

## TRADE UPDATE Food & Agriculture



Provided by CRA

August 31, 2021

### HIGHLIGHTS

- **U.S. – China:** China’s Phase One agreement purchases of U.S. agriculture products in June 2021 were \$1.9 billion and continue to outpace monthly purchases in 2020. The gap in targeted purchases fell to 12% for the first six months of 2021.
- **U.S. – USMCA:** Canada joined Mexico in seeking formal consultations with the U.S. under USMCA over the interpretation of rules of origin for automobiles. The consultation request could set the stage for a formal dispute panel request by Mexico and Canada.
- **U.S. - Vietnam:** The White House [stated](#) that Vietnam has agreed to lower tariffs on pork, wheat, and corn following a visit by Vice President Kamala Harris to the country. Details on tariff rates and implementation timing were not readily available.
- **U.S. Agricultural Exports:** The U.S. is projected to export a record \$177.5 billion worth of agricultural goods in fiscal year 2022 [according to USDA](#). This is based on a continuing projected increase of agriculture exports to China, as well as increasing exports to multiple countries such as Mexico, Brazil, and the U.K. among others.

**Quote:** “Every day that goes by without this qualified leadership in these two posts means that the U.S. is disadvantaging ourselves against our agriculture competitors.” (*Senator Chuck Grassley (R-IA) commenting on the vacant USTR Chief Agriculture Ambassador and USDA Under Secretary for Trade and Foreign Affairs positions*)

### USMCA

- Canada announced it will join Mexico in seeking formal consultations under USMCA with the U.S. over the interpretation of rules of origin for automobiles. "We know how important the auto industry is to Canada's workers and the Canadian economy. Canada has advised the U.S. and Mexico that it intends to join the consultations as a third party," said Patricia Skinner, spokeswoman for Global Affairs Canada. Mexico’s Minister for Economy, Tatiana Clouthier, welcomed the move, posting in a tweet, "We are pleased Canada has decided to join the request for consultations, which we requested on August 20, in relation to the interpretation the United States makes of the rules of origin in USMCA for the automotive sector."
- A week earlier Mexico [began](#) the process of formal consultations with the U.S. over the interpretation and application of USMCA auto rules of origin. USMCA requires 75% North American content within a vehicle for it to be considered as originating from North America. Mexico, and now Canada, however, have disagreed over interpretations of the new rule. They cite differing methodologies to measure the exact percentage of the regional value content of the vehicles, potentially leading to confusion between the countries and among auto companies. U.S. Trade Representative spokesman Adam Hodge said earlier, "We are reviewing Mexico's request for consultations and remain committed to fully implementing the USMCA." Talks must be held within the next 30 days according to USMCA.
- Mexico’s action, now joined by Canada, sets the stage for possible formation of a dispute panel under USMCA and could threaten the industry as a whole, according to Luz María de la Mora Sánchez, Under Secretary for Foreign Trade in Mexico’s Economy Secretariat. “This is not only about Mexico,” de la Mora said in an interview with *Inside U.S. Trade*, “This is about the three countries, because the three of us are integrated and we produce together. So whatever happens to one company in one country will affect the rest.” De la Mora emphasized that



*Luz de la Mora, Mexico's Under Secretary for Foreign Trade*

Mexico will “work very hard” to seek an understanding via the process with the U.S. but didn’t rule out the possibility of a dispute panel.

