

TRADE UPDATE

Food & Agriculture



Provided by CRA

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HIGHLIGHTS

- **U.S. – China:** Reporting out on a recent virtual meeting of Asia-Pacific ministers, USTR Katherine Tai said the trade relationship with China has a “significant imbalance” and the Biden administration is committed to leveling the imbalance.
- **U.S. – USMCA:** Canada announced it has requested a dispute settlement panel against U.S. safeguard tariffs imposed by the Trump Administration on solar products from Canada. Separately the Biden Administration is reviewing adding Paris Agreement obligations to the USMCA.
- **U.S. – EU:** The U.S. and EU agreed to suspend for 5 years retaliatory tariffs in the dueling WTO disputes over civil aircrafts subsidies removing EU countermeasures on several U.S. food and agriculture products.
- **U.S. – U.K.:** The U.S. and U.K. agreed to similar deal as the EU for a 5-year suspension on civil aircraft tariff measures over subsidies for Airbus and Boeing.
- **WTO:** WTO Members’ frustrations are elevated in the fisheries talks over the special carve-outs extended to ten major subsidizers for continuing with their industrial-scale of fishing outlined in the chair’s consolidated draft text.

Quote: “Compromises are made in any trade deal, and the TPP was no different.” “But to even have a shot at writing the rules, you need a seat at the table. Right now, the United States is waiting in the hallway.” (Senator Tom Carper, *Washington Post* [opinion piece](#) on CPTPP)

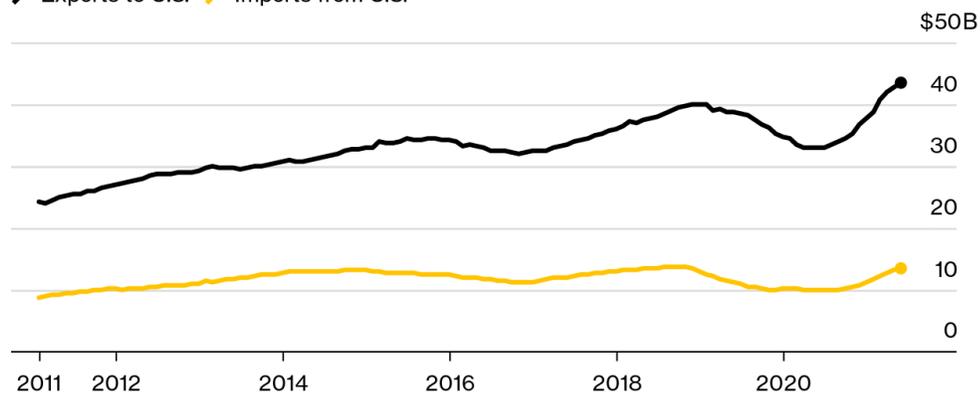
China Trade

- The trade relationship with China has a “significant imbalance” and the Biden administration is committed to leveling it, USTR Katherine Tai said prior to a virtual meeting of Asia-Pacific ministers. The recent call was the third between senior officials in recent weeks, after China’s Vice Premier Liu He earlier spoke with Tai and Treasury Secretary Janet Yellen, prior to the recent G-7 and EU Summits.

Increasing Imbalance

China’s trade surplus with the U.S. continues to increase

Exports to U.S. Imports from U.S.



Source: China’s General Administration of Customs
Note: Shows 12-month trailing average

Bloomberg

- As noted earlier, 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, heads to the House of Representatives.

