TRADE NEWS WEEKLY

July 15–July 19, 2019

A summary of international business news prepared by the Hawaii Foreign-Trade Zone 9 with the collaboration of the Research and Economic Analysis Division of the Department of Business, Economic Development & Tourism, and based on research and shipment data from Panjiva, Inc. which tracks companies involved in global trade. Other news sources may occasionally be included where indicated.

China Section 301

Following the late June G20 meeting in Japan, President Trump stated that the U.S. will hold off imposing additional tariffs while U.S. and China continue to negotiate.

A China Ministry of Commerce spokesperson has indicated that all Section 301 tariffs must be eliminated for an agreement to be reached.

Since June 30, the U.S. Trade Representative (USTR) has been accepting requests for product exclusions from China Section 301 List 3 duties through a new portal. The deadline to file exclusion requests is September 30.

Source: Marshall Miller & Company P.C.

China Imports

According to a recent study, while goods from other countries imported into China now face an average 6.7% tariff, U.S. goods imported into China now face average tariffs of 20.7%.

Source: Marshall Miller & Company P.C.

USMCA Update

In June, the Mexican Senate voted in favor of the U.S.-Mexico-Canada Agreement, making Mexico the first country to ratify the USMCA.

According to President Trump, some changes to the USMCA are possible to win Democratic votes. An implementing bill has yet to be sent to Capitol Hill.

Members of the House of Representatives have introduced legislation limiting the biologics exclusivity period from twelve (12) to five (5) years. USMCA would reduce this period to ten (10) years.

Source: Marshall Miller & Company P.C.

Plastics in the Ocean

At the urging of Sen. Sheldon Whitehouse (D-RI), U.S. Trade Representative Robert Lighthizer is working on a "novel trade remedy" to address plastic waste in the oceans.

Source: Marshall Miller & Company P.C.

2019 HTSUS Revisions

The U.S. International Trade Commission has posted Revision 9 to the 2019 Harmonized Tariff Schedule of the United States. CSMS #19-000328.

https://csms.cbp.gov/csms.asp

Source: Marshall Miller & Company P.C.

HUAWEI

Despite President Trump's statement that U.S. sales to Huawei may continue, the Commerce Department has issued guidance that Huawei is still on the Bureau of Industry and Security (BIS) Entity List. As a party on the Entity List, BIS will continue to evaluate requests for export licenses to Huawei with a presumption of denial.

Source: Marshall Miller & Company P.C.

Halloween Light Classification

The U.S. Court of International Trade has granted Target's motion to classify string light sets packaged for Halloween decoration under the general HTS provision for other electric lamps (3.9% duty) instead of as "of a kind used for Christmas trees" (8% duty). Target General Merchandise, Inc., v. U.S., CIT Slip Op. 19-80.
Source: Marshall Miller & Company P.C.

Tariff Impact Clear in June U.S. Import Drop

U.S. seaborne imports fell 2.7% year over year in June, the first decline not related to the lunar new year since June 2016. Imports from China slumped 9.8% year over year with rest of world imports rising 2.8%, including a 20.6% surge in shipments from Vietnam.

Imports of products afflicted by a tariff increase to 25% from 10% in May saw a marked drop including a 13.9% slide in imports of chemicals and an 11.9% drop in imports of furniture.

Products where tariffs were threatened – but have been delayed following the Trump-Xi summit at the G20 – saw a minor spike as companies sought to preempt tariffs. Imports of toys and apparel rose 14.5% and 4.5%, respectively.

