TRADE UPDATE
Food & Agriculture

August 17, 2021

Provided by CRA

HIGHLIGHTS

- **U.S. – China:** China's purchases of all covered products through June are an estimated 59% of the target commitment under the Phase One agreement, according to analysis by the Peterson Institute for International Economics. For 2021, China committed to purchase $193.3 billion in U.S. manufactured, agriculture, and energy products under the Phase One deal.
- **U.S. – USMCA:** The U.S. and Mexico announced an agreement to resolve the second labor dispute regarding an auto parts facility lodged under the USMCA rapid response mechanism. Under the agreement, Tridonex will provide severance, back pay, and training to over 150 workers who were dismissed from the plant.
- **USTR:** Ambassador Katherine Tai and USDA Secretary Tom Vilsack told the agriculture advisory committees the Biden administration is committed to expanding "access to foreign markets and new customers bases" for U.S. agriculture producers, according to a USTR readout from the cleared advisor meeting.
- **Section 232 tariffs:** Commerce Secretary Gina Raimondo said the Biden Administration is not planning on fully removing the Section 232 tariffs, and that the tariffs are needed to protect the U.S. steel industry and workers.

Quote: "For too long, we thought we could trade more with the world while investing less here at home. That didn't work out for our economy, for our workers, or for our communities." "We must first make a generational investment in our own competitiveness." (*Secretary of State, Anthony Bliken commenting on the Biden administration's pause on any new free trade agreements*)

China Trade

- As reported earlier, over 30 industry groups sent a letter to Treasury Secretary Janet Yellen and USTR Katherine Tai outlining policy priorities regarding 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, according to analysis by the American Farm Bureau Federation. In a year-over-year comparison, China has closed the gap considerably from a 47% lag in May 2020 to 13% presently.
- A separate analysis by the Peterson Institute for International Economics indicates that for all products (agriculture, energy, and manufactured goods), China's purchases are an estimated 59% of the target outlined in the Phase One agreement. Through June of this year, China has purchased $53.4 billion in U.S. goods compared with the target of $84.1 billion needed to meet the 2021 purchase commitment level.

USMCA

- The U.S. and Mexico have both agreed to an "expedited process" for the lifting of the U.S. embargo on Mexican shrimp. In April the U.S. had imposed the embargo due to the lack of protection that Mexico gave to sea turtles, which are a bycatch of wild shrimp. Delegations from both countries committed to working together to certify Mexican shrimp production, and to ensure that the shipping vessels are properly supervised. The countries also agreed to "jointly define a scheme in the medium and long term that addresses not only the conservation of the sea turtle, but also national sustainable fishing."
- The U.S. and Tridonex, a Mexican auto parts facility, have resolved a labor dispute levied against the facility under the USMCA rapid response mechanism. The agreement contains numerous stipulations that Tridonex must enact in order to avoid a labor panel request by USTR. U.S. Secretary of Labor Marty Walsh praised the development, stating "It also signals to workers here at home and around the world that the U.S. Government is committed to taking decisive steps to defend workers' rights and ensure that the benefits of trade are enjoyed by all workers." Under the agreement, Tridonex committed to:
  - Provide severance and 6 months of back pay, totaling a minimum of 9 months of pay per worker and in many cases much more, to at least 154 workers who were dismissed from the plant, for a total back pay amount of more than $600,000;
  - Support the right of its workers to determine their union representation without coercion, including by protecting its workers from intimidation and harassment and welcoming election observers in the plant leading up to and during any vote;
  - Provide training to all Tridonex workers on their rights to collective bargaining and freedom of association;
  - Remain neutral in any election for union representation at its facility;
  - Maintain and strengthen safety protocols to protect its workers from COVID-19 and financially support any employees who are unable to report to work due to COVID-19 exposure or infection; and
  - Revise its procedures and train its managers on fair workforce reduction procedures and maintain and staff an employee hotline phone number to receive and respond to complaints of violations of workers' rights in the facility.
- During the two-day Seventh Annual Building a Competitive U.S.- Mexico Border webinar hosted by the Wilson Center, many speakers brought up trade barriers that Mexico is utilizing against U.S. exports and investment. Senator Mike Crapo described the lack of approval for new biotechnology applications as harmful to trade as well as limiting Mexican producers from utilizing new helpful technologies. He also

