TRADE NEWS WEEKLY

October 7–October 11, 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.

European Union Section 301 Duties

On October 9, 2019, the U.S. Trade Representative (USTR) published formal notice in the Federal Register of European Union (EU) goods subject to Section 301 duties. The duties will go into effect on October 18, 2019 at 12:01am eastern daylight time.

New airplanes and other new aircraft, but not airplane parts, from France, Germany, Spain, and the United Kingdom (UK) are subject to a 10% duty rate. Other miscellaneous products, including single-malt scotch and apparel from the UK, certain machinery and tools from Germany, and food products, such as cheese, fruit, and wine from across the EU are subject to the higher 25% duty. The USTR notice does not provide for an exclusion process from these duties.

For FTZ importers, merchandise subject to these duties must be admitted in privileged foreign (PF) status as has been the case with other Section 301 duties. For affected merchandise in FTZs, clients should change the zone status of FTZ on-hand inventory to PF status before October 18 to avoid these increased duties.

Source: Miller & Company P.C.

U.S.-JAPAN Trade Agreement

The U.S. Trade Representative (USTR) has published the text of the U.S.-Japan Trade Agreement on its website. The agreement calls for staged elimination or reduction of U.S. tariffs on Japan goods. This is a complex agreement. The partial HTSUS Chapters covered are 6-9, 15, 17-18, 21, 28-29, 34, 37-40, 69-70, 73-74, 76, 82-87, 90, 92, and 95-96. These HTSUS Chapters include base metals, tools, machines, bicycle and bicycle parts, fasteners, motors, electronic components, musical instruments, golf clubs, tennis rackets, fishing equipment, food, and agricultural products. The agreement also includes seven (7) side letters on alcoholic beverages, beef, rice, safeguards, skimmed milk powder, and whey.

Machinery is the second largest export from Japan to the U.S. accounting for $32 billion in 2018. While Japan wanted assurances that the U.S. would not impose Section 232 duties on motor vehicles and motor vehicle parts, the text of the agreement contains no explicit guarantee.

The product-specific rules of origin are unlike prior U.S. trade agreements. These rules differentiate between changes in HTS classification at the 2-digit, 4-digit, and 6-digit levels.

Unlike other U.S. trade agreements, this agreement has no enforcement mechanism. In the event of a dispute over the implementation of the agreement, the U.S. and Japan are required to consult with each other to resolve the dispute. Either party may abandon the agreement after providing four (4) months written notice.

The agreement falls under the auspices of the Bilateral Congressional Trade Priorities and Accountability Act. As such, Congress may only disapprove of the agreement on procedural grounds. While uncertain at this time, this indicates that U.S. passage of the agreement may be expedited, and full implementation of the agreement may occur more quickly than free trade agreements such as the USMCA.

In a separate agreement, the U.S. and Japan have also agreed to provisions on digital trade that prohibit customs duties on digital products transmitted electronically, ensuring barrier-free cross-border data transfers, and barring data localization requirements.
Source: Miller & Company P.C.

Japan's Big Seven Automakers Hit The Skids

The big seven Japanese automakers saw global production fall by 7.7% year over year in August, while their exports from Japan dropped by 6.2%. The latter marks a reversal from an 8.3% improvement in the three months to July 31.

NYK LEADS SUBARU'S U.S. SHIPMENTS, RECENT RECORD MAY NOT BE BEATEN SOON

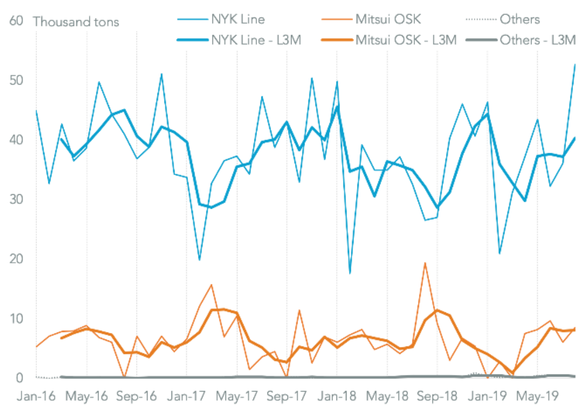

Chart segments U.S. seaborne imports of vehicles associated with Subaru by shipping carrier on a monthly and three-month average basis. Source: Panjiva

Honda was the worst performer with a 53.5% slump in exports while Subaru saw the fastest turnaround with a 22.4% drop in shipments in August compared to a 21.8% rise in the prior three months.

The firm has blamed "reasons related to shipping vessel schedules" for the slowdown. Seaborne shipping data shows that 86.4% of U.S. seaborne imports of vehicles associated with Subaru were handled by NYK Line in the 12 months to August 31, followed by Mitsui OSK with 12.8%. Subaru may need to diversify its shipping suppliers to prevent future export interruptions.

USMCA And Impeachment

The launch of an impeachment investigation into President Donald Trump has raised the prospect that passage of the U.S.-Mexico-Canada Agreement could be delayed. The overall impact on trade activity in the region should be minimal given there is an extensive phase-in period for the legislation in any event. Furthermore, House Speaker Nancy Pelosi has indicated that passage of USMCA should not be held up. Indeed, the desire to show continued government business during the impeachment process could accelerate USMCA's passage.

The ratification of the agreement by the U.S. Congress is currently held up in a back-and-forth between Congressional Democrats and the U.S. Trade Representative regarding issues ranging from labor and the environment to pharmaceutical prices and enforcement. Until a vote is called in the House there is no fixed timetable for passage in the U.S. In addition, there's the risk that a change in government after October's Canadian elections could lead to a further review of the agreement's terms.