- U.S. tomato growers and Mexico are wrangling over specific terms in a suspension agreement focusing on Mexican tomato exports to the U.S. The difference in interpretation stems from how to measure the minimum reference price. The Florida Tomato Exchange (FTE) says that the new reference price, unlike previous ones, does not include additional costs incurred between the U.S.-Mexico border and agents’ warehouses, leading to a lower reference price that the FTE say have “failed to prevent or remedy injuries dumping.” The Mexican government and U.S. importers, however, state that the FTE’s interpretation is misguided and are urging Commerce to reject it, with the Mexican government stating that the FTE’s interpretation would increase current reference prices, “altering those agreed, after a long negotiation.” Under the 2019 suspension agreement, the U.S. Commerce Department agreed to suspend an anti-dumping investigation into Mexican tomato imports as long as Mexican tomato growers agreed to sell their tomatoes in the U.S. at or above a reference price. This is meant to help eliminate harm to U.S. tomato growers.
- Mexican officials will reportedly travel DC to visit with Vice President Kamala Harris to discuss bilateral economic issues. Vice President Harris will meet with Mexican Economy Secretary Tatiana Clouthier and Foreign Affairs Secretary Marcelo Ebrard on September 9<sup>th</sup> in Washington, DC, and be accompanied by officials from USTR, State Department, and Commerce Department. The economic issues include supply chains and development, “coordination mechanisms in emergency situations,” cooperation on development in Mexico and Central America, and “border infrastructure,” according to an informal translation of a [report from El Financiero](#).

## **China Trade**

- China continues its ambitions to enter new trade agreements and upgrade its existing free trade agreements according to Wang Shouwen, China’s deputy commerce minister and deputy international trade negotiator. Mr. Wang said in a recent [press conference](#) that China aims to “further expand opening to the outside world” by “speeding up” the pace of new trade deal negotiations and forging more agreements, citing a developing accord between China, Japan and South Korea as an example. The three countries have held more than a dozen talks on a free trade deal since the idea was first proposed in 2002. “The development of two-way investment between us is conducive to the development of regional integration between us and our free trade partners, forming a more stable industrial chain and supply chain,” Wang said. In 2020, Wang noted, trade with Beijing’s free trade partners increased by 3.2 percent as opposed to a 0.8 percent growth in trade with non-free trade agreement partners. China also aims to “further tighten” economic and trade relations with its existing free trade partners, Wang said, pointing to upgrades of its free trade agreements with Chile and Pakistan as examples.
- China’s free trade agreements, including RCEP, have been “beneficial” to both Beijing and its trading partners, Wang said, according to an informal translation. China has joined nine new free trade agreements since 2012, including the Regional Comprehensive Economic Partnership (RCEP). China has also expressed a desire to join CPTPP according to earlier reports.
- As reported earlier, the Office of USTR is soliciting public comments on China’s WTO compliance. The public input is part of USTR’s development of its annual reports to Congress on China’s and Russia’s compliance with their commitments to the WTO. According to a *Federal Register* [notice](#), USTR is seeking written comments on China’s compliance with the WTO by September 15th, and comments on Russia are due by September 22th, according to [another notice](#). USTR seeks public comments in such areas as trading rights, import regulation, export regulation, internal policies affecting trade, intellectual property rights, services, rule-of-law issues and other WTO commitments, according to the notice.
- Comments are utilized by The Trade Policy Staff Committee (TPSC), an interagency group composed of senior civil service staff and chaired by USTR. The committee solicits public input to inform USTR, among other activities. The annual report to Congress on China’s compliance with the WTO is required under section 421 of the U.S.-China Relations Act.

*Phase One Agreement*

- According to June 2021 Census data, U.S. agricultural exports to China totaled \$14.2 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 12% 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 51% lag in May 2020 to 12% presently.