U.S. Secretary of Labor Marty Walsh

criticized Mexico's slow opening to U.S. potato exports, even though the Mexican Supreme Court in April ruled that the government had to lift import barriers on potatoes. Representative Henry Cuellar spoke against Mexico's energy policies, stating "there are some things -- the way they treat the energy companies and other industries -- that I think we need to spend time so we can put together and make sure we're on the same page."

Section 301

- Several business groups filed a "friend of the court" amicus brief with the U.S. Court of International Trade (CIT) supporting legal challenges to Section 301 tariffs covering nearly $37 billion in imports from China. The amicus brief supports lawsuits filed last year by over 6,000 plaintiffs challenging section 301 tariffs for goods under list 3 and list 4A as unlawful under Section 301 citing that USTR exceeded its authority when it imposed tariffs without attempting to connect them to any underlying investigation of China's trade practices. The brief stated, "The tariffs are a hidden tax on US consumers, hurting domestic producers, retailers and customers alike. And, as predicted, they have had a significant adverse impact on the US economy." The brief was filed by the American Apparel & Footwear Association, the Retail Litigation Center, the National Retail Federation, the Consumer Technology Association, the Footwear Distributors and Retailers of America, the Juvenile Products Manufacturers Association and the Toy Association.
- 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."

Section 232 Investigations


Associated General Contractors of America Chief Economist Ken Simonson

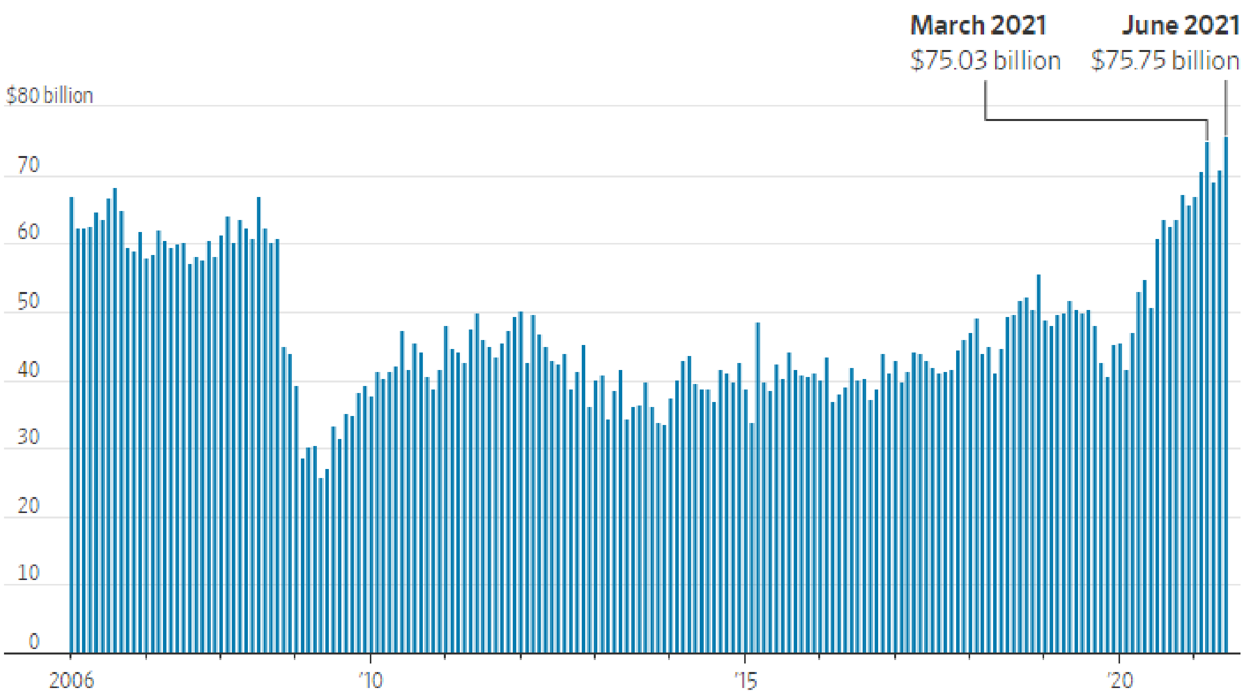
- The Associated General Contractors of America detailed how prices for goods and services used in U.S. construction have continued to rise rapidly. Officials within the group have called on the Biden Administration to eliminate the Section 232 in order to ease the price increases on these goods and services. Ken Simonson, the association's chief economist, states "July was the sixth-straight month of double-digit price increases for construction inputs." Data shows the trend continuing unless the tariffs and quotas are removed. Transportation and fuel costs have also risen, highlighting concern that if these costs remain high, they could undermine some of the benefits of the new infrastructure deal.
- 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.

