TRADE NEWS WEEKLY

March 16–March 20, 2020

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.

USMCA Implementation

On March 13 the Canadian Parliament passed legislation to ratify the U.S.-Mexico-Canada Agreement (USMCA). This final approval by the Canadian government starts a three-month period before the agreement can be implemented. The Trump Administration is said to be pushing for implementation in June. Quick implementation will require producers, exporters, and importers to rush to ensure their products are eligible for preferential treatment at the time of entry. The higher regional value content requirements for some products may require sourcing changes.

- The USMCA uniform regulations need to be issued before the agreement goes into effect. That could delay implementation. The three customs agencies will be scrambling to complete the regulations.
- The uniform regulations are necessary for companies to understand how many aspects of USMCA will be interpreted, including new rules of origin, inventory management methodologies, and origin marking requirements.
- CBP has created a USMCA webpage with basic information and FAQs.

  https://www.cbp.gov/trade/priority-issues/trade-agreements/free-trade-agreements/USMCA

Source: Miller & Company P.C.

FTZs & China 301 List 4A

In an unusual determination solely by CBP administrative message and without a CBP ruling, legal determination, or court case supporting the decision, CBP directed that China 301 List 4A material originally admitted to an FTZ as mandated in Privileged Foreign (PF) status at a 15% rate of duty may not utilize the 7.5% rate of duty now in effect on the date of FTZ withdrawal. This is different treatment than directed by the White House and Commerce Department for duty reductions and/or elimination in Section 232 Trade Remedies. Expect further action.

Source: Miller & Company P.C.

COVID-19 301 Exclusions

Perhaps not coincidentally, the U.S. Trade Representative (USTR) has issued product exclusions covering medical products.

- On March 10, the USTR announced the first list of China Section 301 List 4A product exclusions. These product exclusions are set forth in eight (8) ten-digit HTSUS classifications. 85 Fed. Reg. 13970 (Mar. 10, 2020).
- On March 12, the USTR announced additional China Section 301 List 3 and List 4A product exclusions set forth in five (ten-digit) classifications and nineteen (19) product-specific descriptions. 85 Fed. Reg. 15015 (Mar. 16, 2020).

Source: Miller & Company P.C.

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Lacey Act de Minimis

The Animal Plant Health Inspection Service (APHIS) has issued a Final Rule, effective April 1, 2020, that creates a de minimis standard for Lacey Act declarations. All clients importing materials subject to the Lacey Act should carefully review the new rules. The primary exception is for products containing plant materials that are no more than 5% of the total weight of the product, provided that the total weight of the plant material does not exceed 2.9kgs. There are numerous exceptions.

Source: Miller & Company P.C.

Liquidation Extensions

Given recent rounds of China Section 301 product exclusions, clients may consider requesting that CBP extend liquidation of entries of Chinese merchandise that is subject to pending product extension requests in order to preserve the ability to file Post Summary Corrections (PSC) if exclusions are approved.

Source: Miller & Company P.C.

CBP Trade Statistics

As of March 4, CBP has assessed $59 billion in Section 201, 232, and 301 duties. This includes $47.8 billion in China Section 301 duties, $335 million in EU Section 301 duties, and $8.8 billion in Section 232 duties on aluminum and steel. $1.6 billion has been collected in Section 201 duties on washing machines and solar cells.

Source: Miller & Company P.C.

2020 HTS Revision 4

The U.S. International Trade Commission has issued revision 4 to the HTSUS, adding new exclusions from Section 301 tariffs, amending units of quantity for returned goods under Chapter 98, and making a range of other changes.

Source: Miller & Company P.C.

Transaction Value

The CBP has ruled that certain amendment charges, detention charges, switch bill of lading fees, and change of vessel fees incurred by the vendor for services should be included in the transaction value of imported merchandise.

Source: Miller & Company P.C.

Saudi Aramco, Phillips 66 Face Dual Shocks To Oil Supplies

The crude oil industry is dealing with the dual shocks of a Saudi Arabia-Russia price war and a coronavirus-linked slump in demand. That’s led Saudi Aramco to "rationalize our planned 2020 capital spending" according to CEO Amin Nasser. A sign of the demand downturn can be seen in a refinery closure in Los Angeles by Phillips 66.

U.S. oil imports fell 6.9% year over year in January, with Saudi deliveries representing just 5.3% of the total after a 23.5% year over year slump. Philipps 66 represented 31.4% of U.S. seaborne imports from Saudi Arabia, while Saudi Aramco’s own refinery business in the U.S. represented just 3.4% of total U.S. seaborne oil imports from outside North America.

Fading Global Trade Provides A Backdrop For Europe’s Above-average January

Exports from the European Union increased by 0.4% year over year in January, including a 6.0% slide in shipments to China and a 9.7% dip in exports to the U.K. A similar performance in dollar terms included a 4.8% slide in shipments from Germany and a 7.9% decrease in exports from France. A surge in exports from the Netherlands may be curtailed by the recent collapse in oil prices.

Worse is likely to come as coronavirus-linked disruptions spread. Europe was the second-best performing region globally after the Middle East and Africa in January in terms of dollar exports.