USMCA

- Canada announced it has requested a dispute settlement panel against U.S. safeguard tariffs imposed by the Trump Administration on solar products from Canada. "These tariffs are unwarranted and damaging to the global competitiveness of our long-established, secure and deeply integrated supply chains," said Canadian International Trade Minister Mary Ng. "As we build back better from the challenges of the COVID-19 pandemic and urgently address climate change, Canada and the United States must be aligned and work together on the development of sustainable and equitable energy transitions and clean energy innovation," she continued. Under the timeline provided in the USMCA, the dispute settlement panel report would be expected early next year. Exports of solar products from Canada to the United States have dropped by some 82 percent since the safeguard tariffs were imposed in 2018, according to Ottawa.
- The Canadian government and Canadian lumber producers have expressed desire for the U.S. to remove anti-dumping and countervailing duties against Canadian lumber imports. The combined duties are currently around 9% of the value of each import, with the prices paid having gone up since the recent increase in lumber prices. The Commerce Department is planning on doubling these duties to 18% by the end of the year. With the high tariff costs being paid by Canadian lumber producers, they have pushed to be repaid the billions of dollars' worth of duty payments. While the Canadian government wants the tariffs removed, the Biden Administration has stated they believe the Canadians aren't interested in a new arrangement, according to sources.
- Last week, USMCA trade partners held the inaugural meeting of the Environment Committee. According to a joint statement, "The meeting included a fruitful discussion on the progress and challenges in [implementing](#) the environmental obligations since the Agreement's entry into force on July 1, 2020. The Parties also shared how they have each raised public awareness of issues related to Chapter 24 implementation. The Committee emphasized the importance of sharing information and fostering public participation in the implementation of Chapter 24 for future public engagement."
- The Biden Administration is reviewing adding Paris Agreement obligations to the USMCA. Earlier on Thursday, June 17, a USMCA environmental committee held a virtual meeting where the topic of including Paris Agreement obligations was discussed. Assistant U.S. Trade Representative for Environment and Natural Resources Kelly Milton said, "We are certainly continuing to analyze whether adding the Paris agreement to the list of multilateral environmental agreements in USMCA would in fact make a positive contribution to addressing the climate crisis". Both House Democrats and Canadian officials have expressed a willingness to adopt the obligations.
- The Biden Administration has announced its intent to [nominate](#) former Senator Ken Salazar to serve as ambassador to Mexico. He was a leading candidate for the ambassadorship according to sources. Salazar served as a senator from Colorado from 2005 to 2009, and as interior Secretary during the Obama Administration. The White House press release noted that Salazar is a native of Colorado, Salazar is a fifth-generation rancher in Colorado's San Luis Valley. He currently is a partner at WilmerHale, an American law firm and the founder of the firm's Denver office. He represents clients on energy, environment, natural resources and Native American matters.
- As reported earlier, the Office of USTR and the Labor Department 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



*Ken Salazar, Nominee,
Ambassador to Mexico*

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 U.S. complaint and indicating it would 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.

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.
- Globally, food and agricultural exports grew by almost \$52 billion from 2019 to 2020, with developing countries accounting for 40 percent of this increase, the report found. Global output for most major food commodities is expected to increase in 2021. Forecasts show global meat output, for instance, is set to grow by 2.2 percent in 2021, a reflection of an “anticipated rebound” in meat production in China as a result of large investments in “enhancing meat value chains and biosafety,” according to the report. World fish output is expected to expand as well, by 1.5 percent.

Section 232 Investigations

- The U.S. and European Union [pledged](#) to address steel and aluminum global overcapacity, including removal of U.S. section 232 tariffs, by the end of the year. This timing would coincide with the reimposition of increased EU tariffs against the U.S. section 232 tariffs. The U.S. and EU said in a joint statement last week, “We will engage in discussions to allow the resolution of existing differences on measures regarding steel and aluminum before the end of the year.” The two sides agreed more is required to find solutions to the steel and aluminum tariffs, given the priority during the talks last weekend was to solve the aircraft dispute, according to European Commission President Ursula von der Leyen. The U.S. and EU established a working group to address the tariffs and discuss the steel overcapacity issue with the goal of eliminating the duties by December.
- Prior to departing to join President Biden at the EU Summit in Brussels, Tai said she expressed optimism that the U.S. and EU could “find a path forward” to end the trade friction. We will be better able to respond to global over-capacity if we consult ... with our allies,” said Tai in an address to the AFL-CIO. “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.”