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

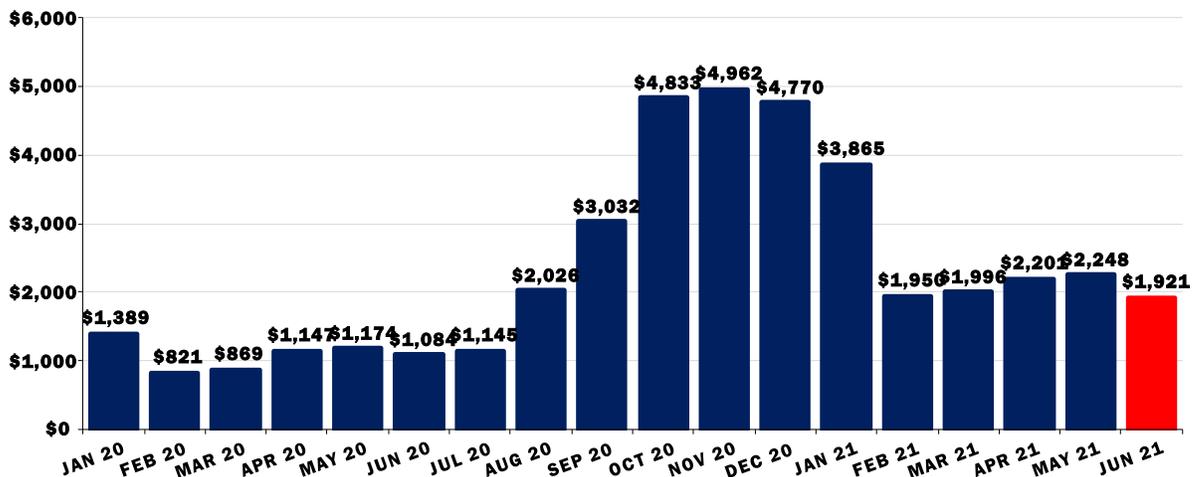


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- China’s purchase of U.S. agriculture products in June 2021 were \$1.9 billion and continue to outpace monthly purchases in 2020, according to analysis by the American Farm Bureau Federation. China’s monthly agriculture imports peaked in November 2020 at \$4.9 billion, reflecting historical seasonal purchase patterns for U.S. products, particularly soybeans. In the first six months of 2021, the second year of the China Phase One agreement, China’s monthly purchases of U.S. agriculture products averaged \$2,364 billion compared with \$1,007 billion during January-June 2020.

### U.S. AGRICULTURAL EXPORTS TO CHINA

U.S. Exports to China, Phase 1 Tariff Lines, Million Dollars



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- According to the U.S. Department of Agriculture, as part of a continuing increase in agriculture exports to China, along with more general agriculture exports worldwide, the U.S. [is projected](#) to export a record \$177.5 billion worth of agricultural goods in fiscal year 2022. China, which will remain the top U.S. agricultural export market in FY2022, and is expected to import \$39 billion, a \$2 billion increase from the previous year. This comes even with the report not citing the Phase One Agreement, which is set to expire in December. Agricultural exports are also expected to rise in a variety of countries, such as in Mexico, Brazil, and the U.K. Secretary Vilsack praised the projected record export of agricultural goods, stating “America’s farmers, ranchers and processors are the world’s best and global demand for their products ... has led to a projected new record in U.S. agricultural exports.”

### **Section 301**

- The Office of the U.S. Trade Representative will consider whether to extend Section 301 tariff exclusions on 99 medical-care and COVID response products that are set to expire on Sept. 30. The agency invites public comments as notified in a [draft Federal Register notice](#) issued last Friday. The notice states, “Subsequent to USTR’s announcement of the extension of the 99 exclusions for COVID-19 response products in March, the spread of COVID-19 in the United States initially declined, and domestic production of certain products covered by these exclusions increased.” “With the recent spread of the Delta variant, COVID-19 cases in the United States are increasing again. In light of these changing circumstances, including the ability of the United States to obtain certain products domestically or from other sources, USTR is requesting public comments on whether to extend particular exclusions for COVID-19 products for up to six months.” The comment period will close on Sept. 27.
- Separately, the Biden administration remains silent on whether it will reinstate a section 301 inclusion process amidst growing calls from business groups seeking relief from China’s retaliatory tariffs, an action prompted by the Trump administration’s section 301 tariffs in 2018 on nearly \$370 billion of goods from China.