One of the primary reasons for reviewing the original form of the deal – NAFTA – was the Trump administration's concerns regarding the U.S. trade deficit with Mexico and Canada. Data for U.S. imports and exports shows that the total deficit reached $118.6 billion in the 12 months to Jul. 31 compared to just $69.3 billion in 2016.

That's largely down to the automotive sector and energy. The U.S. deficit with Mexico and Canada in auto vehicles and parts reached $83.2 billion in the past 12 months from $68.2 billion in 2016 due to a surge in imports of vehicles and parts. In the energy sector the deficit increased to $49.6 billion from $29.2 billion in part due to higher oil prices and in part due to increased U.S. oil exports heading elsewhere in the world.

AUTOS AND ENERGY DOMINATE U.S. TRADE DEFICIT WITH MEXICO AND CANADA

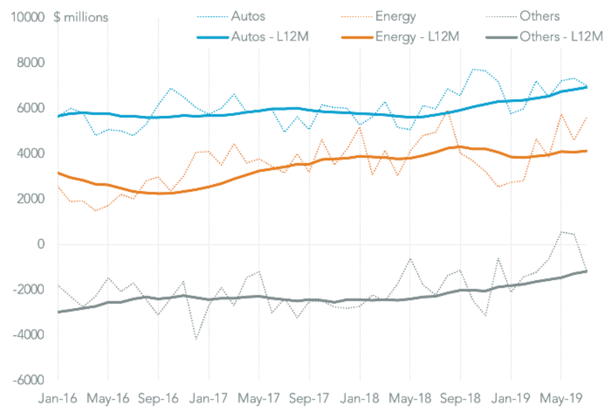

Chart segments U.S. trade deficit with Canada and Mexico by product on a monthly and 12-month average basis. Source: Panjiva

Mid-October Threshold For U.S.-China Mini-Deal

The U.S-China trade war is moving firmly beyond the bilateral imposition of tariffs. Non-tariff related issues that are now appearing include the impact of reform of CFIUS, a potential use of the International Emergency Economic Powers Act, questions around China's currency float, the creation of a social-credit type "unreliable entities list" and most recently the return of capital controls. The latter, which could include investment limits for U.S. companies in China as reported by Bloomberg, are not under consideration by the U.S. Treasury "at this time" but could act as another arrow in the U.S. quiver.

From a timing perspective, the latest round of talks began October 10, and it should become obvious whether there is a deal, possibly a mini-deal like those being pursued with Japan and others, and if it can be completed this year. The prospect of tariff increases to 30% from 25% on list three products on October 15 could hinder talks.

Most companies appear to now consider tariffs as a business-as-usual affair, though the list 4B products where tariffs are only due from mid-December may be treated differently. Outside of the major list 4B categories of phones and laptops there are signs of accelerated imports ahead of tariff increase.

U.S. seaborne shipping data shows that there has been a 7.0% rise in imports of home appliances, including microwaves, from China in August compared to a year earlier. More importantly among seasonal goods there's been a 10.5% jump in imports of toys and a 39.3% surge in shipments of home textiles.

No Golden Week For Containers

his report was written by George Griffiths of S&P Global Platts. More details regarding Platts bunker charge, spot container assessments and news can be found for free via https://containers.plattslabs.com. For the full eight page report click here.

Another somewhat lackluster month draws to a close in the container market for September, in what has been a recurring theme for this year. With the prospect of Chinese Golden Week and the new International Maritime Organization 2020 sulfur cap looming large over the market, rates have appeared somewhat reluctant to rise on the front.

Thrown into the mix is of course are the same geopolitical issues that continue to dog the market on the key trade lanes – ongoing tensions between the US and China, which have been leaving rates weaker on the trans-Pacific lanes; and Brexit dominating the landscape in Europe, leaving many shippers concerned.

To manage these falling rates, void sailings have been employed on both trans-Pacific and Asia-Westbound trade lanes. These are due to come into effect strongly in the first week of October, in line with Golden Week.

Trade War Tariffs Not Enough To Smash Glass Dumping

There were just three trade infraction complaints filed with the U.S. government in September, including two intellectual property cases relating to batteries and one anti-dumping complaint relating to glass bottles and jars from China.

The glass products targeted are already covered by section 301 duties of 25% applied as part of the list three cluster of trade war-related tariffs on exports from China. Despite that the complainants allege dumping has occurred at a rate of up to 819%. U.S. imports from China of the glass products covered were worth $363 million in the 12 months to July 31, representing 32.5% of the total.

Mexican exporters including Vitro SAB and Fevisa Industrial may have lost out. While imports to the U.S. from China rose 7.0% year over year in the past 12 months the imports from Mexico fell 4.6%.

Brexit - Resolution May Be Truncated Again

The timeframe for resolving the nature of Britain's exit from the EU may be truncated yet again with the potential for another round of prorogation of the British parliament, The Scotsman reports. That provides another layer of political complexity which, assuming the Johnson administration abides by the Benn law, could potentially continue through the end of the year.

In any event it's important that any form of Brexit will both increase supply chain operational costs in dealing with the EU by as much as £15 billion (or $19.6 billion) for red tape alone according to HM Revenue and Customs. Dealings with the rest of the world will also continue to face existing tariffs that have been applied by non-EU countries.

For example, the British steel industry is already exposed to three specific tariffs relating to steel as well as the section 232 tariffs on the steel and aluminum industry according to government filings. Data shows British exports of steel and aluminum to the U.S. covered by the section 232 tariffs were worth $599 million in the 12 months to August 31, up 2.1% from 2016.

While, as flagged by Congressional Research Service, the Trump Administration is supportive of Brexit conceptually and has started negotiations to formulate a new trade deal it's unlikely that existing tariffs will be removed before a full trade deal is completed.