TRADE UPDATE
Food & Agriculture

August 10, 2021

Provided by CRA

HIGHLIGHTS

- **U.S. – China:** The White House said there is no specific timeline for completing its top-down review of China policy, including its assessment of nearly $370 billion in tariffs under section 301 trade authority.
- **U.S. – USMCA:** The International Labor Organization will visit Mexico to observe a collective bargaining agreement vote at the General Motors plant in Silao, Mexico as part of the remediation plan for the USMCA labor dispute raised by USTR.
- **Section 232:** The U.S. and EU agreed to conclude an agreement over the longstanding steel and aluminum tariff dispute by Nov. 1, nearly two months earlier than originally targeted.
- **WTO:** The WTO draft text for agriculture negotiations ahead of the 12th Ministerial calls for cutting in half trade-distorting domestic subsidies by 2030.

Quote: "…anybody that wants a free trade agreement, it takes strong agricultural positions as a locomotive to get manufacturing and services through." (*Senator Grassley speaking on need for Chief Agriculture Negotiator at USTR*)

USMCA

- The International Labor Organization (ILO) will send officials to observe a collective bargaining agreement vote at the General Motors plant in Silao, Mexico, later this month. The trip results from a remediation plan in order to resolve a labor complaint the U.S. brought against the plant after learning that management was violating workers' rights during a vote on a collective bargaining agreement. The new vote will be scheduled for Aug 17-18, according to the ILO.
- Canadian dairy industry stakeholders are defending the Canadian governments diary price system and arguing the industry remains in compliance with USMCA obligations. Agriculture and Agri-Food Canada (AAFC) said, "Canada takes all of its international trade obligations very seriously, including its dairy obligations in the USMCA," according to an *Agri-Pulse* report. "The federal government, provincial governments and the Canadian dairy industry have worked to ensure that milk classes 6 and 7 were eliminated and that products required to be priced based on U.S. reference prices are priced as such," the AAFC said in a statement. The U.S. dairy industry has argued that the relatively new Canadian class 4a is now being used to help boost exports of a class of milk proteins that are similar, but different, from the products under classes 6 and 7.
- USTR Katherine Tai participated in a roundtable discussion with agricultural representatives, tribal leaders and farmers in Washington state on how trade can help agriculture and farm industries. Tai said, "Our top priority is making sure you can bring your products to new markets and new customers and holding our trading partners accountable for their commitments." She pointed to the Administration's decision to seek a dispute settlement panel over Canadian barriers to U.S. dairy products and her efforts to ensure Mexico expands access for fresh U.S. potatoes as recent actions to help U.S. agriculture. She further highlighted success in securing agreements with the EU and UK on suspending tariffs over civil aircraft subsidies that targeted U.S. agricultural exports. She noted that, "Taken together, our early actions demonstrate how this Administration intends to be a strong advocate for our agriculture industry and its producers." Tai emphasized the importance of this and other stakeholder meetings to better understand what U.S. food and agriculture producers need and want from U.S. trade policy. "That is why I'm here today. I want to have a candid conversation with you about how past trade policies have helped you and where improvements are needed," she stated. The roundtable was hosted by Seattle-based Washington

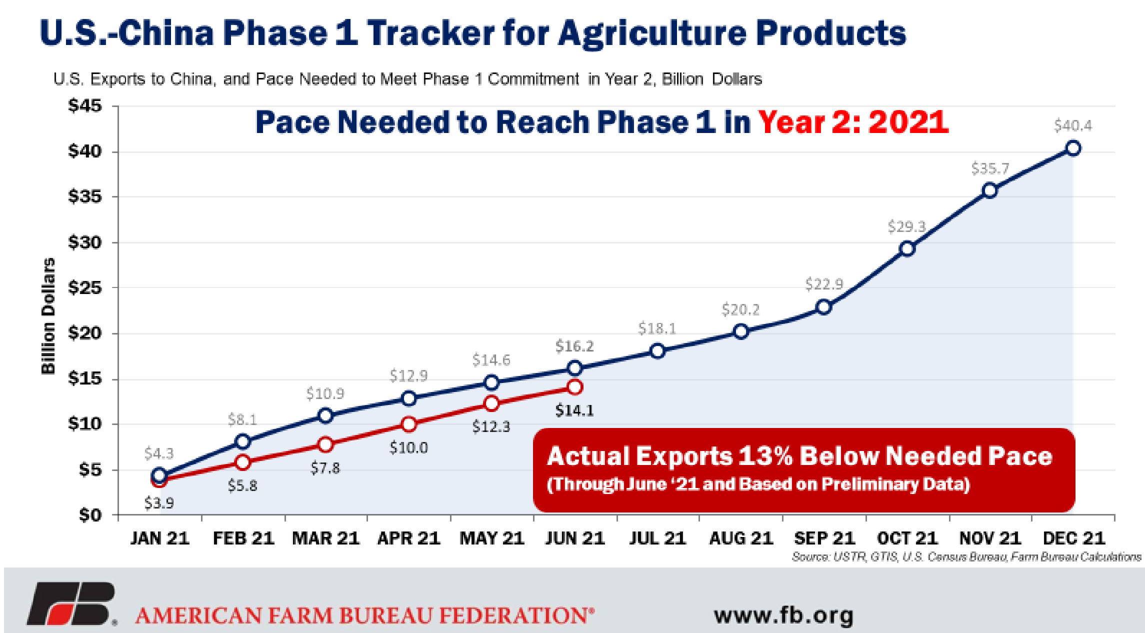
[Council of International Trade](#) (WCIT) and was also attended by Reps. Suzan DelBene (D-WA) and Rick Larsen (D-WA).

