

## TRADE UPDATE Food & Agriculture



Provided by CRA

July 13, 2021

### HIGHLIGHTS

- **U.S. – China:** U.S. agricultural exports to China totaled \$12.3 billion in May, compared to the needed pace of \$14.6 billion, a 16% lag, to reach the year 2 purchase commitments under the phase one trade pact.
- **U.S. – USMCA:** The U.S. and Mexico agreed to a course of remediation in the USMCA labor dispute to provide the workers of the General Motors facility in Silao, Mexico with the ability to vote on whether to approve their collective bargaining agreement. The move avoids a dispute panel and essentially represents the first trade complaint resolution under USMCA.
- **U.S. – U.K.:** The U.K.’s top trade official will visit the U.S. this week in hopes of convincing Biden administration officials to restart negotiations on a U.S.-UK Free Trade Agreement.
- **WTO:** WTO Director-General announced members are on the verge of reaching an agreement to rein in fisheries subsidies.

**Quote:** “I’m visiting the US to build on the progress we’ve already made on tackling market-distorting practices that threaten the future progress and prosperity we can make around the world through free and fair trade.” ( U.K. Trade Secretary Liz Truss, announcing U.S. visit and meeting with Ambassador Tai)

### China Trade

#### Phase One Agreement

- According to May 2021 Census data, U.S. agricultural exports to China totaled \$12.3 billion. This compares to a needed pace of \$14.6 billion in agriculture exports for the year 2 goal to be reached. Cumulative agriculture Phase One product exports to China in the five months of 2021 presently are 16% below the pace estimated to meet 2021 purchase commitments under the deal. In a year-over-year comparison, China has closed the gap considerably from a 55% lag in May 2020 to 16% presently.

### U.S.-China Phase 1 Tracker for Agriculture Products



Source: USTR, GTIS, U.S. Census Bureau, Farm Bureau Calculations

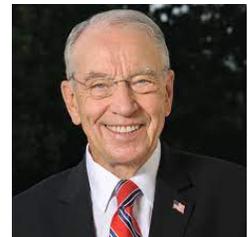


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## USMCA

- The United States and Mexico [have settled](#) their first labor complaint under the USMCA, marking a milestone for the enforcement of labor rights in the agreement. The agreement between the United States and Mexico includes an agreement to closely monitor a new union vote at the General Motors facility in central Mexico. The “remediation plan” enables each government to initially avoid using a labor dispute panel that would have resulted in harsher penalties against the plant. The new vote must be held by August 20 and will be monitored by as many as 32 inspectors. A labor dispute panel can still be used if General Motors does not comply with this remediation.
- According to a USTR [fact sheet](#), “Mexico’s Labor Ministry has agreed to oversee a new vote on a collective bargaining agreement on Aug. 20.” Representatives from the International Labor Organization and Mexico’s National Electoral Institute are among the observers of the vote, the fact sheet said. Mexico will also “investigate and, as appropriate, will sanction anyone responsible for the conduct that led to the suspension of the April vote and any other violation of law related to that vote that occurred before the vote, at the vote, after the vote, or in the leadup to the August vote,” USTR noted.
- Separately, ambassador Katherine Tai pushed Mexican officials on U.S. concerns with bio tech approvals and an update on progress in opening Mexican market to U.S. potato exports. In meetings held in Mexico City with Mexican Economy Secretary Tatiana Clouthier and Agriculture Secretary Victor Villalobos, Tai stressed the importance of the bilateral food and agriculture relationship and the need to cooperate on science-based policies impacting trade, according to a [readout](#) from the Office of USTR.
- Senator Grassley and industry officials voiced support for the actions while expressing continuing concerns. Senator Chuck Grassley, R-Iowa, acknowledged USTR’s efforts and noted that convincing Mexico to resume its stalled biotech approval process will be a priority for the USTR. “I know what we’re going to be fighting for,” he told reporters last week. Matt O’Mara, vice president of international affairs for the Biotechnology Innovation Organization stated, “We’re going to be fighting for getting our GMOs into Mexico.” “Mexico has not issued a new biotech approval in over three years and, if this continues, farmers won’t have access to these tools.” “BIO looks forward to working with the administration to support efforts that resolve this issue in a timely manner, including USMCA enforcement as necessary,” the Office of USTR noted in a statement.
- National Potato Council CEO Kam Quarles said NPC fully supports Ambassador Tai’s efforts to urge Mexico to expeditiously implement the court ruling overturning the ban on U.S. potato imports. “U.S. potato growers appreciate the continued vigilance of Ambassador Tai and Secretary Vilsack to ensure this 20-plus year potato market access dispute finally crosses the finish line,” Quarles said. “Over the past two decades, we’ve heard Mexico make numerous promises about living up to their end of trade agreements only to backtrack under domestic political pressure and continue to prevent fresh U.S. potatoes from gaining full access to their country.” Quarles continued, “We continue to urge the Ambassador and Secretary to maintain a ‘trust but verify’ stance with Mexico to ensure their market isn’t just temporarily opened, but instead remains open to high quality fresh U.S. potatoes.”
- Panel selection for the USMCA Dairy Tariff-Rate Quotas dispute lodged by the U.S. was [announced](#) last week. On July 5, 2021, the Parties to the *Canada-United States-Mexico Agreement*, Chapter 31 dispute *Dairy TRQ Allocation Measures* (CDA-USA-2021-31-01) completed the Panel selection process. The Panel is composed of the following individuals:
  - Elbio Oscar Rosselli Frieri, Chair, by agreement of the disputing Parties
  - Julie Bédard, Appointed by the United States, the complaining Party
  - Mark C. Hansen, Appointed by Canada, the responding Party



