

TRADE UPDATE

Food & Agriculture



Provided by CRA

July 6, 2021

HIGHLIGHTS

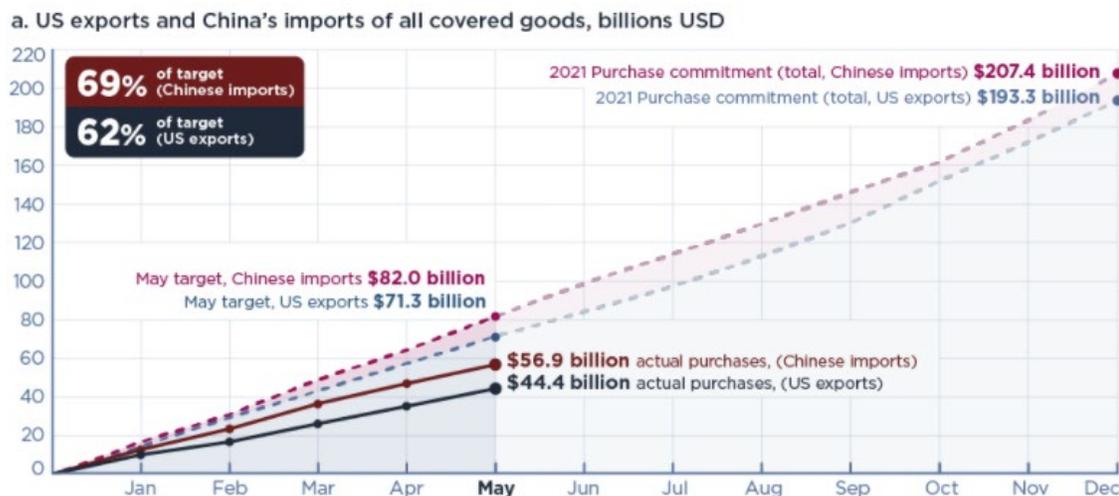
- **U.S. – China:** China continues to remain behind on their Phase One purchasing commitments across all industries, but agricultural purchases remain higher compared to other industries.
- **U.S. – USMCA:** The USMCA reached its one-year anniversary on July 1, with representatives of each of the three countries offering praise for the agreement and providing a view on where to go next in USMCA utilization.
- **TPA:** Trade Promotion Authority (TPA) officially expired last Thursday, with still no indication of a potential renewal soon. The TPA was critical legislation for USMCA passage that provided for Congress to consider trade agreements with a straight up-or-down vote, void of any amendments.
- **WTO:** The U.S. sees a “very little scope for negotiated outcome” at the WTO’s 12th Ministerial Conference (MC12), echoing general sentiment.

Quote: “The WTO was created to avoid trade wars. We need to reform and reinvigorate our dispute settlement system, so it remains responsive to today’s challenges.” (Dr. Ngozi Okonjo-Iweala, WTO Director-General, Key Speaker at “The Economist Asks” podcast)

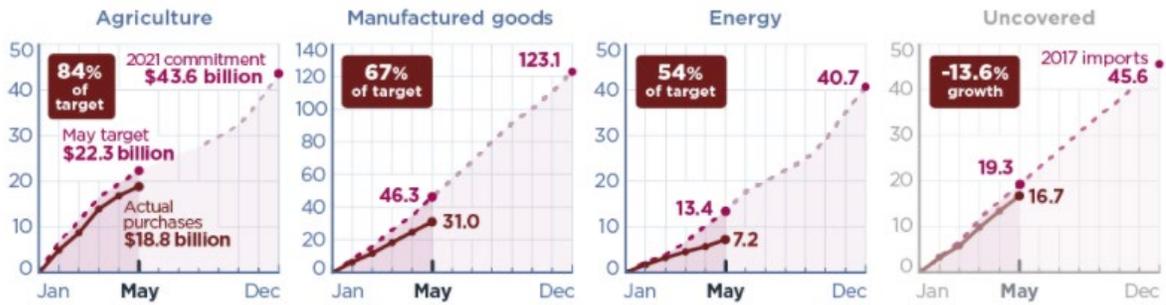
China Trade

- China **remains behind** on their Phase One purchasing commitments across all industries but all to varying degrees. According to the Peterson Institute for International Economics, China has purchased either 62% or 69% of its purchasing commitment utilizing U.S. data or China data respectively as of May 2021. However, China has purchased 86% or 84% of its agricultural purchasing commitment utilizing U.S. data or China data, respectively.

