

TRADE UPDATE Food & Agriculture



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Provided by CRA

Breaking news: According to *Politico*, President Biden intends to nominate Ms. Elaine Trevino as the Chief Agriculture Negotiator at USTR. Ms. Trevino presently is President of the Almond Alliance of California, and former Deputy Secretary of the California Department of Food and Agriculture.

HIGHLIGHTS

- **U.S. – China:** China is actively seeking Australia’s support in its bid to join the CPTPP, even as tensions are high between the two countries. China would constitute the largest trade partner should it succeed in joining CPTPP and add to its deepening trade ties in the region.
- **USMCA:** U.S. energy company Talos Energy Inc. filed a notice of dispute with Mexico under the USMCA over the Mexican government’s move to give authority over a major oil field to PEMEX.
- **Section 301:** The Biden administration is exploring a new Section 301 investigation on China’s subsidies according to several sources, as USTR continues a top-to-bottom review of its China policy. According to some observers, a second Section 301 investigation into China’s unfair trade practices provides an opportunity to reset or lift some Trump-era tariffs while raising others. It could also help in building support from other trade partners to further pressure China to eliminate or curtail domestic subsidy programs.
- **WTO:** The World Trade Organization [formally announced](#) it will hold the 12th Ministerial Conference (MC12) in-person in Geneva, Switzerland with some restrictions. Meanwhile, developing countries criticized the recent agriculture negotiations draft text, signaling the deep divide continues on a major agenda topic for MC12.

Quote: “As friends, allies, and neighbors – there are few relationships more important to the United States than the one with Mexico.” (*Ambassador Katherine Tai’s statement after the High-Level Economic Dialogue (HLED) meetings between the U.S. and Mexico*)

USMCA

- Recently President Biden and Mexican President López Obrador agreed to relaunch the U.S.-Mexico High-Level Economic Dialogue (HLED) in recognition of our broad strategic economic relationship. The announcement followed the first meeting of the U.S.-Mexico high-level economic dialogue in four years, where both countries agreed yesterday to create a Bilateral Supply Chain Working Group in order to build a more secure and mutually beneficial supply chain. “Together, we intend to build supply chain resiliency, guard against disruptions and seek to promote competitiveness by reducing vulnerabilities,” according to a joint statement. While current trade tensions under USMCA were not specifically mentioned, Vice President Kamala Harris said, “I am confident that our nations will continue to work together, that our companies will continue to create jobs together, and that our people will enjoy greater prosperity and a greater quality of life.” The discussion focused on four pillars - building back together, promoting sustainable economic and social development in Southern Mexico and Central America, securing the tools for future prosperity and investing in people. More details available from a White House [fact sheet](#).
- U.S. energy company Talos Energy Inc. filed a notice of dispute with Mexico under the USMCA over the Mexican government’s move to give authority over a major oil field to a state-controlled Petróleos Mexicanos (PEMEX). According to Talos, the Mexican Energy Ministry (SENER) failed to demonstrate that it considered “the principles of economy, competitiveness, efficiency, legality, transparency, best practices

of the industry and the best use of hydrocarbons,” as required under Mexican regulations in making its decision. Talos argued that a consortium it established in 2017 already has invested nearly \$350 million developing the field, while Pemex has failed to deliver on promises to drill a so-called “confirmation well” in its part of the field. SENER’s decision to award control to PEMEX causes “loss or damage” to Talos as an investor and operator of part of the field, [the company said in a statement](#). The Talos’ complaint constitutes the first step under USMCA’s investment chapter requesting consultations though does not presently form the establishment of a dispute panel.

- Mexico and Canada earlier [requested](#) 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 Canada disagree over the U.S. 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. 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.