TARIFFS WEIGHING ON IMPORTS

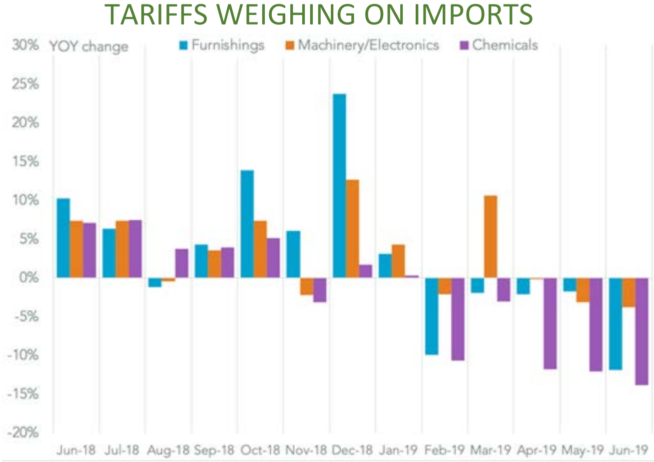

Chart segments change in U.S. seaborne imports by industry. Source: Panjiva

Rising Deficit Shows China Buying Less from the U.S.

China's international trade activity dropped 4.0% year over year in June, including a 1.3% drop in exports and 7.3% slide in imports. Trade with the U.S. collapsed with a 7.8% slump in exports to the U.S. extending a 5.0% drop in the prior three months.

Yet, a 31.4% collapse in imports from the U.S. meant that the trade surplus jumped to $29.9 billion, the highest since November. That will likely increase tensions between the two countries, increasing the probability of a breakdown in talks and sudden resumption of tariff increases.

Another concern is that imports from the rest of the world fell 5.3%, on top of a 2.3% decline in the prior three months, suggesting the trade recession in Asia could worsen.

U.S. Tariff Revenues Top $5.61 Billion in June

U.S. tax income from customs duties – i.e. tariffs – reached $5.61 billion in June. That represented a 66.2% year over year expansion and was the largest tax take since January, when the pre-tariff surge in imports from China was completed.

The step up was not a surprise given the imposition of a tariff rate increased to 25% from 10% on around $200 billion of Chinese exports. That alone added $2.75 billion in incremental taxes on American businesses and consumers.

One year from the start of Chinese tariffs, the total U.S. customs tariff income reached $63.45 billion, up $25.8 billion on a year earlier.

There's been a steady decline in the average tariff rate on imports – to around 2.7% in June from a peak of 3.1% in January. That decline is, in part, due to trade with China slowing more quickly than the average, by 7.8% year over year in June. If we only take imports from

China and total imports of steel and aluminum – where tariffs of 25% and 10% have been in place since March 2018 – there's been a decline in the average tariff rate.

That may indicate an increased use of tariff optimizing measures across the board. One example is use of the "first sale" rule by importers to the U.S. There will also likely be increased pressure applied by U.S. importers to increase customer prices and to obtain cost cuts from their suppliers.

In regard to the latter, the average decline in U.S. import prices from China of 1.4% year over year – shown by Panjiva's analysis of official data – is equivalent to a $636 million reduction, or 30.4% of the increase in tariffs.

CHINESE SUPPLIERS EATING AN INCREASING SHARE OF U.S. TARIFFS

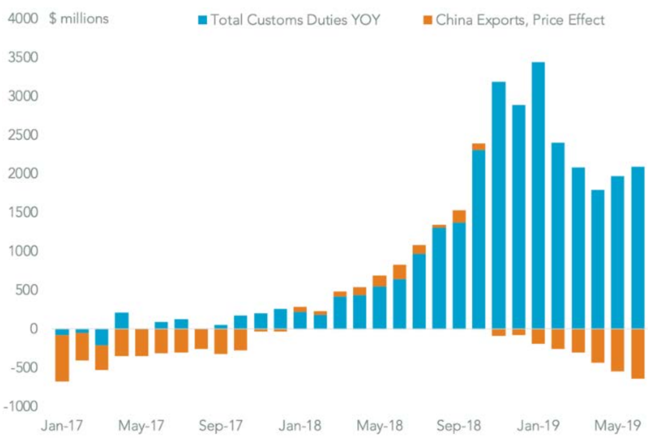

Chart compares year over year change in tariff income to dollar value of price deflation / inflation on U.S. imports from China. Calculations include Treasury Department and Bureau of Labor Statistics figures.
Source: Panjiva

Four Trade Deals in Trouble

The past few days have brought bad news for four major trade negotiations that were identified in Panjiva's 3Q 2019 Outlook. First, the U.S.-China trade talks may be held up if the Chinese government makes good on threats to sanction arms manufacturers - which may include Raytheon and General Dynamics - in connection with the proposed arms sales. That comes as the talks have only slow momentum, with Trump administration advisor, Peter Navvaro, stating the talks are in a quiet period.