Senator Chuck Grassley

## 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.

### **Section 301**

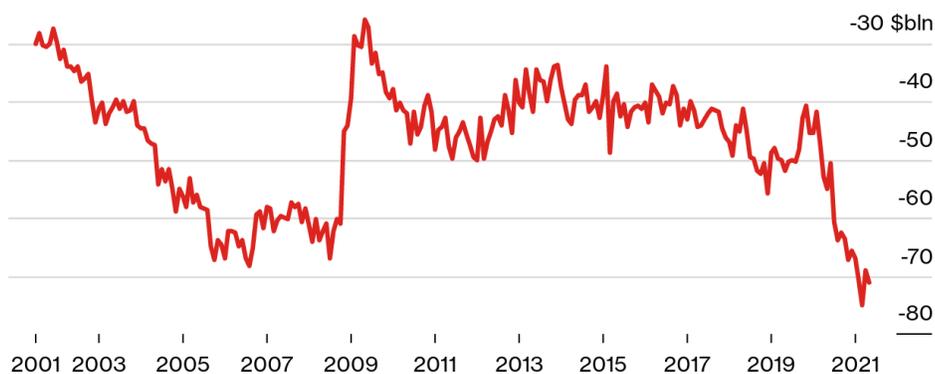
- The U.S. Court of International Trade CIT granted a preliminary injunction against finalizing some of the Section 301 tariffs on products from China imposed by the Trump Administration. In a two to one [ruling](#), the CIT concluded that U.S. importers of Chinese products covered in List 3 or List 4A of the Section 301 tariffs would be harmed if the duties are liquidated. The CIT decision said that “Plaintiffs demonstrated they will likely suffer irreparable harm because their entries of subject merchandise will liquidate absent an injunction.” Over 3,500 companies have sued the U.S. government over the Section 301 duties. “The liquidation of Plaintiffs’ entries constitutes irreparable harm in this case because it may foreclose Plaintiffs’ ability to challenge the Government’s imposition of duties paid or have those duties returned,” according to the decision. In addition, the court found that the “government fails to meaningfully dispute that liquidation will cause harm that cannot be undone and instead argues that any unlawfully collected duties would be forever unrecoverable.” Chief Judge Barnett dissented, saying that while he agreed with much of his fellow judges’ analysis, he felt the plaintiffs failed to establish the likelihood of irreparable harm.

### **COVID-19 Developments**

- The U.S. trade deficit (goods and services) widened in May as imports outpaced exports. The shortfall in trade of goods and services grew 3.1% to \$71.2 billion from a revised \$69.1 billion in April, according to Commerce Department data. Exports advanced 0.6% to \$206 billion, while imports climbed 1.3% to \$277.3 billion.

#### **Widening Imbalance**

The U.S. trade deficit widened in May to the second-largest on record



Source: U.S. Commerce Department

**Bloomberg**

### **U.S. – Taiwan Trade**

- The White House said China’s opposition to the U.S. decision to revitalize trade talks with Taiwan will not impede U.S. ambitions. White House spokeswoman Jen Psaki said, “We’re committed to the importance of the US-Taiwan trade and investment relationships.” She continued, “And we will continue to strengthen our trade relationship with Taiwan, which is why we are looking forward to the upcoming

Trade and Investment Framework Agreement council meeting, which was recently announced.” “Taiwan is a leading democracy and major economy and a security partner. And we will continue to strengthen our relationship across all areas – all the areas we cooperate, including on economic issues,” Ms. Psaki noted that the administration has “also been clear publicly and privately about our growing concerns about China's aggressions toward Taiwan. And the PRC has taken increasingly coercive action to undercut democracy in Taiwan. We will continue to express our strong concerns to Beijing in that regard and, also, our concerns about the PRC’s attempts to intimidate others in the region.”

- Both the [U.S. and Taiwan](#) recently resumed “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, 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 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*

- No significant updates since the U.S. and EU announced 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.