China Trade

- China is actively lobbying within Australia for support in its effort to join the CPTPP, even as tensions remain high between the two countries. In a [submission](#) to a parliamentary inquiry the Chinese embassy in Australia expressed its positive views on CPTPP, and that it was “looking forward to exchanging views” with Australia and other CPTPP members. The embassy proposed that “China’s accession to the CPTPP would significantly bring down the cost of investment and trade between China and CPTPP members, leading to a more efficient allocation of resources and more optimized regional supply and industrial chains.” Many countries have pushed for joining the CPTPP, including the U.K. and Taiwan, as well as several lawmakers and prominent business groups in the U.S.
- Removing bilateral tariffs by the U.S. and China remains a “top priority” according to the American Chamber of Commerce in China. In a poll conducted by AmCham China, nearly half of surveyed member companies said the removal of U.S. and Chinese tariffs by the end of the year is a priority. The [survey](#), released last week, with responses from 125 member companies, found that 47 percent of respondents listed the “removal of bilateral tariffs” as a top priority, while a meeting between President Biden and Chinese President Xi Jinping was a top priority for 38 percent of participants. AmCham China Chairman Greg Gilligan noted that “As the pandemic continues well into its second year, the priorities for our member companies remain consistent.” “The state of the overall [U.S.]-China relationship is as important as ever to the business community, with members prioritizing concrete results and actions as a way to restore trust between the two countries.”
- As reported earlier, 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 present U.S. 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.
- This week is the deadline, September 15th, for submitting comments on China’s WTO compliance to USTR. 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. 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

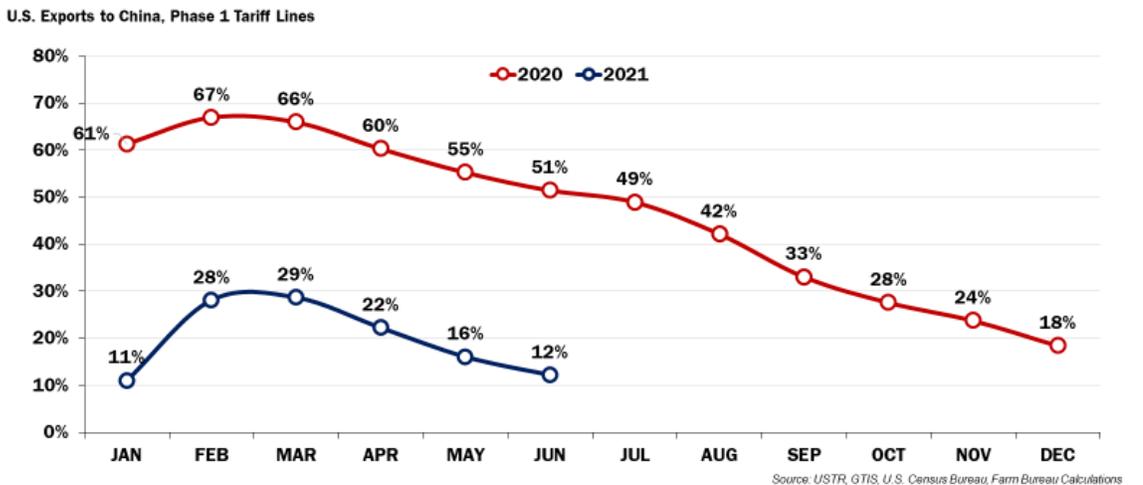
- According to June 2021 Census data, U.S. agricultural exports to China totaled \$14.2 billion. This compares to a needed pace of \$16.2 billion in agriculture exports for the year 2 goal to be reached. Cumulative agriculture Phase One product exports to China in the six months of 2021 presently are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



AMERICAN FARM BUREAU FEDERATION* www.fb.org

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



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- Unofficial reports suggest that USTR and the Biden administration are reviewing new avenues to combat China’s unfair trade practices, including a section 301 investigation. According to one [report](#), Tai and other administration officials are meeting to discuss China trade issues, such as a new 301 investigation, the Phase One Deal, different enforcement actions and a general path forward for the U.S. tariffs on China. Separately, in a tweet, another news source stated that the administration is leaning towards a new 301 investigation that would likely take months to complete and require an in-depth look into the collateral damage caused by taking further economic action against China.