US exports and China’s imports of all goods covered by the phase one deal as of May 2021



b. China's imports by product type, billions USD



USMCA

- Last week Ambassador Katherine Tai, Minister Mary Ng, and Secretary Tatiana Clouthier came together to celebrate the first-year anniversary of the USMCA. The three trade officials praised the agreement, emphasizing different, important aspects of the USMCA. Ambassador Katherine Tai talked extensively on the bipartisan nature of the agreement, quoting how 89% of the House and Senate voted in favor of the USMCA, showcasing “a transformation of some of our trade policy.” The Honorable Mary Ng praised the modernization of the agreement, explaining that “This is about strengthening our long-term competitiveness, generating sustainable growth, and creating good jobs across our countries.” Secretary Tatiana Clouthier was gave praise on the reforms pushed by the USMCA, stating “we have carried out reforms to improve minimum wages and to improve the scheme of profit distribution.”
- Ambassador Katherine Tai and Canadian Trade Minister Mary Ng will travel to Mexico City this week (July 7) to meet with Mexican Economy Secretary Tatiana Clouthier, resuming the U.S.-Mexico-Canada talks that the three began in May, according to a statement released by the Office of the USTR. “The meetings are an opportunity to continue the productive dialogue established during the first Free Trade Commission meeting in May and show how the United States, Mexico, and Canada are working together as friends, neighbors, and allies to build a more competitive, inclusive and resilient North American economic partnership,” the U.S. agency said.
- Mexican Agriculture Secretary Víctor Villalobos Arámbula is expected to travel to Washington, DC, in early August to meet with Agriculture Secretary Tom Vilsack, Mexican Ambassador to the U.S. Esteban Moctezuma told reporters recently. Agriculture issues, including a long-running issue concerning U.S. potatoes could be discussed. “There is a very important dialogue happening between the agriculture departments in each country,” Moctezuma said. Lifting the potato ban is key to the National Potato Council (NPC), which last month met with Ambassador Tai to discuss reinstating full U.S. market access. NPC Chief Executive Officer Kam Quarles lauded Vilsack’s efforts and engagement with Mexico on the potato import ban. However, the NPC continues to have “so much concern” and “uncertainty” because the Mexican government appears to be implementing regulatory impediments to opening its market to U.S. potatoes, Quarles said.
- 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

Section 232 Investigations

- No significant updates since 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

- Global merchandise trade recovered in the first quarter of 2021 from the sharp declines earlier in the pandemic, but the pace of recovery remains uneven across countries and regions, [according to the WTO](#). The volume of merchandise exports and imports in the first quarter rose to new heights in Asia, reverted to pre-pandemic levels in Europe and North America, and lagged in poorer, less industrialized regions such as Africa and the Middle East.
- The volume of world merchandise trade grew 2.1% quarter-on-quarter in Q1, which is equivalent to an annual rate of 8.7%. Year-on-year growth picked up to 4.3% in the same period. A larger increase is expected in the second quarter due to the steep decline in the same quarter a year ago.
- In the first quarter of 2021, merchandise export volumes were up in Asia (+21.0% year-on-year) and Europe (+1.9%). They were down slightly in South and Central America (-0.1%) and North America (-2.2%), and down more substantially in Africa (-4.6%), the Middle East (-8.4%) and the CIS (-13.9%).