Section 301

- A ruling on the lawsuit against the Trump administration’s Section 301 tariffs against China is now unlikely until 2022, according to one of the lawyers involved in the lawsuit. Thousands of importers have joined lawsuits against the government over the tariffs covering \$320 billion dollars' worth of Chinese goods. The importers affected by the tariffs are arguing for duty refunds with interest. Due to the case potentially heading to the U.S. Court of Appeals and the U.S. Supreme Court, it could take even longer for the case to be finalized.
- 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

- As noted earlier, Taiwan Minister-Without-Portfolio John Deng and USTR Katherine Tai committed to resuming Trade and Investment Framework Agreement (TIFA) talks that had been stalled since the Obama administration in 2016. Andrew Wylegala, the president of the American Chamber of Commerce in Taiwan, said the talks could be a key step toward a bilateral trade agreement. “It’s very much our belief that this does tie into the wider architecture and that there’s a springboard to the big goal for many of us in government, out of government, in business and Taiwanese-American third countries: A bilateral trade agreement,” he said. Taiwan “stands out” as a trading partner for a host of reasons, Wylegala continued. Taipei, he noted, has strategic and geopolitical importance in the context of the U.S. relationship with China. Also, Taiwan plays an important role in medical supply chains and semiconductor manufacturing, Wylegala said.
- Last week the U.S. [announced](#) it will commence TIFA talks with Taiwan “in the coming weeks,” 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 USTR 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 reported 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.”

Civil Aircraft Disputes

- The U.S. and EU reached a deal for a 5-year suspension of tariffs imposed in conjunction with civil aircraft subsidies to Airbus and Boeing. During the EU summit in Brussels last week both sides concluded the deal aiming for a permanent resolution to the decades-long dispute after freezing the tariffs on hold for four months earlier this year. The U.S. and EU will continue to negotiate a permanent solution over subsidies found in violation of WTO rules.
- “Today’s announcement resolves a longstanding trade irritant in the U.S.-Europe relationship,” USTR Katherine Tai told reporters. “Instead of fighting with one of our closest allies, we are finally coming together against a common threat.” “We agreed to work together to challenge and counter China’s non-market practices in this sector in specific ways that reflect our standards for fair competition,” she added. “This includes collaboration on inward and outbound investment and technology transfer.” According to Tai, the tariffs “will remain suspended so long as EU support for Airbus is consistent with the terms of this agreement. Should EU support cross a red line and U.S. producers are not able to compete fairly and on a level playing field, the United States retains the flexibility to reactivate the tariffs that are being suspended.”

- Several lawmakers and industry leaders applauded the easing of transatlantic trade tensions and civil aircraft tariffs. House Ways and Means Committee Chairman Richard Neal (D-Mass.), said in a news release, “I commend Ambassador Tai and the Biden administration for resolving one of the longest trade disputes in U.S. history in a manner that delivers for American workers and businesses. This agreement creates an opportunity for the United States and the EU to work cooperatively to confront China’s non-market practices in the aerospace sector and beyond.
- Chris Swonger, president and CEO of the Distilled Spirits Council (DISCUS), said, “The five-year suspension of these tariffs on distilled spirits is happening at a critical time for the U.S. hospitality industry” and added that “lifting this tariff burden will support the recovery of restaurants, bars and small craft distilleries across that country that were forced to shut down their businesses during the pandemic.” “Under today’s agreement, the EU will suspend for five years the 25% tariffs on U.S. rum, brandy and vodka imposed in November 2020. In return, the U.S. will suspend for five years the 25% tariffs on liqueurs and cordials from Germany, Ireland, Italy and Spain imposed in October 2019, and on certain Cognacs and other grape brandies from France and Germany imposed in January 2021,” Swonger said.
- 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 forward 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.