Jenny Leonard @jendeben

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NEWS: The White House is weighing a new 301 investigation into Chinese subsidies to increase pressure on Beijing. Some in the administration believe the existing tariffs have failed to serve as leverage. Top Biden advisers including Tai and Raimondo are meeting today to discuss.

11:04 AM · Sep 10, 2021 · Twitter Web App

- 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.

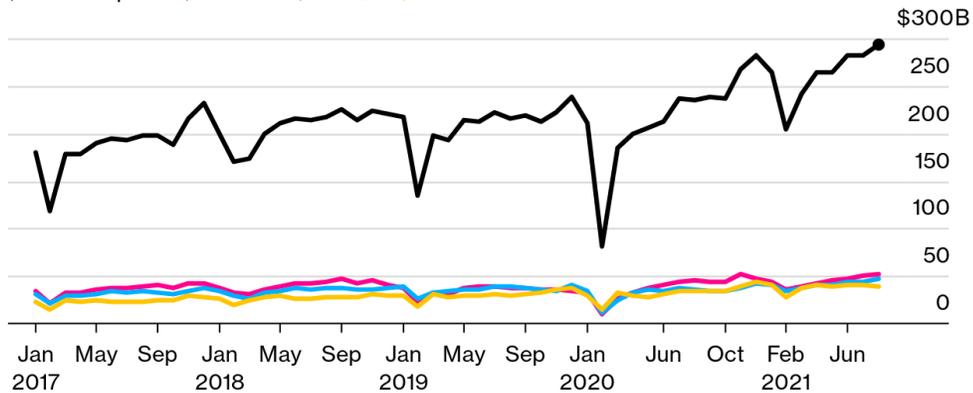
COVID-19 Developments

- China’s global exports rose 25.6% in dollar terms from a year earlier to a record \$294.3 billion, more than \$10 billion above any previous month. Imports grew 33.1% to \$236 billion, also the highest level ever, leaving a trade surplus of \$58.3 billion for the month, the China’s General Administration of Customs reported. One likely factor was China’s unexpected export growth in August as suppliers likely boosted orders ahead of the year-end shopping season, offsetting any port disruptions due to fresh outbreaks of the delta virus.

Record Haul

Value of exports hits new record despite virus resurgence and disruptions

Total exports
 To U.S.
 To EU
 To Asean



Source: General Administration of Customs

Bloomberg

Section 232 Investigations

- Former USTR Robert Lighthizer and J.D. Vance, an Ohio Republican candidate for Senate, are urging the Biden administration to preserve tariffs imposed by the Trump administration on Chinese goods. In an [op-ed published in the Akron Beacon Journal](#), Lighthizer and Vance argue that the tariffs are needed to counter China's unfair economic advantage and send "a clear signal to U.S. companies that the time has come to bring jobs home and reduce our dependence on China." They further contend expanding tariffs, not just preserving the tariffs, is necessary, "We should continue those policies and expand upon them. Instead, some in Congress and the Biden administration seem desperate to turn the clock back."
- The Op-Ed to extend steel and aluminum tariffs follows a recent [statement](#) 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.
- Senator Jerry Moran (R-KS) is urging the Biden Administration to repeal the tariffs imposed by the Trump administration on Chinese goods. The senator contended in a [letter](#) to Commerce Secretary Raimondo and U.S. Trade Representative Tai that the tariffs created a situation where "steel prices have risen by nearly 400 percent." He stated that even after three years of the tariffs being in place, domestic supply of steel has not increased to meet with demand, which has resulted in "costing my state (Kansas) jobs and economic growth opportunities." He stressed that in line with the large infrastructure deal, it is important that American manufacturers have access to cheaper steel. A failure to bring down prices "will diminish the impact of the infrastructure investments by shrinking the number of projects that can be completed."



