State Association Weekly Washington Report 8.17.17

NAFTA Talks Kick Off as Rhetoric Flies; U.S., Mexico Want Quick Resolution

U.S., Canadian and Mexican delegations sat down this week at a Washington, DC, hotel, formally kicking off the first five days of tripartite renegotiation of the 23-year-old North American Free Trade Agreement (NAFTA). Amidst the political posturing for the folks back home, the U.S. hopes the trade treaty updates can be resolved relatively quickly when it comes to reducing about $72 billion in U.S. trade deficits, increase manufacturing laws and broad use of U.S. trade laws to keep out "bad" imports.

Said Gary Cohn, director of the White House Domestic Policy Council and President Trump's chief economic advisor, "We should keep the parts that work, especially for much of American agriculture, but fix the parts that don't." The U.S. is known to be presenting a list of more than 100 demands for NAFTA changes and additions.

The initial meetings are organizing sessions used to present each nation's positions on various issues and then to organize subgroups of each delegation to work on specific items. Progress is defined as "agreeing to what new issues may be discussed for possible addition." The next scheduled negotiating session will be held in Mexico City September 1-5, and the third session in Canada September 23-27, with the Canadian location to be announced.

The Negotiators Speak – Ambassador Robert Lighthizer, U.S. Special Trade Representative (USTR), talked tougher than most observers expected during remarks at pre-meeting press conference this week. He told his Mexican and Canadian counterparts that despite the treaty's benefits to agriculture, NAFTA has "fundamentally failed many, many Americans," costing the U.S. 700,000 jobs because of shifting trade movements over nearly 25 years.

"We cannot ignore the huge trade deficits, the lost manufacturing jobs, the businesses that have closed or moved because of incentives – intended or not – in the current agreement," he said. The U.S., he said, "is not interested in a mere tweaking of a few provisions and a couple of outdated chapters

U.S. agriculture, which never asked for a NAFTA reinvention, is nervous about the trade treaty rewrite, fearing its 100% tariff-free product access both north and south of its borders may be jeopardized. President Trump makes no secret of his disdain for NAFTA – at times publicly threatening to pull the U.S. out of the "worst trade deal" the U.S. ever signed – but has left the U.S. agenda to Secretary of Commerce Wilbur Ross, U.S. Special Trade Representative Robert Lighthizer, and in a critical albeit less formal role, Secretary of Agriculture Sonny Perdue.

U.S. industry's mantra going into this week's talks is that NAFTA 2.0 "do no harm," translating to modernizing the treaty without losing the cross-border benefits enjoyed by agriculture, manufacturing and other industries. To a large extent, that objective is shared by Canada and Mexico, both of which acknowledge the significant economic bounty NAFTA has brought them since it was signed. Canada and Mexico are U.S. agriculture's second and third largest customers, respectively, with Canadian imports up 44% since 1994, and Mexican imports nearly doubling in that same period.

For Canada, Foreign Minister Chrystia Freeland rejected the notion that "trade balance" is the gauge of successful negotiations. "Canada doesn't view trade surpluses or deficits as a primary measure of whether a trading relationship works," she said rejecting Lighthizer's priority on reducing the $72-billion

U.S. trade deficit with both Canada and Mexico. She also pointed out that when services trade is factored in, the U.S. actually enjoys a modest $8-billion surplus. The three nations, Freeland said, should focus instead on maintaining a “powerful shared interest” in a strong NAFTA going forward. She also reminded the meeting that Canada’s purchases from the U.S. are more than China, Japan and the United Kingdom combined, adding, “Strong economic fundamentals are a compelling argument for bolstering what works and improving what can be made better.”

Seeking a “more prosperous North America,” Ildefonso Guajardo, Mexico’s economic secretary, spoke briefly avoiding the bully pulpit of which his counterparts took advantage. “Mexico comes to this negotiation to play a constructive and productive role…without risking what we have achieved as a region,” he said. Guajardo said there’s room for “modernization” of the treaty, but must benefit all three nations. “Mexico is committed to obtaining a win, win, win for all three countries,” he said. He repeated his earlier call for the talks to progress quickly

Big Three Farm Group’s Joint Statement – A joint statement urging talks that “modernize NAFTA in ways that preserve and expand upon the gains already achieved” was released August 16 by the presidents of the American Farm Bureau Federation (AFBF), the Canadian Federation of Agriculture and Mexico’s Consejo Nacional Agropecuario, the three NAFTA partners’ largest farm groups.

The letter reminds negotiators the success of North American trade comes from collaboration among the three countries, which together make up “one of the most competitive and successful regions in the world.” Key to this success, they say, is “economic cooperation, integration and policy alignment.” At the same time, while each negotiating team comes to the table with issues it wants addressed, “we should not allow these issues to undermine the overall success of trading relationship.

