

TRADE UPDATE Food & Agriculture



Provided by CRA

September 7, 2021

HIGHLIGHTS

- **U.S. – China:** China’s ambassador to the U.S., Qin Gang, raised concern with a bevy of U.S. legislation aimed at China that could disrupt the U.S. – China relationship. Separately, the National Association of Manufacturers called on the Biden Administration to release and implement a national China strategy, including on trade.
- **U.S. – USMCA:** Mexico’s President Andrés Manuel López Obrador expressed optimism that Mexico and the U.S. could avoid a dispute settlement panel to resolve differences in interpretation of the USMCA auto rules of origin.
- **Section 232:** Another downstream steel industry group called on the Biden Administration to lift the section 232 steel and Aluminum tariffs. The American Metal Manufacturers and Users in a letter cited the rising steel prices and supply constraints.
- **WTO:** The WTO granted China’s request for a dispute panel to “determine whether China complied with an earlier WTO ruling regarding the administration of its tariff rate quotas (TRQs), including those for wheat, rice, and corn.” The U.S. earlier lodged a complaint that China was not meeting the obligations of a prior WTO ruling China’s TRQs administration were not WTO-compliant.

Quote: “We don’t want to get to an international panel.” “I do not think it will get there.” (*Mexico President, López Obrador commenting on USMCA dispute on auto rules of origin.*)

USMCA

- Mexico’s President Andrés Manuel López Obrador weighed in on the USMCA auto rules of origin dispute suggesting the U.S., Mexico, and Canada could resolve the disagreement over how to interpret auto rules of without establishing a dispute settlement panel. “We don’t want to get to an international panel,” López Obrador said at a press conference last week. “I do not think it will get there,” he continued.
- Canada recently joined Mexico’s request for formal consultations under USMCA with the U.S. over the interpretation of rules of origin for automobiles. 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.”
- Mexico **launched** the consultations with the U.S. over the interpretation and application of USMCA auto rules of origin, which stipulate 75% North American content is required for a vehicle receiving designation of originating from North America. Mexico, and now Canada, 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.
- Mexico emphasized the complex and highly integrated nature of North American vehicle production and need for a common understanding of USMCA rules of origin. Luz María de la Mora Sánchez, Under Secretary for Foreign Trade in Mexico’s Economy Secretariat, said that the dispute “is not only about Mexico.” “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 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.
- Florida’s Agriculture Commission released a **report** stating that “unfair” Mexican agricultural imports had cost the agricultural industry of Florida nearly \$4 billion. The report also stated that direct, indirect, and

induced employment suffers an annual loss of between 17,870 and 35,741 jobs. The report claims that Mexican growers utilizing aggressive price controls in a variety of agricultural exports have hindered Florida's ability to compete. Mexico contends that its imports do not warrant a substantial cause of injury towards U.S. growers, and that Mexico would initiate a dispute settlement case if the U.S. were to impose trade restrictions on seasonal produce.

- 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 9th 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

- During an event hosted by the National Committee on U.S. China Relations' board of directors, China's ambassador to the U.S. Qin Gang [spoke](#) out against a multitude of bills containing "negative content on China" that have been brought forth under this Congress, stating that "they will hijack China-US relations and gravely damage America's own interests." The ambassador cited more than 260 bills, though he called out two bills in name, U.S. Innovation and Competitiveness Act and the Ensuring American Global Leadership and Engagement Act (EAGLE Act). The two bills are similar, wide-ranging China-focused legislation that are currently under consideration of Congress, though neither has a clear path towards becoming law. During the speech, Qin also called for closer cooperation between the U.S. and China.
- 
- Qin Gang, China's Ambassador to U.S.*
- The World Trade Organization, at the request of China, [has agreed](#) to establish a dispute panel to "determine whether China complied with an earlier WTO ruling regarding the administration of its tariff rate quotas (TRQs), including those for wheat, rice, and corn." China has taken the unusual step of requesting its own compliance panel after the U.S. sought retaliation for what it believed was China's failure to comply with the earlier tariff rate quota ruling. As this was China's second request for a dispute panel, the U.S. could not block it from moving forward. On the same day of the WTO statement, the U.S. stated it had paused its proceedings on determining how to retaliate against China. China has continued to assert it has fully complied with the earlier tariff rate quota ruling and argued that the burden of proof was on the U.S. to show China had not properly complied.
 - The National Association of Manufacturers (NAM) called on the Biden administration to release and implement a national China strategy, including on trade. NAM's President and CEO Jay Timmons, sent a [letter](#) to six cabinet members of the Biden administration—Tony Blinken (Secretary of State), Janet Yellen (Secretary of the Treasury), Gina Raimondo (Secretary of Commerce), Katherine Tai (USTR), Jake Sullivan (National Security Adviser) and Brian Deese (Director of the National Economic Council)—encouraging the administration to develop, and begin implementing, a formal national China strategy suited for a new, post-pandemic world. Timmons urged the Biden administration to act as quickly as possible to finalize, release and move forward on China strategy including areas such as trade.
 - The letter reiterates strong support for a robust China strategy, including "boost national security, promote American democracy and values abroad and strengthen our ability to compete economically with China" through domestic investment, engagement on supply chains, and other areas. NAM's strategy also acknowledged China's position as a necessary partner in targeted areas, a fierce economic competitor that does not always play by the rules and a major rival for global influence.
 - 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