Senator Jerry Moran (R-KS)

U.S.-ASEAN

- The Biden Administration looks set to engage with the Association of Southeast Asian Nations (ASEAN) through a Trade and Investment Framework Agreements (TIFAs), to enhance U.S. trade in the region. According to reports, Ambassador Katherine Tai will meet this week with her ASEAN counterparts, a sign that the U.S. hopes to "re-energize" its trade relations with ASEAN countries. Tai is slated to participate in consultations with ASEAN economic ministers on Monday, ahead of the ASEAN East Asia Summit Economic Ministers meeting on Wednesday. The U.S. and ASEAN members are reportedly finalizing an expanded TIFA and work plan building on the TIFA the U.S. and ASEAN signed in 2006 by identifying several new issues to focus on, such as sustainable development, the digital economy, small and medium-sized businesses and labor.
- As reported earlier, an official at the U.S.-ASEAN Business Council recently stated the U.S. is "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." Marc Mealy of the Council stated that the Biden Administration seeks to use TIFA negotiations to further cooperation in the region.

U.S. - U.K. Trade

- No significant news since the UK announced its bid to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP). 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

- U.S. and EU officials will meet on September 29th for the first meeting of the newly-created US-European Union Trade and Technology Council (TTC), the White House [announced](#). Secretary of State Antony Blinken, Secretary of Commerce Gina Raimondo and Ambassador Katherine Tai will host European Commission Executive Vice Presidents Margrethe Vestager and Valdis Dombrovskis in Pittsburgh, PA. Ten working groups have been established under the TTC to address issues including technology standards cooperation, supply chain security, climate and green technology, ICT security and competitiveness, data governance and technology platforms, the misuse of technology threatening security and human rights, export controls, investment screening, global trade challenges, and access to, and use of, digital technologies by small and medium enterprises. The TTC was created with the aim of expanding and deepening trade and transatlantic investment ties and updating the rules of the road for the 21st century economy.



*Margrethe Vestager,
EU Executive Vice-
President*

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 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.-Colombia Trade

- U.S. dairy exports to Colombia could soon face increasing challenges, driven by the Colombian dairy industry. U.S. dairy exports to Colombia have risen steadily since the implementation of an FTA between the two countries in 2012. According to the agreement, Colombian dairy tariffs are to drop 2.2 percent every year until they hit zero in 2026. Facing ever increasing import competition from the U.S., the Colombian dairy industry has petitioned the government to investigate whether the imports are causing harm to the domestic Colombian industry, with the hope that this leads to the implementation of safeguard measures. U.S. Dairy Export Council Executive Vice President Jaime Castaneda told *Agri-Pulse* Colombia is within its rights to investigate, but the association is worried that domestic politics would taint the process due to an upcoming Colombian election.

Biden Transition

- No significant news since 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.

WTO

- The WTO [has decided](#) to hold their ministerial conference (MC12) in-person, formally sending a letter inviting representatives to Geneva with some restrictions. According to the letter, each country's delegation size will be limited to just four representatives, and each meeting will only be able to include two of those four representatives. The current details surrounding the meeting could still change though depending on how the COVID-19 pandemic evolves.
- Several developing countries have come together to criticize the recent draft negotiating text in the WTO agricultural negotiations. This group of countries, which includes African, South Asian, and Latin American members among others, felt that the recent effort has unfairly focused on the priorities of developed countries, with many of them feeling as though their proposals are being ignored. In contrast, developed countries, while also showing some concern, have been supportive of recent efforts within agricultural negotiations. Some issues that the developing countries have raised include efforts to classify all kinds of domestic agricultural support as trade-distorting, citing many policies meant to support food security, and updated transparency proposals that would prove difficult to meet for many developing countries. One of the few provisions that was met positively by both groups was the push to exempt World Food Program food purchases from export restrictions, though this is much smaller compared with the plethora of disagreements.
- 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 those 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.

- 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.

Ag Economy Barometer

- The Ag Economy Barometer index ticked up modestly in August after previous months of sharp decline. The August index rose 4 points, reaching an index of 138, well below the high of early 2021. Producers’ optimism in August improved modestly as farmers indicated they expect profitability this year to be better than a year earlier. Farmer concerns with rising input costs continue to weigh on views of farm profitability, despite higher prices for many crops.