The three giant farmer groups called for increased and improved regulatory alignment; improved movement at border crossings; improved and aligned sanitary/phytosanitary measures; elimination of technical barriers, and adapting the treaty to technological advances since it was signed, including digital trade.

The National Farmers Union (NFU) said negotiators must boost small U.S. farms, not large corporate operations that have benefitted from NAFTA over time. NFU wants to see the three nations decide to dump the existing investor state dispute settlement arbitration process and reinsert country-of-origin meat labeling.

The U.S. released its objectives two weeks ago, borrowing many directly from victories won in the Trans-Pacific Partnership (TPP) 12-nation pact from which the U.S. withdrew. These include language on dairy and tariffs, up-to-date sanitary-phytosanitary standards and enforcement, labor and environmental protections, a new chapter on the “digital economy,” broad dispute resolution, as well as investor-state dispute settlement, currency manipulation, biotechnology approvals, a ban on geographic indicators on dairy and meat labels, rules of origin on automobile trade, and “Buy America” provisions on government contracts. The U.S. is also expected to offer a new anti-dumping system on behalf of southeastern U.S. fruit and vegetable producers to thwart alleged Mexican dumping. The broad U.S. specialty crop industry is not thrilled with the proposal, though Mexico’s refusal to take U.S. potatoes is now on the table, as well.

Acknowledging the inevitable “drama” associated with high stakes negotiations, Canada’s Freeland laid out this week her country’s priorities in a speech to her Parliament, including protection of the existing dispute settlement process allowing one nation to challenge anti-dumping and countervailing duty actions by another – the U.S. wants that system to disappear – and strong defense of its supply management programs, cited by the U.S. as creating artificial price and supply barriers to U.S. dairy and poultry exports north of the border. Citing U.S. government programs which benefit dairy, Freeland said NAFTA favors U.S. producers, and her nation’s largest dairy group said it will not accept as part of NAFTA the dairy concessions granted by Canada during TPP negotiations. The National Milk Producers Federation (NMPF) called Freeland’s assertion “completely misleading.”

U.S. labor unions are calling for public release immediately of the full proposed NAFTA text. USTR said this week the text will remain confidential during the negotiations. The union demand was echoed by a group of 52 House Democrats who said they were not being consulted as the talks begin, and Senate Minority Leader Charles Schumer (D, NY) urged Trump to embrace Democrat trade priorities, including “robust” currency manipulation processes; punishing companies which ship jobs overseas, and stronger “Buy America” provisions that lead to more jobs, particularly for small businesses.

Congress must approve the reworked NAFTA treaty, along with any changes to existing U.S. trade remedy laws. So far, it’s unknown whether those related laws will need changing, but if the talks drag on into 2018, then approval of the final deal and other changes get pushed later into the year.

Cargill CEO Says NAFTA Pull-Out Would be ‘Destructive’

Calling any contemplated action to withdraw the U.S. from the North American Free Trade Agreement (NAFTA) a “big mistake,” the CEO of Cargill told a British business newspaper this week the overall impact of such a decision would be “destructive,” and not just to agriculture.

Coinciding with the beginning of NAFTA renegotiations in Washington, DC, David MacLennan, chief executive of Cargill, Inc., said in an interview with the *Financial Times*, “It would be destructive to the American worker and manufacturing and agriculture. It would be destructive to the American economy.”

MacLennan was responding to a question centering on U.S. agriculture’s worst fear as Canada, Mexico and the U.S. begin the process of modernizing NAFTA. President Trump has repeated called NAFTA “the worst deal” the U.S. has ever signed, and has threatened several times to pull out of the 23-year-old trade treaty if the U.S. doesn’t get a “fair” agreement.

Trade with Mexico and Canada represented about 10% of Cargill’s $110 billion in 2016 income, MacLennan said, with corn exports worth about $4 billion alone. Cargill employs 32,000 people in North America, operating beef processing facilities in Canada and feedlots in Mexico, according to a report by *meatingplace.com*.

Argentina Says “OK” to U.S. Pork Imports; South Korea Lifts Ban on U.S. Eggs, Poultry

Administration lobbying successfully changed the mind of Argentina’s government as the South American nation this week announced it will allow imports of U.S. pork for the first time in 25 years. In a related development, South Korea this week said it’s lifting its ban on import of U.S. poultry and eggs imposed by that Asian nation when a case of avian influenza was confirmed in Tennessee last March.

The announcements come on the heels of word from Vice President Mike Pence in Colombia this week that Colombia will be able to export Haaas avocados to the U.S. in exchange for greater access to the Colombian market for U.S. rice.