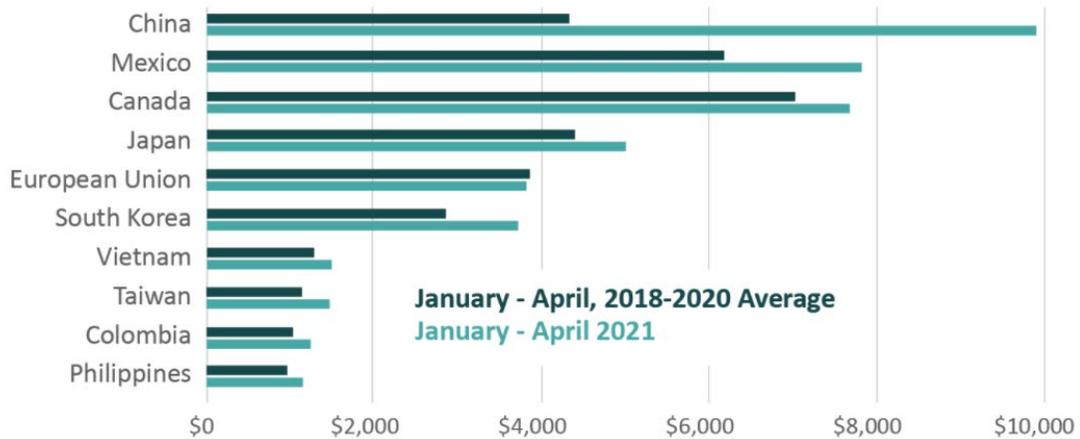


- USDA [announced](#) a record \$59 billion in U.S. agriculture exports in the first quarter of 2021. The report noted that the record \$59 billion level, was nearly \$5 billion higher than record set in 2014. “Robust global demand, high commodity prices, and increased U.S. competitiveness have led to record exports of corn, sorghum, beef, food preparations, and other products. Others including soybeans, soybean meal,

wheat, and dairy have also seen large increases during recent years and have contributed significantly to early-year export levels. At the current pace, there is a strong possibility of a record-breaking year for U.S. agricultural exports surpassing the 2014 mark of \$154.5 billion,” the USDA reported.

- In a comparison of export destinations, surging Q1 agriculture exports exceeded previous levels for 9 of the 10 leading U.S. agriculture export markets. The USDA report noted that the “diversity of potential markets is a source of strength and stability and is an indicator of high overall competitiveness of U.S. products in 2021. This performance is reinforced by trade agreements with many of these top partners, including the recent agreements with Canada, Mexico, Japan, and China, as well as with South Korea and Colombia.”

United States Agricultural Exports to Top Partners (Million USD)



Source: USDA-Foreign Agricultural Service, Global Agricultural Trade System (GATS)

U.S. – Taiwan Trade

- Both the [U.S. and Taiwan](#) “welcomed the resumption of high-level trade engagements, and expressed a desire to work closely together.” The two sides brought up areas of trade where progress has been made, including Taiwan’s enforcement of trade secret protections, and upcoming changes to Taiwan’s medical device approval process. Some outstanding trade concerns that the U.S. and Taiwan seek to engage on include addressing market access barriers to Taiwanese markets faced by U.S. beef and pork producers, as well as Taiwanese copyright legislation, digital privacy, financial services, investment and regulatory transparency.
- The U.S. and Taiwan agreed to convene regular working group meetings “in support of their commitment to intensified engagement,” and in an effort to deepen their trade relationship, according to a USTR [readout](#) from recent TIFA talks. The two sides agreed to creation of multiple TIFA groups, including the Agriculture Working Group, the Intellectual Property Working Group, the Technical Barriers to Trade Working Group and the Investment Working Group, as well as others. The U.S. last week expressed “a deep understanding” of Taipei’s willingness and determination to sign a bilateral trade agreement, according to the Taiwanese government. “This meeting has laid a good foundation for the two sides to deepen trade relations,” the government said in a [statement](#). The U.S. and Taiwan held trade talks under the Trade and Investment Framework Agreement (TIFA) on June 30th.
- The virtual TIFA was the first between the two countries since 2016 and held under the auspices of the American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States. Assistant U.S. Trade Representative for China affairs Terry McCartin and Taiwan’s Office of Trade Negotiations Deputy Trade Representative Jen-ni Yang co-led the discussions.