COVID-19 Developments

- 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.

Deficit High

A continuing surge in imports helped push the U.S. trade deficit in goods and services to a new high in June.



Note: Seasonally adjusted, goods and services
Source: Census Bureau

Biden's Trade Policy

- U.S .Trade Representative Katherine Tai and USDA Secretary Tom Vilsack held a virtual meeting with agriculture cleared advisors last week, emphasizing the Biden administration's work to open markets and reduce barriers for U.S. agriculture exporters. Tai and Vilsack spoke jointly to members of the Agricultural Policy Advisory Committee for Trade and the six Agricultural Technical Advisory Committees for Trade. Highlights from a meeting readout include:
  - Tai noted the Biden administration is seeking new markets and new customers for U.S. food agricultural exports.
  - Vilsack noted the importance of promoting exports and finding new overseas markets.
  - Administration work priorities include trade with China, implementation of the US-Mexico-Canada Agreement and the trading relationship with the European Union.
  - USTR and USDA are working to expand U.S. access to foreign markets through existing Trade and Investment Framework Agreements (TIFAs).
  - The administration is eager to work with stakeholders to address the challenges that climate change and environmental degradation are having on agriculture worldwide.

- Secretary of State Anthony Blinken reiterated the Biden administration's position that new trade agreements are taking a back seat to investment in the U.S. economy. "For too long, we thought we could trade more with the world while investing less here at home. That didn't work out for our economy, for our workers, or for our communities." "We must first make a generational investment in our own competitiveness," Blinken said at the University of Maryland. He stressed the importance of "domestic renewal" in order to ensure U.S. competitiveness against China and the rest of the global economy. "Our domestic renewal comes first. If we do that, we will compete in the 21st-century global economy from a position of strength. We will keep faith with American workers; shape the terms of global trade; ensure that labor, environmental, and intellectual property standards are protected; and stand with our allies and partners when others seek to take advantage of them," Blinken said.

Secretary of State Anthony Blinken

U.S. - U.K. Trade

- While Ambassador Katherine Tai discussed core aspects of trade for the Biden Administration during a recent event in Washington State, 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

- The EU, after facing rising pressure from key U.S. dairy groups and lawmakers, has extended the implmentation date for its new dairy entry cetificate requriments from August 21, 2021 to January 15, 2022. This five month extension will provide U.S. producers more time to adjust to the new certificate requirments, as well as allow lawmakers from the U.S. and EU to discuss the requriments overall. Pressure from U.S. dairy groups and lawmakers and discussions between the U.S. and EU have caused the EU to rethink some aspects of the new regulation, with the U.S. fearful that implementation so soon would have caused supply chain disrputions for many goods in a critical industry. Becky Rasdall, the vice president of trade and international affairs at the International Dairy Foods Association, stated that extending the implmentation would prevent both sides from "rushing into a sort of Band-Aid approach."

