

## TRADE UPDATE Food & Agriculture



Provided by CRA

June 29, 2021

### HIGHLIGHTS

- **U.S. – China:** Ambassador Tai characterized the U.S. – China trade relationship as significantly imbalanced and said the Biden Administration is committed to rebalancing the situation.
- **U.S. – USMCA:** On July 1 USMCA reaches its first anniversary. Separately, the U.S. Chamber of Commerce said USMCA lacks “due process protections” for labor disputes, in a letter to the Office of USTR and the Labor Department concerning recent labor complaints filed on Mexican USMCA labor compliance.
- **TPA:** Trade Promotion Authority (TPA) expires on July 1, with no indication from either Congress or USTR in renewing TPA, critical legislation that provides for Congress to consider trade agreements expeditiously - straight up-or-down vote without any amendments.
- **WTO:** A deal on WTO fisheries talks ahead of the July 15 ministerial meeting have stalled according to Director-General Ngozi Okonjo-Iweala.

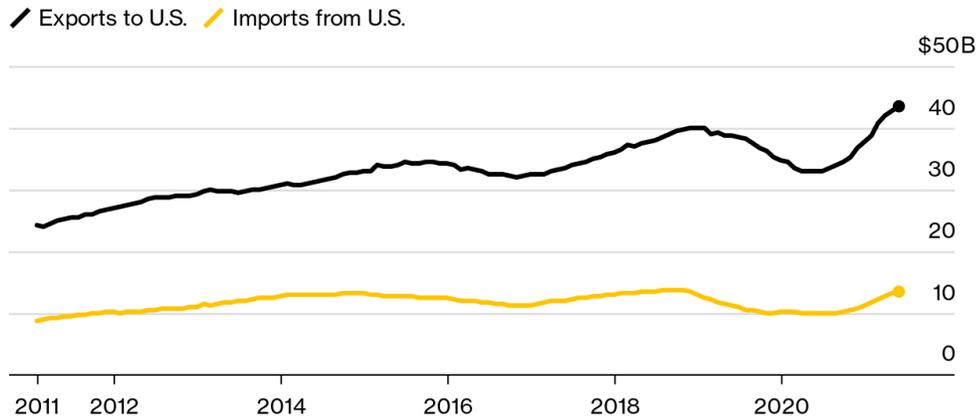
**Quote:** “The challenges we face today are different than the ones we faced in 2014, 2015.” “But I think the sentiment of working with our allies to try to counter the rise of China's is incredibly important.” (*Sarah Bianchi, Deputy USTR nominee, speaking at Senate confirmation hearing describing CPTPP as “outdated” and commenting on U.S. re-engaging in CPTPP*)

### China Trade

- The recent U.S. bans on goods made from Chinese forced labor [have increasingly disrupted importers](#), causing them to raise multiple complaints. Customs officers have targeted 1,255 shipments \$765 million dollars' worth of goods since the start of the current fiscal year in October. Over 600 shipments were detained, and the other half ultimately didn't reach U.S. ports, showcasing a sharp rise from 324 detained cargoes in fiscal year 2020 and only 12 detained cargoes in fiscal year 2019. This acceleration has been fueled by the Trump administration's ban on cotton and tomatoes imports from Xinjiang, which the Biden administration expanded to cover products made from these two crops. Multiple companies have complained about confusion, with senior vice president of policy at American Apparel and Footwear Association Nate Herman stating, “Companies don't know what they are trying to prove because they don't know what part of the shipment triggered the detention or why it was in violation.”
- As noted earlier, the Senate passed [The American Innovation and Competitiveness Act](#). 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 next go to the House of Representatives.
- 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



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

Bloomberg

## USMCA

- The U.S. Chamber of Commerce said USMCA lacks “due process protections” for labor disputes, in a letter to the Office of USTR and the Labor Department concerning recent labor complaints filed on Mexican labor compliance. On June 22, the Chamber submitted [comments](#) to the Office of USTR and the Department of Labor (DOL) ahead of the [first](#) U.S.-Mexico-Canada Agreement Labor Council meeting taking place on June 29. The Chamber expressed its concern that “the final procedural guidance has yet to be published, hence any action on a petition is inappropriate and unfair to the owner of the covered facility and the respondent party” and contends that “clear, final procedural guidance must be published” before the Labor Committee acts on petitions. The Chamber also raised issue with the timing of USMCA labor petitions, which violate industry’s right to due process. While the USMCA entered into force on July 1, 2020, the Labor Committee is acting on petitions that allege a denial of rights occurred, in part, before entry into force.
- The Office of USTR and the Labor Department earlier announced 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 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.



Ken Salazar, Nominee, Ambassador to Mexico

- As reported earlier, 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. 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.