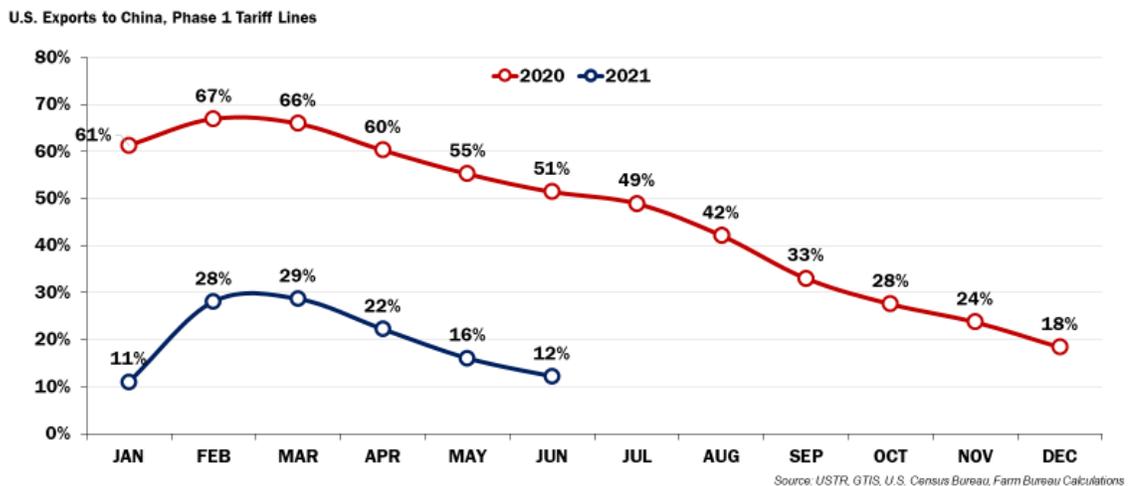
- According to June 2021 Census data, U.S. agricultural exports to China totaled \$14.2 billion. This compares to a needed pace of \$16.2 billion in agriculture exports for the year 2 goal to be reached. Cumulative agriculture Phase One product exports to China in the six months of 2021 presently are 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 June 2020 to 12% presently.

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



AFB AMERICAN FARM BUREAU FEDERATION® www.fb.org

U.S. AGRICULTURAL EXPORTS TO CHINA – PERCENT BELOW CUMULATIVE TARGET IN EACH MONTH



AFB AMERICAN FARM BUREAU FEDERATION® www.fb.org

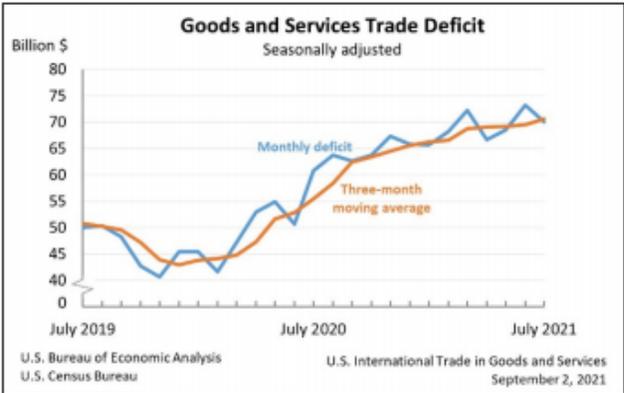
Section 301

- As reported earlier, USTR is examining 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.