Second, initial negotiations between South Korea and Japan to resolve a historic geopolitical disagreement that has spilled over into the semiconductor industry - with Japan restricting exports of three critical chemicals - have gotten off to a poor start. The disagreement between the two could disrupt the semiconductor industry and jeopardize the RCEP trade deal's progress.

Third, Ireland's parliament has rejected the passage of a trade deal between the European Union and the Mercosur group. That comes even before the legal form of the text is completed and is a sign of challenges to come given every EU member state plus the EU Parliament must vote positively for the deal to be ratified.

Finally, the deputy U.S. Trade Representative, Jeffrey Gerrish, has indicated that the U.S. may consider using a section 301 investigation to review India's tariff policies. As outlined in Panjiva's research, the "Make in India" policy approach may be reviewed following the recent re-election of the Modi administration, but it seems unlikely that the government will fully retrench. The U.S. may end up imposing more tariffs before a deal is reached.

Target, Best Buy Yet to Avoid China as Retail Sourcing Strategies Vary

Over 600 retailers have written to the Trump administration to complain against the risk of a further widening of U.S. duties on Chinese exports. The so-called "list 4" group of products where tariffs have yet to be applied – but could rapidly be implemented if U.S.-China negotiations breakdown – are focused on consumer electronics, apparel and toys.

The major retailers have followed markedly different strategies, with many yet to cut their imports from China. Target reduced its imports from China by just 0.7% year over year in 1H 2019 and boosted rest of world imports by 12.8%. Walmart, meanwhile, increased its shipments from China by 12.4% as well as increasing imports from India and cutting those from the rest of the world. Home Depot has pivoted towards Vietnam with a 55.1% increase while also modestly raising its Chinese imports by 2.9%.

In electronics, Best Buy accelerated its shipments from China by 26.3% – perhaps as a response to tariff risks in electronics – while also raising shipments from Vietnam by 39.1%. The latter may reflect underlying supply chain changes by manufacturers.

Finally, in the toy sector, there's been a more unified approach with Hasbro and Mattel increasing their imports from China by 7.8% and 20.6%, though the former increased its shipments from Vietnam and the latter cut them.

5G Future Act Could Present U.S.-China Negotiation Problem

The bipartisan "Defending America's 5G Future Act" could reduce the Trump administration's ability to negotiate a trade deal with the Chinese government. The bill, in effect, will require Congressional approval for removing Huawei from the Commerce Department's export embargo list as well as allowing Congress to prevent the administration from granting waivers for dealing with the company.

The move is a reminder that (a) Congress is becoming more assertive with regards to trade policy, and (b) that the trade conflict with China will likely outlive the Trump administration, second term or not.

Tough Times for U.S. Freight Forwarders as Volumes Reverse

The freight forwarders operating U.S.-inbound marine services saw volume growth slow to just 0.6% year over year in 2Q after volumes in June fell 2.7%. K+N saw the most significant reversal in fortunes with U.S. seaborne imports down 13.7% year over year in June compared to an average 2.5% slippage in the prior three months.

Among the U.S.-based forwarders, CH Robinson continued to underperform Expeditors with 7.5% and 1.3% reductions, respectively. Recent commentary from FedEx suggests continued trade tensions will weigh on the sector's volume performance.

The strategy of industry consolidation may not be panning out in terms of driving improved volume growth. DSV's stand-alone volumes improved by 11.4% in June, making it the best performing major forwarder, but its new acquisition, Panalpina, saw an 11.7% downturn.