### 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, “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.

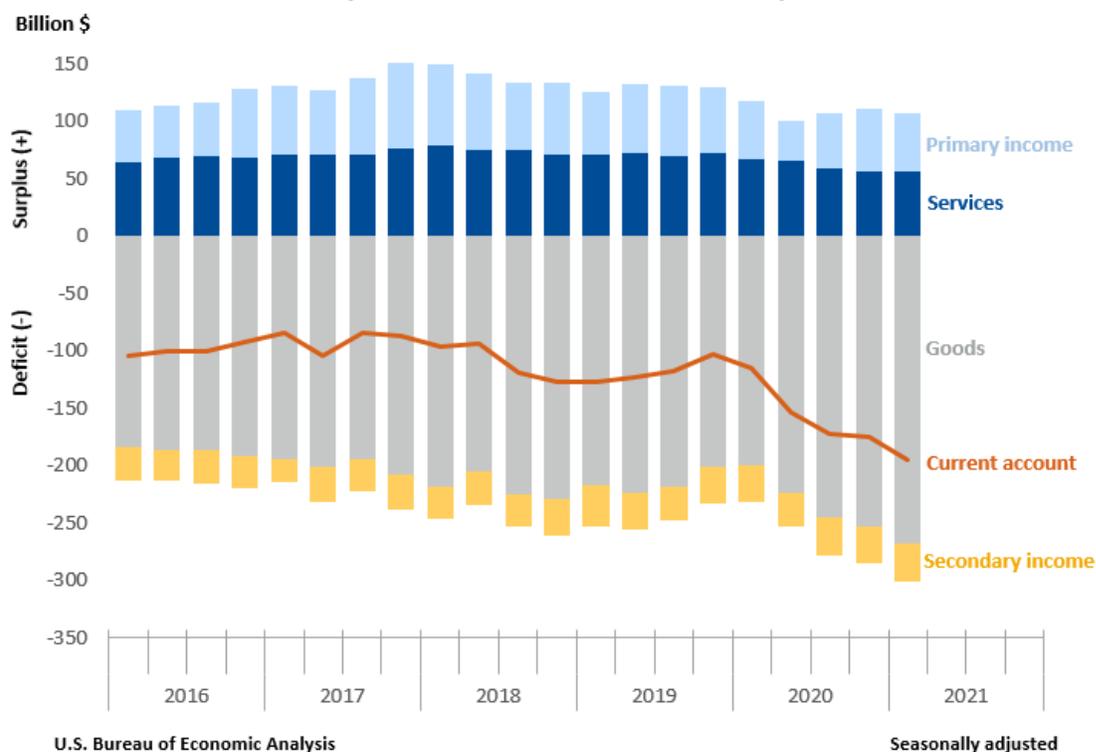
### COVID-19 Developments

- The advance international trade deficit in goods increased to \$88.1 billion in May from \$85.7 billion in April as exports decreased and imports increased. Exports of goods for May were \$144.3 billion, \$0.5 billion less than April exports. Imports of goods for May were \$232.4 billion, \$1.9 billion more than April imports.

	 <b>ADVANCE INTERNATIONAL TRADE: GOODS DEFICIT</b>	
<b>MAY 2021</b>	<b>\$88.1 Billion</b>	<b>+2.8%*</b>
<b>APRIL 2021</b>	<b>\$85.7 Billion</b>	

- The U.S. current-account deficit increased by \$20.7 billion to \$195.7 billion, or 11.8 % in the first three months of this year, the Bureau of Economic Analysis (BEA) [reported](#) last week. The **U.S. current account deficit** reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries The first quarter deficit was 3.6 percent of current dollar gross domestic product, up from 3.3 percent in the fourth quarter. The \$20.7 billion current-account deficit is the largest since 2007 and driven largely an increase in the U.S. trade deficit in goods (e.g., autos, consumer products, industrial supplies, etc.). The U.S. economy has rebounded faster than most other countries, aided by large federal stimulus. That’s enabled U.S. consumers to spend more on imports. U.S. imports set a record high in March. The slow recovery in the economies of other countries, on the other hand, depressed U.S. exports early in the pandemic and they still haven’t fully recovered to precrisis levels.

## Quarterly U.S. Current Account and Component Balances



### U.S. – Taiwan Trade

- The U.S. and Taiwan will resume talks under the Trade and Investment Framework Agreement (TIFA) on June 30, according to the American Institute in Taiwan (AIT). The virtual 11th TIFA council meeting will feature joint collaboration by the AIT and Taipei Economic and Cultural Representative Office Representative and will be facilitated by the Office of the USTR and Taiwan’s Office of Trade Negotiation, according to a [June 25 statement](#) from AIT. The talks likely will center on unresolved trade challenges from previous TIFA meetings as well as other ongoing issues such as supply chain security, digital trade, carbon emissions and labor rights and welfare, according to analysts and Taiwan Minister John Deng. The last talks were held under the Obama administration in 2016.
- Several weeks earlier, Taiwan’s Minister-Without-Portfolio John Deng and USTR Katherine Tai committed to resuming TIFA talks that had been stalled since the Obama administration. 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.