U.S. – EU Trade

- 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 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.”

U.S. - U.K. Trade

- The UK said it would consider any proposals on labor and the environment that the Biden Administration might want to bring into negotiations on a U.S.-UK bilateral free trade agreement, U.S. Ambassador Karen Pierce said recently. Pierce expressed hope that the negotiations can be resumed soon. President Biden had very positive things to say about the US-UK economic and trade relationship during his recent trip to London, she noted. The UK understanding is that the Biden Administration likely will want to make some changes when it does resume the negotiations, according to Ambassador Pierce. “We would be very happy to look at US proposals on labor and the environment,” she said, adding that she expects the U.S. would want language equal to what was included in the USMCA. During the prior administration, the U.S. and UK negotiating teams conducted five rounds of talks on a bilateral FTA prior to Biden’s inauguration.
- 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 expired last week, 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.
- 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. 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



Karen Pierce, British Ambassador to the United States

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 would allow both countries to concentrate on “unfair practices by nations like China.”

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.

Biden Transition

- Nearly 30 lawmakers are calling on President Biden to move quickly to nominate a chief agricultural negotiator at the Office of USTR noting the critical role agriculture in trade agreements. In a [letter](#) sent to President Biden, House Ways & Means Committee members Jodey Arrington (R-TX) and Jimmy Panetta (D-CA) contended that chief agricultural negotiators have been “instrumental” in prioritizing agriculture in trade agreements and eliminating non-tariff barriers. Signed by 26 other House members, the letter stated, “Nominating our lead negotiator for agriculture is critical to enforcing our current agreements and establishing new deals that level the playing field for our producers and eliminate trade barriers, which will expand America’s ability to provide the safest and best agricultural products to the world.” The letter continued, “In order to ensure that U.S. farmers and ranchers receive the full benefits of recent agreements and are prioritized as you explore new market access opportunities, it is imperative that the role of Chief Agricultural Negotiator is filled.” To date, President Biden has not indicated his selections for two remaining USTR ambassador positions, chief agricultural negotiator and ambassador to the WTO. Under the prior administration the USTR as chief agricultural negotiator (Gregg Doud) was nominated within five but was not confirmed by the Senate until March 2018.



Congressman Jodey Arrington

Trade Promotion Authority

- Trade Promotion Authority (TPA) expired last week (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.

TPA: Key Facts

- 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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WTO

- The U.S. recently indicated it sees “very little scope for negotiated outcomes” at the WTO’s 12th ministerial conference (MC12) to be held in Geneva in end-November, echoing a discordant note on the possible deliverables at the ministerial meeting. The U.S. said a successful MC 12 would focus “on the contribution of the WTO to the pandemic recovery, and beginning to fix the institutional challenges that are preventing substantive outcomes through negotiations,” according to the U.S. statement. “On dispute settlement, the United States believes that members must undertake fundamental reforms if the system is to remain viable and credible,” U.S. official David Bisbee said. At an informal Trade Negotiations Committee meeting, several members – India, Indonesia, New Zealand and South Africa among others – cautioned that without the Appellate Body there is little purpose in negotiating new trade agreements, said people who took part in the meeting. During the meeting, WTO Director-General Ngozi Okonjo-Iweala sought members’ responses to 1) the contribution of the WTO to the pandemic, 2) agriculture and 3) the dispute settlement system. She highlighted the trade and health initiative, which is being advanced by the Ottawa Group of countries, suggesting that the delay in finalizing an appropriate response to the pandemic will result in more mutations and undermine economic recovery.
- Director General Okonjo-Iweala pushed back against the U.S. and EU regarding certain aspects of MC12 expectations, stating that the two were “not very ambitious” when it came to agricultural trade reform. Speaking at a WTO webinar with industry representatives, Okonjo-Iweala acknowledged that agricultural trade is “one of the areas where there are very strong divisions,”. These divisions are seen between the Cairns Group of Australia, New Zealand, Brazil, Chile and others who support positive moves in agriculture, while the U.S., EU, and other rich countries aren’t as ambitious.