotiations with Kenya under the prior administration. USTR Katherine Tai earlier indicated she is reviewing the negotiations to "ensure that any agreement aligns with the Biden-Harris Administration's Build Back Better agenda," according to a USTR statement. Earlier USDA Secretary Vilsack expressed his optimism that the Biden Administration will move forward with the Kenya trade talks although he did not specify a time frame.

**U.S. – EU Trade**

- Two EU officials said on last Friday that the European Commission has sent out a proposal to extend the steel import safeguards for another three years. There would be a yearly review of the quotas, with a three percent quota volume increase every year. Currently, the quotas are set to expire on June 30. The extension would allow other WTO member states to retaliate. The proposal is set to be voted on in the second half of this week.

- No significant updates since the EU and U.S. issued a joint announcement aiming to work together on finding collaborative solutions to global excess capacity in steel and aluminum and engage in effective discussions regarding the section 232 tariffs. The two trade partners stated that, "European Commission Executive Vice President Valdis Dombrovskis, United States Trade Representative Katherine Tai and U.S. Secretary of Commerce Gina M. Raimondo today announced the start of discussions to address global steel and aluminum excess capacity. During a virtual meeting last week, the leaders acknowledged the need for effective solutions that preserve our critical industries and agreed to chart a path that ends the WTO disputes following the U.S. application of tariffs on imports from the EU under section 232."

*Civil Aircraft Disputes*

- Expectations are high that USTR's visit to Brussels this week will further inject positive momentum in in resolving the decades-long civil aircrafts subsidies dispute between the U.S. and EU. In recent weeks both trade partners announced ambitions to resolve the decades-long trans-Atlantic dispute prior to expiration of the current four-month tariff suspension. EU officials indicated both sides are targeting a July 10 deadline. "We are working with this deadline in mind." "The work is advancing, so I would say that this timeline is realistic. Of course, it requires effort on both sides, but it's possible to achieve this agreement by this time," EC Executive Vice President Valdis Domrovskis said.
- The U.S. and EU agreed in early March to suspend for four months tariffs imposed on each other for subsidies provided to Boeing and Airbus, respectively. Both sides had won the right to retaliate for these subsides in parallel World Trade Organization disputes. The U.S. and the United Kingdom, separately, also agreed to suspend tariffs.
- On November 4, 2020, the EU imposed tariffs of 15% on U.S. aircraft and 25% on agricultural goods, totaling $4 billion under the WTO ruling on U.S. subsidies for Boeing civil aircraft. USTR Robert Lighthizer previously argued that the EU tariffs were no longer valid as regulations in Washington State regarding Boeing business activities now comport with the WTO rulings. In October 2020, the WTO granted the EU the green light to move froward with $4 billion in retaliatory tariffs against U.S. products under the civil aircraft dispute regarding Boeing. The U.S. countered immediately stating the EU has no legal basis to impose aircraft tariffs in conjunction with recent WTO's arbitrator's announced award level of $4 billion on U.S. products.

**U.S. - U.K. Trade**

- On the sidelines of the U.S. – EU Summit, President Biden and British Prime Minister Boris Johnson met in Cornwall, England, and committed to deepening trade ties. "Both countries recognize that trade, when done right, can support our mutual interest in sustainable and green growth, good jobs for our workers, new opportunities for our innovators and businesses, and high labour and environmental standards," they said in a joint statement. "We will therefore work closely to identify and pursue opportunities to deepen our already extensive trade relationship."


*U.S. President Joseph Biden and U.K. Prime Minister Boris Johnson*

- Following the Biden-Johnson statement, USTR announced that Amb. Katherine Tai will hold bilateral trade talks with her British counterpart, Liz Truss, in London on July 16th. Tai said she would accompany President Biden on his U.S.-EU Summit to meet with her EU counterparts to discuss possible resolutions to two trade disputes. USTR said in its Friday statement, "Ambassador Tai will continue to elevate our historic worker-centered trade policy, continue efforts to resolve long-standing disputes with our allies and support the Biden-Harris Administration's foreign policy for the middle class."
- The U.K. announced a review of its retaliatory tariffs imposed on U.S. products in response to the ongoing trade conflict regarding section 232 steel and aluminum tariffs. Britain's Department of International

Trade's announcement provided further details on a 6-week public consultation period to ensure any tariffs on aluminum and steel dispute are shaped to U.K. interests. U.K. International Trade Secretary Liz Truss said, "We now have the power to shape these tariffs, so they reflect UK interests, and are tailored to our economy." She continued, "The UK will do whatever is necessary to protect our steel industry against illegal tariffs that could undermine British industry and damage our businesses." The U.K.'s review could result in the maintenance, increase or decrease in tariffs, or removal of products from the proposed potential rebalancing measures list. The proposed list includes several food and agriculture products including grapes, candies, wine, orange juice, chocolate, and lobsters.