*Congressman
Richard Neal*

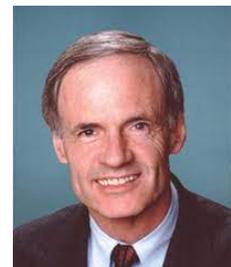
U.S. - U.K. Trade

- The U.K. has matched the deal reached by Brussels and Washington for a five-year ceasefire on the long-standing trade dispute over subsidies for the civil aircraft producers Airbus and Boeing. The agreement was determined after two days of meetings between Liz Truss, the British trade secretary, and her U.S. counterpart USTR Katherine Tai. “The United States and the United Kingdom today reached an understanding to resolve a long-standing trade irritant relating to large civil aircraft. This development strengthens our special relationship and builds on the revitalized [Atlantic Charter](#), which affirms our ongoing commitment to sustaining and defending our enduring values against new and old challenges,” a joint [statement](#) read.
- As with the [EU-U.S. arrangement](#), there will be a Working Group on large civil aircraft which will require regular meetings for the two sides’ trade ministers. “This deal will support jobs across the country and is fantastic news for major employers like Scotch whisky and sectors like aerospace. We took the decision to de-escalate the dispute at the start of the year when we became a sovereign trading nation, which was crucial to breaking the deadlock and bringing the U.S. to the table,” U.K. Trade Secretary Liz Truss said in a statement. Truss emphasized that this deal will allow both countries to concentrate on “unfair practices by nations like China.”
- Tai said in a statement, “Reaching an agreement with the United Kingdom to finally put the large civil aircraft disputes behind us is a great step forward for our special relationship. I want to thank Secretary Truss for her partnership while we worked to get this deal across the finish line. It is a model we can build on to ensure fair competition and address common challenges from China and other non-market economies.” “Our success this week shows that democracies can deliver results and come together to shape trade policies that lift up workers, people and communities that are often overlooked. This worker-centric approach will guide our efforts to address other U.S.—U.K. trade issues, and I look forward to working closely with Minister Truss in the months ahead.”

- As reported earlier, during the U.S. – EU Summit, President Biden and British Prime Minister Boris Johnson 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.”
- No significant developments emerging from Ambassador Tai’s visit to the EU Summit regarding paused U.S. – U.K. trade negotiations. Tai has consistently said USTR is reviewing 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.

CPTPP

- Several lawmakers called on the Biden administration to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), arguing that the previous White House made a huge mistake in pulling out of the trade pact. Tom Carper (D-Del) and John Cornyn (R-Texas) penned an [opinion piece](#) in the *Washington Post* contending the U.S. should take a leadership role in the Asia Pacific region, especially with China intending to join the CPTPP. “Compromises are made in any trade deal, and the TPP was no different,” the senators wrote. “But to even have a shot at writing the rules, you need a seat at the table. Right now, the United States is waiting in the hallway.”
- Senators Carper and Cornyn also coordinated a letter last month to USTR Katherine Tai urging her to begin negotiations on CPTPP membership. “Had we joined the TPP, it would have brought a potential sea change for US manufacturers, farmers, small businesses and other exporters by eliminating more than 18,000 tariffs on American-made products in some of the world’s fastest-growing markets,” the senator wrote in their opinion piece. “The agreement was also crafted with the environment in mind, and it included new requirements for acceptable working conditions.” Joining the CPTPP would ensure that China is not left to write the rules for trade in the Asia Pacific region, the senators said.
- As reported earlier, China is pushing ahead with technical talks with several countries with an ambition to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). According to officials from four member countries with knowledge of the discussions, China has conducted multiple discussions with Chinese counterparts on details of joining CPTPP. The U.K. also publicly confirmed its ambitions to join the CPTPP. According to reports at the time, The U.K. would be the second-largest economy joining the agreement, the largest being Japan.



Senator Tom Carper

WTO

- Members of the two largest coalitions of developing and least-developed countries last week in the WTO fisheries subsidies negotiations are demanding exclusion from implementing the list of prohibited subsidies in the overcapacity and overfishing talks. Members’ frustrations are elevated over the special carve-outs extended to ten major subsidizers – China, the European Union, the United States, Japan, Korea, Taiwan and Canada among others – in the chair’s consolidated draft text for continuing with their industrial-scale of fishing that contributed to the problem of overcapacity and overfishing according to source close to the talks. The fisheries subsidies negotiations chair Ambassador Santiago Wills (Colombia) in a draft consolidated text outlined specific exemptions for big subsidizers under what is called

sustainability flexibility in Article 5.1.1. The U.S., the EU and other industrialized countries have sought stringent and extremely weakened Special & Differential Treatment (SD&T) provisions to curb alleged unfair fishing practices, particularly China. According to some sources, the recent negotiations have increasingly been complicated with a maze of inherent contradictions due to the formulations in the chair's draft consolidated text circulated last month.

- WTO Director-General Okonjo-Iweala has implored member countries to reach an agreement on curbing harmful fisheries subsidies ahead of the July Ministers' meeting. Speaking 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."
- 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.

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 following:
 - "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.