### **Section 232 Investigations**

- USTR has recently begun expanding the scope of its interagency “strike force” to focus on both short-term and long-term issues critical to U.S. supply chains. The “strike force” was announced on June 8 and is meant to identify unfair foreign trade practices that have eroded critical supply chains and propose potential enforcement actions. USTR has changed its approach to the “strike force”, instead calling it a task force that will put emphasis on both short-term remedies as well as sustained, long-term actions. One potential trade action that the task force could utilize is the Section 232 trade tool. White House Senior Director for International Economics and Competitiveness Peter Harrell [said](#) in June that the Commerce Department could use the statute to probe the national security impact neodymium magnet imports, utilizing Section 232 for “targeted but tough action”.
- As noted earlier, 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.

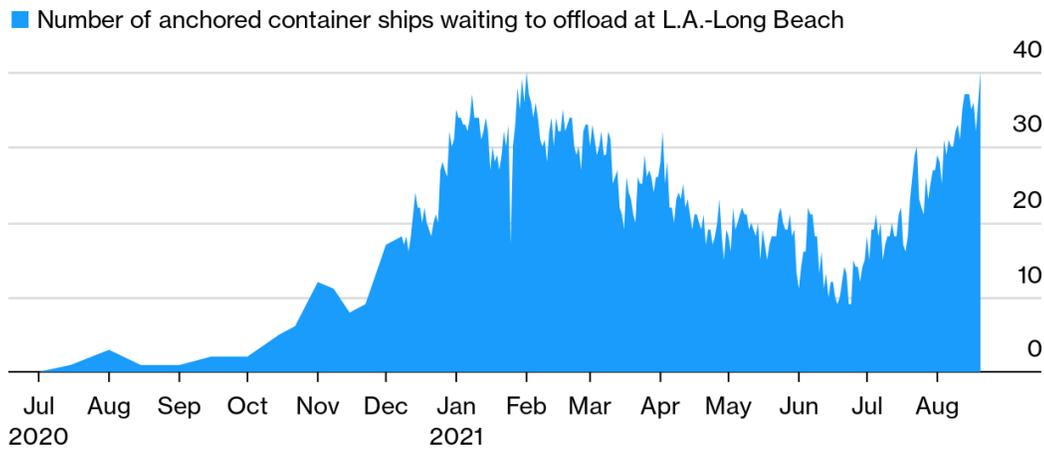
### **COVID-19 Developments**

- The shipping container and west coast port congestion crisis deepened in the last two months. According to the most recent data, the number of container ships anchored outside the ports of Los Angeles and Long Beach, California rose to 40 recently, tying the pandemic record high set in February. The average

wait for vessels rose to 7.1 days, up from 6.2 days a week ago, according to L.A.'s port. The delays along key transpacific trade routes are likely exacerbated by recent Covid outbreaks at Asian ports.

### Choke on the Water

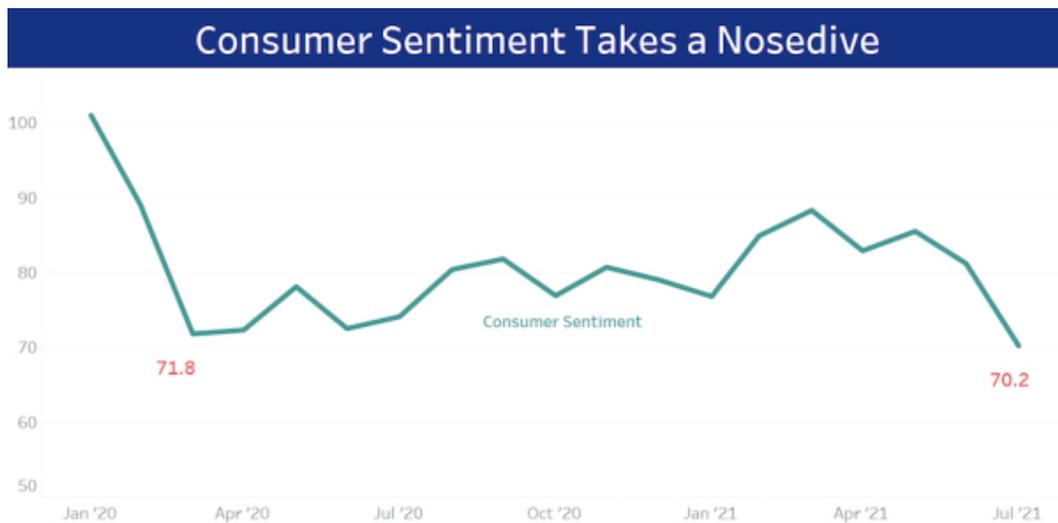
Bottlenecks at key West Coast ports have lingered since November