- U.S. – U.K. trade negotiations remain paused as the Biden administration focuses on resolving the civil aircraft disputes and reviews the content of five negotiation rounds conducted under the Trump administration. According to some trade observers, completing a U.S. - U.K. deal will carry into 2023. TPA is expected to lapse on July 1 and the Biden Administration is prioritizing China and investing in domestic programs to boost the U.S. economy. Additionally, U.S. mid-term elections in 2022 pose a high hurdle for TPA passage in the short term. Others have noted that the Biden Administration is focused on leveraging the current 4-month tariff pause with UK and EU to secure a resolution to the decades old WTO civil aircraft disputes, rather than prioritizing TPA renewal.

## WTO

- WTO Director-General Okonjo-Iweala implored member countries to reach an agreement on curbing harmful fisheries subsidies ahead of the July Ministers' meeting. Speaking last week on World Ocean Day, and joined by Ambassador Santiago Wills, chair of the fisheries negotiations, Okonjo-Iweala said in a video statement, "This year, as we mark another World Ocean Day, we are reminded that two decades is too long for ending subsidies that finance the relentless overexploitation of our ocean. Governments need to deliver a WTO fisheries subsidies agreement now." "Members have made real progress but we're not there yet. ...We must seize this opportunity to narrow the remaining gaps."
- Over the past several months WTO members made progress on advancing talks on fisheries subsidies as they approach a mid-July ministers meeting, yet differences remain on special and differential treatment provision concerns raised by members. Recent discussions were held at the heads-of-delegation level as WTO members attempt to complete an actionable draft agreement – with few remaining question marks – in front of ministers for the July 15 virtual ministerial meeting.
- As noted earlier, the U.S. recently proposed inclusion of language prohibiting forced labor on fishing vessels in the current negotiations on curbing harmful fisheries subsidies. Specifically, U.S. seeks to add that members also notify "any vessels and operators for which the Member has information that reasonably indicates the use of forced labor, along with relevant information to the extent possible." In announcing the proposal, USTR contends that forced labor encompasses not only moral problems, but also competitiveness as it an "unfair cost advantage" as well. "Forced labor harms the lives and well-being of fishers and workers around the world and it must be eliminated," Tai said in a statement. "We will continue to work closely with our partners and allies to promote a fair international trading system that addresses the sustainability of fisheries resources, and benefits workers and citizens around the world." The proposed language was not presented nor commented upon in recent negotiating sessions. The fisheries talks are commonly recognized as a pivotable test of the WTO's credibility and leading component for the upcoming ministerial.

*WTO Reform*

- Leaders at the G-7 Summit issued a vision for a modernized WTO that would entail reforms regarding harmful industrial subsidies, special and differential treatment, IP theft, forced labor, and reinvigoration of the negotiating arm and solutions to longstanding dispute settlement problems. The Leaders' communiqué provided a long list of issues that the G-7 leaders believe WTO reform efforts should address, including many that squarely would impact China. The 31-page communiqué stated the leaders would work together ahead of MC12 to advance several principles, including the follow:

"modernisation of the global trade rulebook so that it both better reflects, with new rules, the transformations underway in the global economy, such as digitalisation and the green transition; and strengthens rules to protect against unfair practices, such as forced technology transfer, intellectual property theft, lowering of labour and environmental standards to gain competitive advantage, market-distorting actions of state owned enterprises, and harmful industrial subsidies, including those that lead to excess capacity."

- The communiqué also calls for "stronger adherence to the existing and modernised rulebook, including through greater respect for and compliance with transparency obligations, and a strengthened WTO monitoring and deliberating function," echoing previous U.S. criticisms of members lax in their notifications.

**Ag Economy Barometer**

- May's Ag Economy Barometer index receded 20 points, falling to an index reading of 158, the lowest since September of 2020. The index reading has averaged over 170 the past few months, inching close to the record high of 184 last October before declining in May. The weakening farmer sentiment was largely attributable to producers' eroding confidence in their farms' financial performance compared with the prior month and currently being less inclined to undertake large investments in their farming operation. Though the index is down in May, strong ag commodity prices continue to support producers' generally optimistic perspectives on current conditions. Conversely ongoing concerns remain, with farmers concerned with possible changes in tax policy being considered by Congress, especially changes that could make it more difficult to pass their farm on to the next generation.