U.S. – Kenya Trade

- While U.S. – Kenya talks are indefinitely paused, representative Tai 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 the African continent. Ms. Raimondo said she has discovered broad interest in doing business with Africa. Neither Tai nor Raimondo provided a timeline for the ministerial.
- No word from Biden administration on reviewing 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. – South America

- The U.S. ethanol industry is pushing for regaining access to the lucrative Brazilian market, where it once enjoyed nearly duty-free trade. In 2017 Brazil instituted a tariff-rate quota on U.S. ethanol, which was then followed in December 2020 with a larger 20 percent tariff, while U.S. tariffs remain at 3 percent. Ethanol remains the top U.S. agricultural export to Brazil, but exports are down 200 million gallons. While tariff free trade is ideal, a TRQ would still be better than a tariff on all ethanol imports. Renewable Fuels Association General Counsel and Vice President for Governmental Affairs Edward Hubbard mentioned that current situation is not sustainable, stating that "If we've changed the relationship, maybe it's time for the U.S. to change its tariff structure."

Trade Promotion Authority


NAM President and CEO Jay Timmons

- The National Association of Manufacturers added to the call by industry groups and lawmakers for TPA renewal. In a letter to President Biden, NAM President and CEO Jay Timmons called on the administration to work with Congress without delay to renew TPA. In the letter, Timmons noted that the U.S. "must prioritize new market-opening agreements." He continued, "Without new agreements, manufacturers in the United States risk being left behind our global competitors, many of whom are actively negotiating new trade agreements without us to secure better opportunities for their domestic manufacturers at our expense."
- Additionally, House Ways and Means Republicans recently called 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. "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."

Biden Transition

- President Biden announced his intent to nominate María Pagán for Deputy USTR and ambassador to the WTO, and Christopher Wilson as assistant USTR for innovation and intellectual property. Ms. Pagán is currently USTR Deputy General Counsel, providing advice on all legal aspects regarding trade negotiations, implementation of trade agreements and trade related legislation and regulations. Ambassador Tai praised Pagán's service at USTR stating, "Through nearly three decades of public service, María Pagán has proven to be a shrewd negotiator with an unparalleled knowledge of our trade agreements that will serve the United States well as we re-establish relationships with our trading partners and work to reform the World Trade Organization." If confirmed by the Senate, Ms. Pagán would face several challenges at a crucial time for the WTO, including delivering successful outcomes at its 12th ministerial conference later this year. She also would lead U.S. efforts to reform the WTO, such as new rules to tackle industrial subsidies by countries like China and reform the dispute settlement system.
- President Biden's other selection, Christopher Wilson, for USTR Chief Innovation and Intellectual Property Negotiator, is also another USTR veteran. Mr. Wilson has served in a variety of trade policy leadership roles at USTR the past two decades, including Deputy Assistant USTR for Innovation and Intellectual

- Property and several Assistant USTR positions. He also has represented USTR at the U.S. Mission to the European Union and at the U.S. Mission to the WTO as Deputy U.S. Permanent Representative.
- Ambassador Katherine Tai lauded the White House announcement regarding Pagán and Wilson, noting their extensive careers at USTR, knowledge of trade policy, and professional dedication as civil servants. Ms. Pagán's and Mr. Wilson's biographies were included in the statement.
- Last week the Senate confirmed Ken Salazar as President Biden's ambassador to Mexico. Salazar served as a senator from Colorado from 2005 to 2009, and as interior Secretary during the Obama Administration. He was mostly recently a partner at WilmerHale, and the founder of the firm's Denver office. Salazar is a native of Colorado and a fifth-generation rancher in Colorado's San Luis Valley.

WTO

- Alongside the World Trade Organization's Public Forum, the Graduate Institute in Geneva will host the second annual Geneva Trade Week. The session is designed to bring attendees together to "debate, discuss, network and learn about trade policy issues." The conference, scheduled for September 27 – October 1, will include discussion centers, training sessions, webinars, and other events.
- A noted earlier, 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. It's unclear how USTR and USDA would respond to the proposed action.

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. 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.