China Trade

- Over 30 industry groups sent a [letter](#) to Treasury Secretary Janet Yellen and USTR Katherine Tai outlining policy priorities with regard to China. The letter urged the Biden Administration "to redouble efforts with China to meet Phase One purchase and structural commitments; restart a tariff exclusion process to mitigate damage to U.S. workers and other stakeholders; and increase broader economic and trade engagement to address structural concerns that will further open China's market and level the playing field for U.S. goods and services."

Phase One Agreement

- According to June 2021 Census data, U.S. agricultural exports to China totaled $14.1 billion. This compares to a needed pace of $16.2 billion in agriculture exports for the year 2 goal to be reached. Cumulative agriculture Phase One product exports to China in the six months of 2021 presently are 13% 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 47% lag in May 2020 to 13% presently.



Section 301

- The White House indicted there is no specific timeline to complete its months-long review of U.S. China policy. The Biden administration continues to face questions on the administration's view of the Trump-era section 301 tariffs on China, White House Press Secretary Jen Psaki said, "The president is always going to use every tool in his toolbox, including tariffs, to fight against unfair trade practices that hurt American workers, businesses and farmers." She continued, "He's been very clear that he thinks the going-it-alone strategy is a losing one. We're stronger when we work with our allies and unite the world's GDP. I know we've talked about an ongoing review, including tariffs. I don't have any preview for you or timeline for that conclusion."

Jen Psaki, Press Secretary

- As noted earlier, the General Accounting Office (GAO) reported inconsistencies in USTR's Section 301 tariff exclusion process. The GAO [report](#) cited a lack of documentation leading the

Office of USTR to apply inconsistent processes for product exclusions from Section 301 tariffs on Chinese goods and extensions to those exclusions. The GAO said that USTR failed to "fully document its internal procedures," and even the documentation the agency undertook to explain its procedures to GAO "was incomplete and did not explain each step in the process, who was responsible for them, and when they should occur." As a result, GAO recommended that USTR fully document its internal procedures used to make tariff exclusion and extension decisions. The Biden administration has yet to announce whether it will continue the exclusion process.

- The GAO report noted that from 2018 to 2020, U.S. stakeholders submitted about 53,000 exclusion requests to USTR for specific products covered by the tariffs. In July 2018 the Trump administration levied new tariffs on Chinese goods under Section 301 of the Trade Act of 1974, in multiple tranches, eventually covering roughly $370 billion worth of imports. Between July 2018 and December 2020, $463 billion worth of goods were subject to the tariffs, with USTR granting exclusions on $71 billion worth of those imports (not counting retroactive exemptions), the GAO report says.

<u>Section 232 Investigations</u>

- In an interview with Bloomberg, Commerce Secretary Gina Raimondo explained how the Biden Administration is not planning on fully removing the Section 232 tariffs, saying "We're seeing steel operations back up to capacity or producing more. So we cannot simply say we are going to get rid of the tariffs because we need to protect our steel industry and those workers." However, the U.S. and EU are working towards resolving Section 232 disputes by the end of the year. A major way that the U.S. has resolved Section 232 disputes while leaving the tariffs in place is through striking quota deals. "We're trying to find a solution," Raimondo said in an interview with Bloomberg. She continued, "The reality is that the Trump administration used national security-related tariffs against our allies in Europe, and so there's certainly challenges with that." Raimondo disagreed with Secretary Yellen's statement that the tariffs, specifically those on China, are hurting American consumers, instead claiming the tariffs help level the playing field for American businesses.