COVID-19 Developments

- The United States’ international trade deficit in goods and services decreased in July to \$70.1 billion from \$73.2 billion in June (revised), as exports increased \$2.8 billion and imports decreased \$0.4 billion over the prior month. According to the Census Bureau report, the July decrease in the goods and services deficit “reflected a decrease in the goods deficit of \$5.5 billion to \$87.7 billion and a decrease in the services surplus of \$2.4 billion to \$17.7 billion. Year-to-date, the goods and services deficit increased \$131.0 billion, or 37.1 percent, from the same period in 2020. Exports increased \$205.0 billion or 16.8 percent. Imports increased \$336.0 billion or 21.3 percent.”
- The trade deficit with two major trade partners increased in July. The July trade deficit with the European Union increased to \$20.8 billion, the highest on record. The trade deficit with China rose to \$28.6 billion in July. Exports to China fell roughly 3 percent to \$11.7 billion, despite Beijing’s commitment to purchase more U.S. goods under the Phase One trade agreement.

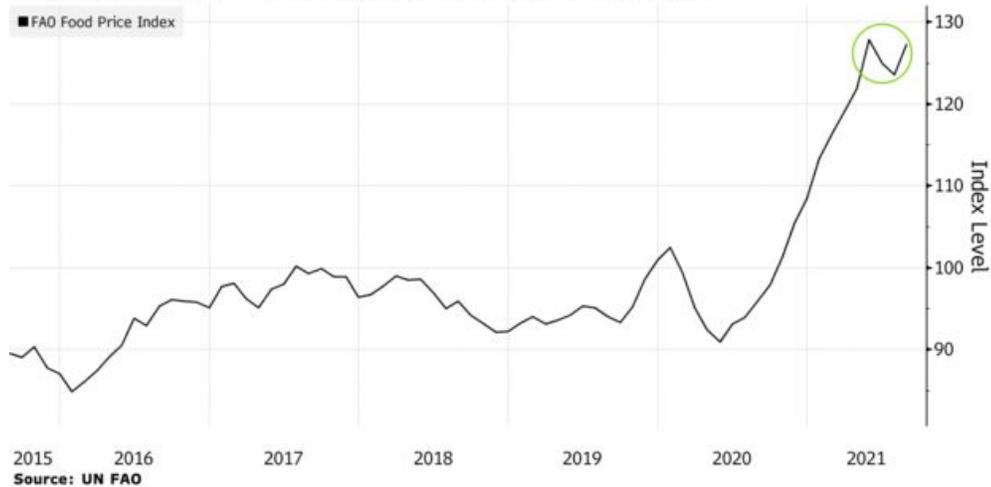
U.S. INTERNATIONAL TRADE IN GOODS AND SERVICES DEFICIT		
Deficit:	\$70.1 Billion	-4.3%*
Exports:	\$212.8 Billion	+1.3%*
Imports:	\$282.9 Billion	-0.2%*
Next release: Tuesday, October 5, 2021		
(*) Statistical significance is not applicable or not measurable. Data adjusted for seasonality but not price changes		
Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis; U.S. International Trade in Goods and Services, September 2, 2021.		



- World food prices rose again in August nearly reaching record highs, After easing in the previous two months, according to the Food and Agriculture Organization (FAO). Disruptive weather events, shipping bottlenecks, and continuing economic recovery in certain countries from the depths of the global pandemic are some of the factors driving prices upward. The FAO Food Price Index (FFPI) averaged 127.4 points in August 2021, up 3.9 points (3.1 percent) from July and 31.5 points (32.9 percent) from the same period last year. The FFPI’s rebound in August after two consecutive months of decline was led by strong gains in the sugar, vegetable oils, and cereal sub-indices.

Food Rally

UN gauge of food prices is back near the highest in a decade



Section 232 Investigations

- In a [statement](#) released by the American Metal Manufacturers and Users, the coalition stated that U.S. manufacturers are in desperate need for more steel, which can be solved by eliminating Section 232 tariffs. The coalition wrote that the U.S has become “an island of high steel prices,” with “domestic steel producers enjoying record profits.” The coalition also cited figures showing that the domestic steel industry has achieved a high capacity-utilization rate of 85%, higher than the target rate of 80% by the Trump Administration, showing the tariffs are no longer needed to protect the domestic industry. Passage of the \$1 trillion infrastructure bill will only further exacerbate the steel shortage, further harming U.S. manufacturers, the coalition said. Three U.S. steel industry groups argued in a letter to the Biden Administration that eliminating Section 232 steel tariffs would flood the U.S. with European steel, and that a change to a tariff rate quota would be preferable to a complete elimination.
- 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.