The Argentine move comes as Vice President Mike Pence ended a visit with President Mauricio Macri this week, and makes good on President Trump's request of Macri during a White House meeting in April. The market represents a modest $10 million a year, but could go higher if Argentina and the U.S. can forge a bilateral agreement to remove major tariffs, and Macri's ambitious economic reforms are successful.

South Korea's action came in response to the U.S. notifying OIE, the world animal health organization, on August 11 that this country is free of high path avian flu. USDA is hoping to convince the South Korean government to abandon its policy of shutting down all U.S. poultry imports if bird flu is confirmed, opting instead for a regional approach. The U.S. and South Korea are still on track to review and potentially amend the five-year-old Korea-U.S. Free Trade Agreement (KORUS).

Ag Pushes STB to Continue "Aggressive" CSX Service Investigation

Eighteen national agriculture groups urged the Surface Transportation Board (STB) this week to "aggressively continue its recent efforts" to investigate the reasons for "precipitous, deteriorating rail service being provided by the CSX Transportation Co." The Agricultural Transportation Working Group also wants to see a plan from CSX to "rectify the harm it (CSX) has caused to its customers in the last few months and (to) restore service to levels that comply with CSX's statutory obligations."

The group told acting STB Chair Ann D. Begeman and Daniel Elliott, vice chair – with copies of the letter to several House and Senate lawmakers involved in rail transport issues – that starting in June a number of facilities dependent on the CSX "experienced an alarming degradation in rail service that worsened in July and does not appear to be abating," and reports indicate in some areas, it's actually gotten worse.

"Reports received from various agricultural rail users show that a significant number of grain elevators, feed manufacturers, livestock and poultry feeders, flour millers, bakers, edible fat and oil refiners and fertilizer plants are being adversely affected by CSXT's service problems, which have rippled throughout the Midwest, Eastern and Southeastern U.S.," the group's letter read.

The groups commended the STB for actions so far, including asking CSX senior executives to participate in weekly conference calls on the service issues. However, the groups also contend CSX is not meeting its common carrier obligations to provide "reasonable service upon reasonable request as required" by federal law.

Among the several actions the working group asked STB to take is providing customers with a general summary of the weekly STB-CSX conference calls, along with how to discuss the content of those calls, holding CSX to "measureable targets" for restoring service; consider holding a public hearing involving CSX senior management and customer groups to provide transparency to the process, and "promptly resume activity on existing STB proceedings related to enhancing rail competition…to replace the agency's outdated rules reciprocal switching.

EPA Extends WOTUS Comment Period

The public gets another 30 days to provide input to EPA on its actions to rescind the existing Obama administration "waters of the U.S. (WOTUS)" final rule, and subsequent moves to replace it. The new deadline for submitting comments is September 27.

Critics of the Trump administration's move to rescind the WOTUS rule said the original 30 days for public comment wasn't enough time, particularly since the Obama WOTUS rule was open for comment for over 200 days.

Court Gives EPA More Time to Comply with CAFO Order

EPA now has until November 14 to come up with a plan for enforcing a DC District Court of Appeals order requiring all confined animal feeding operations (CAFOs) to report emissions. The court in April ordered the agency to devise the plan, having ruled EPA illegally exempted all but the largest CAFOs from reporting ammonia, hydrogen sulfide and other emissions.

A 2008 EPA rule included what's been called a "blanket exemption" from Comprehensive Environmental Response, Compensation & Liability Act (CERCLA) emissions reporting mandates. EPA also exempted all but the biggest CAFOs from requirements of the Emergency Planning & Community Right-to-Know Act (EPCRA) to report emissions to state and local authorities.

Livestock and poultry producer groups, including the National Pork Producers Council (NPPC) and the U.S. Poultry & Egg Assn. (USPEA) had asked for a January, 2018, deadline, with EPA and farmers complaining compliance must be explained as "confusion" apparently reigns in the country on how CERCLA and EPCRA reporting is done. All farmers must determine if manure on their farms emits hazardous substances in sufficient amounts to trigger CERCLA and EPCRA reports.

Activist groups, including the Sierra Club, Waterkeeper Alliance, the Humane Society of the U.S. (HSUS) and the Center for Food Safety, oppose delaying the court order saying farms and ranches have been reporting such data for years without any guidance from the agency.

Said EPA, "The fact that all farmers were subject to the reporting requirements before 2008 doesn't mean they understood how to meet those requirements."

U.S. Ethanol Facing Brazil Import Tariff

Brazil is contemplating imposing a 20% import tariff on U.S. ethanol, a move designed to protect its alternative fuel industry, reports the *Washington Times* this week. China earlier this year hit U.S. ethanol and ethanol product imports with similar tariffs.