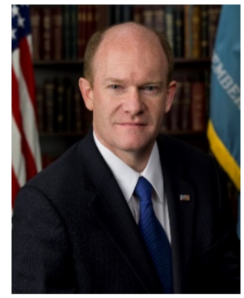
<u>COVID-19 Developments</u>

- The U.S. goods and services deficit continued to widen reaching $75.7 billion in June, up $4.8 billion from $71.0 billion in May, revised, according to the Census Bureau. June exports were $207.7 billion, $1.2 billion more than May exports. June imports were $283.4 billion, $6.0 billion more than May imports. Year-to-date, the goods and services deficit increased $135.8 billion, or 46.4 percent, from the same period in 2020. Exports increased $150.9 billion or 14.3 percent. Imports increased $286.7 billion or 21.3 percent.

<u>U.S. - U.K. Trade</u>

- While Ambassador Katherine Tai discussed core aspects of trade for the Biden Administration l in Washington State at the WCIT event, she did not bring up the trade negotiations with the U.K. and Kenya that had started under the Trump Administration. While both trade negotiations would likely result in greater market access for domestic agricultural producers, the discussion was focused on continued market access within existing trade agreements, such as the USMCA. The Biden Administration continues to review the rounds of trade negotiations for both the U.K. and Kenya.

U.S. – EU Trade



Chris Coons, Delaware Senator

- The U.S. could move ahead of the EU and other allies in implementing a carbon border tax. Senator Coons, a co-chair of the Senate Climate Solutions Caucus, introduced a bill last month titled the "Fair, Affordable, Innovative, and Resilient Transition and Competition Act," which would establish a border adjustment measure on carbon-intensive imports to adjust for regulatory costs faced by U.S. businesses. The legislation could be potentially pushed forward more quickly, even without a federal agreed upon price of carbon. Senator Coons noted that the carbon border tax would first apply towards carbon heavy industries such as cement and steel, where carbon emissions are comparatively easy to measure.
- The U.S. and EU agreed to conclude an agreement over the longstanding steel and aluminum tariff dispute by Nov. 1. Discussion regarding the Section 232 of the Trade Expansion Act relating to steel and aluminum tariffs are moving forward between EU trade chief Valdis Dombrovskis in Brussels and U.S. Commerce Secretary Gina Raimondo, according to reports. "Both sides confirmed readiness to find a solution by 1 November," an EU official confirmed. The ambitious Nov. 1st target is nearly two months earlier than the original agreement deadline for Dec. 31st.
- The European Commission recently decided to extend anti-dumping measures against U.S. biodiesel until August 2026. The decision follows a complaint by the European Biodiesel Board, an industry organization. The group had asked for an extension of the duties for an additional five years. According to the Commission, "the absence of measures would in all likelihood result in a significant increase of dumped imports from the USA at injurious prices and material injury would be likely to recur."

U.S. – Kenya Trade

- As reported earlier, during a Senate Committee on Foreign Relations hearing on U.S. Trade and Investment in Africa, former Assistant USTR Florizelle Liser supported continued U.S. trade ties with the African continent, emphasizing a potential U.S.-Kenya trade agreement and unilateral trade preferences with the other African countries. Liser, while praising AGOA, has stated that future trade relations must be attuned to individual countries and regions in Africa, saying "there is no one-size-fits-all approach to Africa." Liser emphasized how greater integration between the U.S. and individual African countries can help bring them into more global supply chains. Others on the panel stressed the importance of trade and investment into Africa from an economic as well as geopolitical perspective, specifically against China.
- Representative Tai has also recently supported further talks with Africa to expand economic ties, though stopped short of calling for renewed Kenya trade talks. Tai will be renewing the yearly ministerial level AGOA meetings with a virtual meeting this year, an event that was canceled last year due to Covid. Tai wants to emphasize that any new economic talks must align with the Biden Administration's worker-centric trade policy focus. In addition, Commerce Secretary Gina Raimondo said she is planning a trip to Africa "soon," and noted the administration needs to "step up our game" in Africa after the continent. Ms. Raimondo said she has discovered broad interest in doing business with Africa. Neither Tai nor Raimondo provided a timeline for the ministerial.
- 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. – Ecuador

- USDA's Foreign Agriculture Service (FAS) issued a summary of Ecuador's recent tariff reduction on 43 U.S. agriculture products. According to FAS, Ecuador's Foreign Trade Committee issued Resolution No. 009 – 2021, lowering tariffs on 43 agricultural products, 17 of which were reduced to zero percent ad valorem. FAS noted that the "two principal U.S. products benefitting from this tariff reduction are soybean meal (Harmonized System (HS) code 2304.00.00.00) and wheat (HS 1001.19.00.00)." The Ecuadorian Resolution is effective October 1, 2021 and will be permanent. The list of all agriculture-related products receiving tariff reductions are listed annex 1 of the summary.