Other Trade News

- Secretary Vilsack suggested that Congress could help bring in new trade deals if the bipartisan infrastructure bill and reconciliation bill get passed and signed into law. Speaking at a [virtual town hall](#) event hosted by Farm Journal, Vilsack suggested that the passage of both bills could provide momentum for securing future trade deals. The passage of both bills, Vilsack says, “creates the momentum, internally, domestically, to strengthen American families [and] to make them feel a little bit more secure,” and that “Once we feel stronger, at that point, I think it makes it a little bit easier to get the votes you need to get a trade agreement through the process.” This thinking is in line with President Biden’s previous statements, where he stressed his administration would focus on new trade deals only after prioritizing the recovery of the domestic economy. Vilsack also brought up the need for TPA renewal, and that the Biden Administration could look at smaller, targeted market access deals to reduce trade barriers, as was the case with Vietnam.

- House Agricultural Committee Chairman David Scott, along with several of his Democrat Committee colleagues, issued a [letter](#) to the Biden Administration regarding non-tariff trade barriers affecting agricultural biotechnology products. The letter states that the non-tariff barriers are harming the Biden Administration’s tasks of expanding market access for farmers, fighting climate change, and improving food security. This also greatly harms U.S. farmers, with lawmakers writing “When trading partners erect non-tariff barriers to these technologies, their actions have a chilling effect on global adoption and commercialization of new technologies. As a result, farmers at home and abroad are forced to choose between innovative technologies or access to foreign markets.” The letter puts specific emphasis on China and Mexico, two of the largest destinations for U.S. agricultural exports but also countries that do not efficiently approve biotechnology products.



*House Agricultural
Committee Chairman,
David Scott*

Biden Transition

- As reported earlier, 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 related statement, Grassley continued his pressure on the Biden administration to prioritize new trade agreements and outline 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

- Member countries of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP) will meet on Wednesday to discuss the bid by the U.K. to join the trade deal. Earlier 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 towards 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 that started under the Trump Administration.

U.S. – EU Trade

- As reported earlier, 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 20th 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 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.-ASEAN

- The Biden Administration may engage with ASEAN countries through Trade and Investment Framework Agreements (TIFAs), to enhance U.S. trade in the region. According to Marc Mealy, senior vice president of policy at the U.S.-ASEAN Business Council, the U.S. is seeking to “re-energizing” economic relations with the ASEAN countries. This comes two weeks after senior economic officials from ASEAN [met](#) with acting Assistant U.S. Trade Representative for Southeast Asia and the Pacific Marta Prado, where they “finalized the 2021-2022 ASEAN-U.S. Trade and Investment Framework Arrangement (TIFA) and Expanded Economic Engagement (E3) Work Plan.” Mealy stated that the Biden Administration seeks to use TIFA negotiations to further cooperation in the region. The administration is specifically interested in bringing forward labor concerns in future economic talks, citing that they have not been part of formal negotiations in the past. Ambassador Tai is expected to meet with the ASEAN officials and participate in consultations with them.

WTO

- WTO agriculture negotiations chair, Costa Rican Ambassador Gloria Abraham Peralta, discussed in a [video message](#) the challenges facing a comprehensive agricultural outcome at the MC12. She described how many of the members remain too entrenched in their positions, and that concessions must be made to achieve an agreement. However, progress over the past months of negotiations has been slim, and the ministerial is scheduled to begin in late November. Along with this, members are still divided with the

potential scope of an agreement, with the U.S. pushing for a limited scope within the WTO, and of what exactly an ambitious outcome would look like. Abraham noted that “all members have emphasized that an outcome is critical for re-establishing the WTO's credibility, rebuilding trust, laying out a path forward, and galvanizing political engagement,” and that the outcome must represent a “meaningful step forward.”

- With less than 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. 2nd thru December 3rd. 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.



*Gloria Abraham Peralta, WTO
Ambassador, Costa Rica*