Source: Marine Exchange of Southern California & Vessel Traffic Service L.A./Long Beach

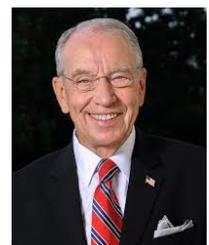
**Bloomberg**

- The preliminary reading for [consumer sentiment](#) for August from the University of Michigan plummeted to a pandemic low. Final numbers could change but the trend remains a concern for the ongoing U.S. economic recovery. The survey found the sharp drop is almost entirely attributed to sagging confidence with the surging virus and rapidly spreading COVID variants.



### Biden Transition

- Senator Grassley penned a [letter](#) calling on President Biden to fill two “essential” trade policy positions - Chief Agricultural Negotiator at the Office of the United States Trade Representative (USTR) and the role of Under Secretary for Trade and Foreign Agricultural Affairs at the U.S. Department of Agriculture (USDA). In the letter Grassley noted that, “Every day that goes by without this qualified leadership in these two posts means that the U.S. is disadvantaging ourselves against our agriculture competitors.” Grassley continued, “Today, I’m writing to the president urging him to nominate qualified individuals in these posts so we can get some action. Iowa businesses and farmers rely on export markets and this leadership vacancy is hurting that effort.” In a



Chuck Grassley, U.S. Senator

related statement, Grassley continued his pressure on the Biden administration to prioritize new free trade agreements and articulate a China trade policy.

- As noted earlier, President Biden has announced his intent to [nominate](#) longtime State Department official Nicholas Burns as the U.S. ambassador to China. Burns has served in numerous foreign policy positions throughout his career, such as working in the White House National Security Council under George H.W. Bush and Bill Clinton, undersecretary of state under George W. Bush, and advisor to then-Secretary of State John Kerry. He is currently the executive director of the Aspen Strategy Group and Aspen Security Forum, as well as professor at the Harvard Kennedy School. If confirmed, Burns would represent a shift from previous ambassadorships away from former politicians to seasoned diplomats. President Biden also [announced](#) his intent to nominate former Chicago mayor Rahm Emanuel as U.S. ambassador to Japan.

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

- U.K. trade secretary Liz Truss recently [stated](#) during an interview with the Financial Times' Payne's Podcast that the U.K. aims to complete negotiations to join the CPTTP by the end of 2022, and that the U.S. could be persuaded to rejoin the bloc. Truss expressed that a shift of the Biden Administration towards rejoining the CPTTP could signal a willingness to U.S.-U.K. trade negotiations. She spoke of the U.S. rejoining the CPTTP noting that, "The United States was one of the initial parties in the Trans-Pacific Partnership, and the new administration has not indicated they want to join it. But who knows what might happen in the future."
- Ambassador Katherine Tai continues to reiterate that USTR is assessing the progress of previous negotiating rounds under bilateral trade talks with the U.K. and Kenya started under the Trump Administration.

### U.S. – EU Trade

- The EU recently authorized new genetically modified crops — three maize, two soybeans, one oilseed rape and one cotton, the European Commission announced. The EU also renewed authorization for two maize and one oilseed rape crops. The crops can be used for food and animal feed. "All of these GMOs have gone through a comprehensive and stringent authorisation procedure, including a favourable scientific assessment by the European Food Safety Authority," the Commission said. The authorizations are valid for 10 years, and any product produced from these GMOs will be subject to the EU's strict labeling and traceability rules, according to a [report](#).