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

- Liz Truss, the U.K.’s top trade official will visit the U.S. this week in hopes of convincing Biden administration officials to restart negotiations on a U.K.-U.S. Free Trade Agreement. Ms. Truss, Britain’s Trade Secretary, will meet with USTR Katherine Tai, according to the U.K.’s Department of International Trade (DIT). The meeting will focus on cooperation on combating market-distorting trade practices such as industrial subsidies and dumping. The two officials also will discuss how to defend workers and companies that play by the rules against unfair trading practices in the global trading system, by combatting forced labor and strengthening supply-chain resilience. Ms. Truss also intends to meet with leading Democrats and the U.S. tech industry to discuss how a U.S.-U.K. FTA could set the “gold standards” for rules on digital trade. “With UK-US trade supporting over a million jobs in both countries, there is clear reason to work together



*Liz Truss, U.K. Trade Secretary*

to deepen our trade and investment ties and build back better,” Ms. Truss said in a statement. “Together we can build on our credentials as two great innovating nations, and take this opportunity to shape the future of digital trade.” [DIT reported](#).

- During discussions between Liz Truss and Katherine Tai, there will also be talks on lifting current imported meat bans between the two nations. The U.K. has pushed for the U.S to accept British lamb and haggis, products banned from importation since the 1980s and 1970s, respectively. The U.S. has similarly pushed the U.K. to accept chicken that is currently banned from importation since 1997 due to U.S. producers’ use of chlorine wash.
- Britain’s chief negotiator for a U.S.-U.K. trade deal has left for a new position after only eight months, as U.S.-UK bilateral trade talks remain indefinitely paused under the Biden administration and TPA expired in the U.S. Congress. [Amanda Brooks](#) took over as the U.K.’s lead negotiator on the U.S. trade deal for the Department for International Trade (DIT) last November ahead of Biden’s inauguration, when her predecessor Oliver Griffiths was named chief executive of Britain’s new trade remedies function. “The head of the [U.K.’s] U.S. negotiating team is leaving,” said a person familiar with the development, and is “going to a better job.” The transition they noted “shows where [DIT’s] priorities are.” This means that the trade department will now have to recruit someone new to lead its U.S. negotiations. DIT trade personnel are deeply engaged in other U.K. trade initiatives, according to officials, such as joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), finalizing the trade deal with Australia, and pursuing other new potential trade agreements.
- 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 this month, 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.

### **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**

- On Tuesday, 13<sup>th</sup>, the Senate Finance Committee will [vote](#) to advance the nominations of Sarah Bianchi and Jayme White to serve as deputy U.S. trade representatives. Ms. Bianchi is likely to handle trade responsibilities for Asia, including China, which USTR is in the midst of reviewing under U.S. Trade Representative Katherine Tai’s leadership. Mr. White’s work is expected to include Europe, including ongoing talks over steel and aluminum tariffs and the newly formed U.S.-EU Trade and Technology Council. The White House and USTR have not indicated any selection on the remaining two deputy USTR positions, the ambassador to the World Trade Organization and the chief agricultural negotiator.

On April 16<sup>th</sup> President Biden announced intentions to [nominate](#) both Sarah Bianchi and Jayme White to Deputy USTR roles. Bianchi was appointed in 2011 by then Vice President Biden to serve as his top economic and domestic policy adviser. She has also worked on the White House Domestic Policy Council, in the Office of Management and Budget, on the staff of the Senate Health, Education, Labor and Pensions Committee, and is a former deputy assistant to the president for economic policy. Jayme White, currently the chief trade adviser for the Senate Finance Committee, has worked on the Committee since 2014.

## WTO

- WTO Director-General Ngozi Okonjo-Iweala said members are on the “cusp” of concluding an agreement on fisheries subsidies, providing support for the draft agreement crafted by the chair of the negotiations as the “best chance” for members to reach a deal. The DG’s support comes ahead of a virtual meeting of trade ministers next week, which is major opportunity for members push the talks toward a conclusion. “After two decades of negotiations at the World Trade Organization and marathon discussions this year, we have before us a draft text of an agreement that would put into action the global ambition to end harmful fisheries subsidies,” Okonjo-Iweala said in a [video statement](#) with the fisheries chair Santiago Wills (Colombia). “There is no doubt that gaps remain, and this text recognizes the different concerns of the 164 WTO members,” she added. “But this draft text represents our best chance to narrow these gaps and finally deliver an agreement.”

## Ag Economy Barometer

- June’s Ag Economy Barometer index receded 21 points, falling to a reading of 137, the second monthly decline, and the weakest ag producer sentiment reading since July 2020. Producers in June were less optimistic about both current conditions on their farming operations as well as their expectations for the future. The weakening farmer sentiment was largely attributable to producers’ eroding confidence in their farms’ financial performance and rapidly rising production costs are a concern for agriculture producers. Farmers expect their input costs to rise much more rapidly in the year ahead than they have over the last decade contributing to their concerns about their farm finances.