Trade Promotion Authority


Congressman Vern Buchanan

- House Ways and Means Republicans are calling on the Biden administration to renew Trade Promotion Authority (TPA), which expired last month. In a letter to President Biden the lawmakers said, "TPA is the foremost tool at our disposal to ensure that the United States continues to have a leading role in writing the trading rules that regulate the global economy." The letter was led by Ways and Means ranking Republican Kevin Brady (Texas) and trade subcommittee ranking Republican Vern Buchanan (Fla). The letter called for discussion on renewed TPA "so that America can once again lead the world by negotiating strong trade agreements that create US jobs and open new markets for American goods and services while raising standards throughout the world." Without the authority to negotiate trade agreement, the United States will leave a void "that malign actors, like China, seek to exploit, and that our allies may fill with policies that reflect priorities other than our own," the letter stated. "TPA renewal is an essential component of a unified US Government approach to determining our international trade negotiation and enforcement priorities." The lawmakers contended that "There appears to be strong bipartisan, bicameral support for completing trade negotiations with the United Kingdom and Kenya that are currently under review by your Administration. We know there also is intense bipartisan interest in exploring other potential trade negotiations in the Asia Pacific region and around the world."
- Earlier Rep. Jim Gomez acknowledged "nascent discussions on renewing TPA were occurring in the Congress," yet he cautioned "it's slower than people would imagine just because we're coming out of the pandemic and we're trying to focus on rebuilding our own economy, making sure people are healthy and safe, getting people back to school. So the focus is on that, which is completely logical." Gomez emphasized there is "no urgency" to renew TPA. He noted there is an "educational component" to ongoing conversations about TPA because some lawmakers are not as knowledgeable about the idea as trade subcommittee members or were not in office when the last version of TPA was passed. Gomez said Democrats want to put their mark on a new TPA. Gomez said Congress should be consulted as free trade pacts are negotiated and not just after a deal is done. "We want to make sure we're involved sooner," he said. 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.

Biden Transition

- Senator Chuck Grassley (R-IA) said he's offered "some names" to Ambassador Katherine Tai for the chief agricultural negotiator at the agency "I've been in contact with Ambassador Tai twice on that issue, suggesting some names. And that's about as close as I've been on that issue," Grassley said. "But they need to fill those positions because ag is so very, very important. In other words – and I've told Tai this as I've told a lot of other people – anybody that wants a free trade agreement, it takes strong agricultural positions as a locomotive to get manufacturing and services through," he added. "So, having a strong agriculture negotiator in that position would be very important." Grassley, former chair of Senate Finance Committee, declined to reveal his candidate suggestion, but said they have "very strong credentials in that area."

- In Mid-July the Senate Finance Committee voted to advance the nominations of Sarah Bianchi and Jayme White for deputy U.S. Trade Representative posts. The full Senate vote for both nominees are pending. The Biden administration has yet to announce nominations for the Deputy USTR positions for Intellectual Property, WTO Ambassador in Geneva, Switzerland, and the Chief Agriculture Negotiator.