### U.S. – Kenya Trade

- While the Biden Administration continues its review of the Kenyan FTA negotiations made under the Trump Administration, many business groups and lawmakers are complaining about a lack of clarity from the current administration. Scott Eisner, president of the U.S.-Africa Business Center at the U.S. Chamber of Commerce discussed that while the U.S. and Kenya are "keeping the channels open" during the review, the length and lack of clarity throughout the review has sparked concern of a "drift" occurring between the two countries. Eisner says that the Biden Administration, while still not giving any indication on its conclusion of the review, is giving "encouragement that the technical teams continue some sort of conversation."
- As noted earlier, seven Republican senators, led by Senator Jim Inhofe, sent a [letter](#) to recently to Ambassador Tai to prioritize the resumption of negotiations towards a bilateral free trade agreement with Kenya. The August 20<sup>th</sup> letter cited many benefits for a potential U.S.-Kenya FTA. First, the senators cited how the agreement would further relationships in Africa, building upon relationships already developed through AGOA, as well as help serve as a model for FTAs with other African countries. Second, there are numerous economic opportunities that could come with opening trade with Kenya, a



*Scott Eisner,  
President of the  
U.S.-Africa  
Business Center*

nation that has an average GDP growth of 5.8 percent. Finally, the senators discussed how closer African ties would strengthen U.S. security interests in the region. The senators' stated "A U.S.-Kenya FTA presents substantial long-term benefits for the United States, Kenya and the Horn of Africa."

- Started under the Trump administration, U.S.– Kenya talks are indefinitely paused as Biden administration reviews progress on the two rounds of trade negotiations with Kenya in 2020. 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.-Vietnam

- The White House [stated](#) last Wednesday that Vietnam has agreed to lower tariffs on pork, wheat, and corn. The White House said in a fact sheet that "U.S. farmers and pork producers will have greater access to markets in Vietnam — the United States' seventh largest agricultural export market — as a result of Vietnam's positive consideration of our proposal to eliminate or reduce MFN import duties on corn, wheat, and pork products." This agreement comes after many U.S. agricultural groups and lawmakers pushed the Biden Administration to negotiate with Vietnam over their agricultural tariffs. Many U.S. agricultural groups praised the announcement, with the National Pork Producers Council stating noting the agreement "to be very good news" on tariffs "that put U.S. pork at a significant competitive disadvantage." Details on tariff rates and implementation timing were not readily available.
- The White House also said the U.S. welcomes Vietnam joining the Agricultural Innovation Mission for Climate (AIM4C), an initiative announced at President Biden's Leaders' Summit on Climate that will be launched at COP-26 in November 2021. "AIM4C participants will work together to accelerate global agricultural innovation and the adoption of climate-smart technologies. Together, the United States and Vietnam, along with our global partners, can address shared climate challenges and create innovative solutions to improve food security and drive economic growth around the world," the White House said in a [fact sheet](#).

### WTO

- With three months until the WTO 12 Ministerial (MC12), WTO members and leadership are increasingly attempting to manage expectations for modest outcomes. The uncertainty of the global pandemic, which remains uncontained in many countries and new surges of COVID variants may complicate the planned in-person MC12 meetings in Geneva, Switzerland during Nov. 2<sup>nd</sup> thru December 3<sup>rd</sup>. Many members are eager for an in-person MC12, acknowledging that a virtual platform removes the behind-the-scenes discussions and deal making that often leads to resolving gaps and differences in WTO negotiations. The primary outcome WTO leaders are expecting will revolve and fishery subsidies, responding to pandemic and mitigating its impact on global trade, and agriculture subsidies and transparency according to reports.
- The Congressional Research Service published a [summary](#) of MC12 agriculture negotiations and issues last week. The "In Focus" document highlights the importance of U.S. agriculture trade, the status of agriculture talks related to MC12, and key issues identified by U.S. agriculture and farm groups.
- A noted earlier, the WTO [draft text](#) for agriculture negotiation ahead of 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.