Experts and U.S. industry contend the likely action by Brazil is setting the stage for an ethanol trade war. The U.S. and Brazil are the world's largest ethanol producers.

The decision is expected by the end of the month based on an announcement made July 26 by the Brazilian government. That announcement indicated only 132 million gallons of American ethanol will enter the country without tariff. Brazil requires its gasoline makers to blend 27% ethanol in their fuels.

Canada is the U.S.'s largest ethanol customer, with Brazil running a close second. The Renewable Fuels Assn. (RFA), which is strongly urging the White House to step into the ethanol war, reports Brazil took 21 million gallons of U.S. ethanol in June, about 10% of the 276 million gallons shipped in the first six months of 2017.

FDA "Biomass Denominator" to Track Antibiotic Sales Data; OIE Releases Report on Global Use

FDA is publishing a paper for public comment in which it proposes to begin the use of a "biomass denominator" to adjust annual data on the amount of antimicrobials sold or distributed for use in U.S. food-producing animals. Both the animal health industry and critics of antibiotic use in animals are trying to figure out what the announcement means. Public comments will be accepted through August 15.

In a related development, OIE, the world animal health organization, released a first-ever annual report on global antimicrobial use in food animals using data from 130 of the 180 OIE member countries. The report found 96 nations, or 74% of the participating countries, don't allow the use of antimicrobials for growth promotion.

The new "adjusted" estimate system, FDA said, will "provide insight into broad shifts in the amount of antimicrobials sold for use in food-producing animals and give the agency a more nuanced view of why sales increase or decrease over time in a manner that is specific to U.S. animal production. Such analysis will also support our ongoing efforts to encourage the judicious use of antimicrobials in food-producing animals to help ensure the continued availability of safe and effective antimicrobials for animals and humans."

According to FDA, "a biomass denominator is defined as the population of a given livestock species in the U.S. multiplied by the average weight of that species." This method helps calculate estimates of annual antimicrobial drug sales adjusted for the size of the animal population (also known as the "animal biomass") potentially being treated with those drugs. FDA is also looking at how best to make biomass-adjusted antimicrobial sales data available to the public.

The OIE report, based primarily on wholesale and retail sales reports, combined with import records, found tylosin and bacitracin are the most frequently mentioned antimicrobials used for growth in 25 countries where such use is allowed. Colistin is also used in 10 of those countries.

OIE is concerned with the lack of formal legal prohibitions on some uses of antimicrobials in food animals.

"In many countries today, antimicrobial agents are widely available, directly or indirectly, with virtually no restriction or control," the group said. "Out of 130 OIE member countries assessed…more than 110 member countries do not yet have complete and relevant legislation to ensure appropriate conditions for the import, manufacturing, distribution and use of veterinary medicinal products, including antimicrobial agents."

Pruitt Says Climate Change/Human Activity Report to be Reviewed for "Accuracy," Objectivity

A major federal report ordered by Congress on climate change and how much human activity contributes to the phenomenon will be reviewed for "accuracy" and objectivity, EPA Administrator Scott Pruitt said last week after several researchers allegedly told the *New York Times* they worry about the report being suppressed or changed.

Pruitt, appearing on a Texas radio show as reported by *Politico*, said, "Frankly, the report ought to be subjected to peer-reviewed, objective-reviewed methodology and evaluation. Science should not be politicized. Science is not something that should be just thrown about to try to dictate policy in Washington, DC."

While President Trump has been hard to pin down on whether he believes climate change is caused by humans or not, Pruitt has publicly said he doubts carbon dioxide's role as a major factor in temperature and weather shifts.

However, some scientists find Pruitt's remarks confusing because the report, authored by scientists as part of a National Climate Assessment, has been peer-reviewed by a 14-member committee at the National Academy of Sciences (NAS). The report's authors accepted 132 pages of suggestions from the NAS peer review, and the final document is awaiting Trump administration interagency review and sign-off before publication. The White House review is supposed to end August 18.

Quintenz Sworn in at CFTC

The first of President Trump's new crop of commissioners at the Commodity Futures Trading Commission (CFTC) was sworn in this week, as GOP nominee Brian Quintenz took the oath of office for a term ending April, 2020. There are now three of five full-time commissioners at work.

Quintenz founded and served as the managing principal and chief investment officer of Saeculum Capital Management, a registered commodity pool operator specializing in risk management and technical analysis investment strategies, the CFTC said. He also worked for Hill-Townsend Capital, a registered investment adviser, and is a former staffer for retired Rep. Deborah Pryce (R, OH).

Still to take the oath are Russ Benham, a Democrat commissioner nominee approved by the Senate just before it left town on August recess, and Dawn DeBerry Stump, a GOP commissioner nominee whose nomination did not get a full Senate vote along with Benham and Quintenz.