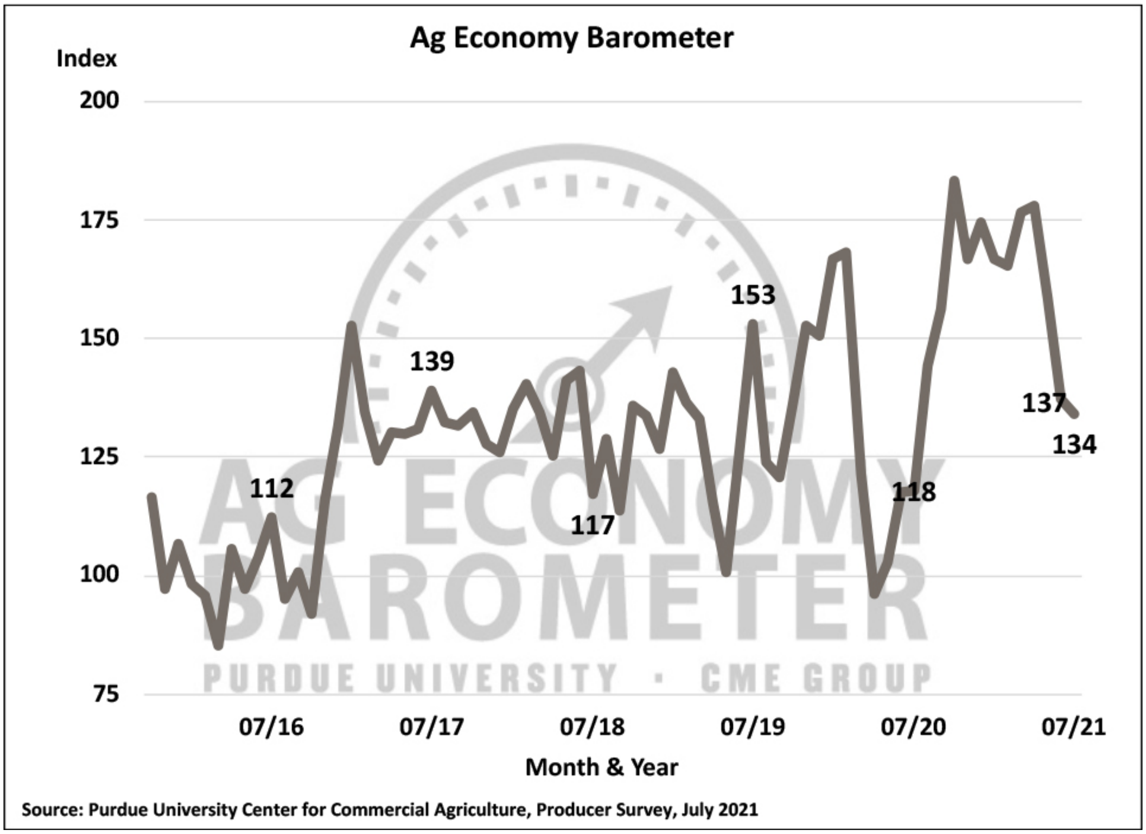
WTO

Gloria Abraham Peralta, WTO Ambassador, Costa Rica

- The WTO draft text for agriculture negotiation ahead of the 12th Ministerial (MC12) calls for capping and reducing trade-distorting domestic subsidies (i.e., support) by up to 50 percent. The WTO agriculture negotiations chair, Costa Rican Ambassador Gloria Abraham Peralta, last week issued a draft negotiating text, hoping the document could serve as a "stepping stone" and help members identify possible compromises and trade-offs "within and across negotiating areas." The draft text suggests that members "commit to capping and reducing the sum of current global agricultural trade- and production-distorting domestic support by half by 2030" and to "reinvigorate" negotiations through incremental steps post MC12. On domestic support, the draft text incorporates a Cairns Group proposal that members commit to either halve entitlements or make a "substantial reduction." The Cairns Group is a collection of agriculture-exporting WTO members that are pushing for ambitious agriculture-related outcomes at MC12. It's unclear how USTR and USDA would respond to the proposed action.
- Recently the U.S. blocked a request from China to establish a compliance panel to determine China's compliance with the implementation of a WTO panel ruling issued in 2019 regarding Beijing's administration of tariff rate quotas on imports of wheat, rice and corn. The U.S. alleged that China has failed to bring its measures into compliance with its WTO obligations. China countered reporting it is in full compliance. China explained that "any disagreement regarding the consistency of its measures taken to comply with the DSB's rulings and recommendations must be resolved in proceedings under Article 21.5 of the Dispute Settlement Understanding (DSU), before any level of suspension of concessions or obligations can be assessed." Objecting to the United States' recourse to Article 22.2 for authorization to impose duties on Chinese goods, China called for referring the matter to an arbitrator under Article 22.6. China also provided a detailed account of consultations with the United States. In response the U.S. said it does not agree that China has complied with the WTO ruling.

Ag Economy Barometer

- July's Ag Economy Barometer index tapered after two previous months of sharp decline. The July index receded 3 points, falling to a reading of 134, the weakest ag producer sentiment reading since July 2020. Producers in July were less optimistic about both current conditions on their farming operations as well as their expectations for the future. The weakening farmer sentiment attributable to producers' eroding confidence in their farms' financial performance and rapidly rising input costs. Slightly over half (51%) of survey respondents expect input prices to rise 4% or more over the next year. The steady decline in the index over the last month primarily reflects farmers expectations of production costs to rise much more rapidly in the year ahead than they have over the last decade.


Ag Economy Barometer
Index
200
175
150
125
100
75
112
139
117
153
118
137
134
07/16
07/17
07/18
07/19
07/20
07/21
Month & Year
AG ECONOMY BAROMETER
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