### 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*

- As reported earlier, 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."
- 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.

## U.S. - U.K. Trade

- During panel discussions at [a Global Services Summit event](#) hosted by the Coalition of Service Industries, Representative Kevin Brady (R-TX) and several other GOP House Ways & Means members, as well as ambassadors from the United Kingdom and Australia, contended that the U.S. should work to advance free trade agreements and accords covering digital trade. “I am honestly urging the Biden administration as they work through their trade agenda to get back on the field, in Europe, in the UK, Japan,” Brady said at the event. He argued for the need of a “more comprehensive agreement right in the Asia-Pacific region”; a second-phase agreement with China; a free trade deal in Africa; and agreements “in other markets where Republicans, Democrats, and Congress can see opportunities together.” Rep. Ron Estes (R-KA) chimed in saying he hopes to “continue to work with the administration” to pursue “free and fair trade deals that benefit all sectors of the American economy.”
- As noted earlier, 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.”
- Despite progress on civil aircraft tariffs, the U.S. – U.K. trade negotiations remain on pause. Ambassador 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.



*Representative  
Kevin Brady*

## Trade Promotion Authority

- Trade Promotion Authority (TPA) expires on July 1, with no indication from either Congress or USTR of renewing TPA soon. TPA allows Congress to consider a signed trade agreement (i.e., implementing bill) under expedited procedures that allow the bill to be brought to the floor without action by the leadership for a guaranteed up-or-down vote with no amendments. Passed in 2015, TPA was good for three years, through July 1, 2018, but then extended for three years keeping TPA active through July 1, 2021. However, the bill only provided for one three-year extension.
- Regarding timing of potential new TPA legislation, several trade experts note Congressional lawmakers were unhappy with President Trump’s decision to opt for “mini-deals” with China and Japan that did not require TPA and were conducted without Congressional input. This viewpoint may compel a fresh look at the role and details of TPA. Kelly Ann Shaw, a partner at Hogan Lovells and a former Trump White House adviser, said at a recent conference that TPA’s future was a “big question mark,” as is the possibility of a

“radical rethink” of the way the U.S. approaches trade. Shaw said she sees no movement on TPA. “My sense is that nobody is optimistic that TPA will be considered anytime this year or anytime next year.”

- In recent Congressional hearings, Ambassador Tai has said TPA should be reformed with bipartisan support but has not suggested a timeline. Further, President Biden has signaled his intent to pause new trade agreements, though it remains unclear what the lapse in TPA means for the two negotiations underway with the U.K. and Kenya. TPA was critical to timely passage of the USMCA in 2019.

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#### **TPA: Key Facts**

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- President tariff reduction authority first enacted in 1934
  - TPA First enacted in 1974
  - Renewed 4 times
  - Used to consider 15 FTAs and 2 multilateral GATT/WTO rounds
  - TPA 2015: In force until July 1, 2021
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#### **CPTPP**

- Lawmakers continue to call 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.

#### **WTO**

- The WTO announced the portfolios for the four new deputy directors-generals to finalize roles in the WTO Secretariat, according to WTO spokesman Keith Rockwell.
  - Angela Ellard, former legal counsel for House Ways and Means Committee will oversee legal affairs, the rules division, administration and general services and language and documentation services.
  - Anabel González, a former senior fellow with the Peterson Institute of International Economics and a former Costa Rican trade minister, will take on market access, intellectual property, government procurement and competition, trade in services and economic research.
  - Former French WTO Ambassador Jean-Marie Paugam’s portfolio will include agriculture, trade and environment, trade policy reviews and human resources.

- Zhang Xiangchen, former Chinese vice minister and WTO ambassador, will be responsible for development, the Institute for Training and Technical Cooperation, information technology, management, and academic outreach.



- WTO fisheries talks seemed stalled ahead of the July 15 ministerial meeting. Director-General Ngozi Okonjo-Iweala said pragmatically she did not expect a deal next month, according to an official. The tempered expectation is a recognition of where members are at in the negotiations, with several issues the spokesperson said. Overcoming all the differences that remain “is a little too much to ask” for this meeting, the official added. Instead, Okonjo-Iweala and the chair of the negotiations, Colombian Ambassador Santiago Wills, are aiming for guidance from ministers they can use to find the “landing zones” – as Wills has called them previously – for the key differences in views. They will aim instead for an agreement by September, the official said.
- One of the large divides regards 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 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.

#### *WTO Reform*

- No significant updates since 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’ tardy notifications.