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The global average fell by 5.5% – with the caveat that data from China is only available for January and February combined – including a 10.5% slide in exports from Asia which was the worst performing region.

USMCA - 31 Month Odyssey Ends With Coronavirus Delay

The Canadian government has ratified legislation regarding the U.S.-Mexico-Canada Agreement. That completes a process to reform NAFTA going back to August 2017, though formal implementation in the three countries is still needed.

U.S. plans to bring USMCA regulations into force from June 1 have met resistance both from the U.S. Senate – with Senator Chuck Grassley calling for "some flexibility for the sake of our economy" – and the autos industry in the face of coronavirus-linked disruptions. The changes come as the autos industry faces weakening sales.

There’s also been a downturn in U.S. seaborne imports of parts from outside North America after a 9.3% year over year drop in the first two months of 2020 after a 15.6% slide in Q4. The outlier was Fiat Chrysler with a 25.6% surge in shipments linked to the firm in the first two months of 2020. Daimler and Nissan led the decline with 12.3% and 16.6% reductions in shipments linked to the firms respectively over the same period.

DSV Panalpina Rings The Warning Bell In Wake Of Coronavirus

The freight forwarding industry faces several challenges as coronavirus spreads. While activity is returning to normal in China according to UPS, there are logistical issues – such as out-of-position empty containers – and regulatory restrictions such as U.S. and EU travel bans.

FedEx and DSV Panalpina has withdrawn their earnings guidance for this year, with DSV stating that "the impact on supply, demand and transport and logistics capacity is global". U.S. seaborne imports from China fell by 21.0% year over year in February, while those from the EU slipped 0.9% lower.

UPS was one of the worst performing forwarders on U.S.-inbound, seaborne routes in February with a 21.9% year over year slide while CMA-CGM’s Ceva Logistics dropped 17.9%. DSV-Panalpina meanwhile has seen a downturn in both its China- and Europe-to-U.S. shipments of 1.4% and 33.3% respectively.

UPS DECLINES THE MOST AS MANY FORWARDERS' ACTIVITY SHRINKS

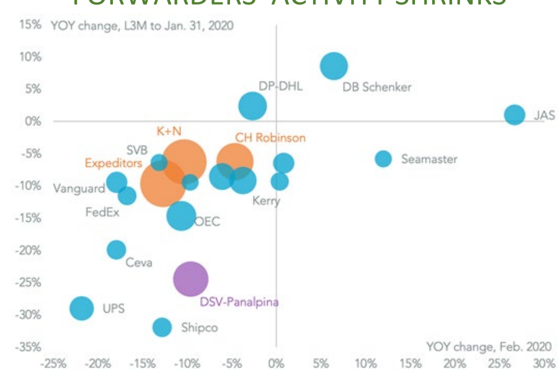

Chart segments U.S. seaborne imports by freight forwarder. Bubble size indicates volumes handled in the past three months, colors for emphasis only indicates total.
Source: Panjiva

Japan’s Exports Slip Rather Than Slide

Japan’s international trade activity fell for a 10th straight month in February after imports slumped 13.9% lower year over year on a 47.1% collapse in shipments from China. The latter reflects disruptions caused by the coronavirus outbreak. Japanese exports meanwhile only fell by 1.0% including a 0.4% slip in shipments to China, perhaps linked to a slow return to normality in China late in the month.

The stability in Japan’s exports was partly down to improved exports of materials – e.g.

semiconductors rose by 23.2% and steel by 8.9% – while capital goods declined.

Only four out of 12 countries that have reported February trade data have reported a decline, though that includes the 17.2% slide reported for China in January and February combined. With coronavirus spreading and a collapse in the oil price weighing on the value of exports it’s likely that global trade has continued to decline.

U.S.-E.U. Aerospace Subsidy Spat Continues

The U.S. has increased tariffs on aerospace imports from the EU to 15% from 10%. It’s part of ongoing pressure related to a WTO-mediated spat covering bilateral subsidies for Boeing and Airbus.

Talks towards a wider trade deal between the two are now on hold due to coronavirus-related disruptions, leaving the tariffs as something of a running sore. Further frictions regarding travel and export restrictions will likely add to pressure that could result in a wider trade war once coronavirus passes.

Trudeau-Trump Trade Travel Commitment May Pose Challenge

President Trump and Prime Minister Trudeau have agreed to "preserve supply chains and trade, regardless of travel restrictions" following moves to reduce travel across the border to essential traffic only.

While conceptually simple, the travel limits still lead to longer shipping times as (1) non-essential traffic is turned away and (2) additional checking of drivers is completed.

U.S.-Kenya Kick Off Start To Trade Deal

Not all deal-making is on hold. The Trump administration has notified the U.S. Congress that it plans to formally open trade negotiations with Kenya in June. That's a formal part of the TPA process that will allow the administration to eventually present a deal for a straight up-down vote.

As flagged above in the case of USMCA it can take many months for Congress to approve even if it can't change the core principles of a deal. The administration wants to use a Kenya deal as a template for similar agreements with other African countries even as the AfCTA trade group gets going.

More Passenger Jets Join Freight Airlift

Qantas and KLM will join Delta Airlines in running passenger jets to meet freight demand. Research reveals a surge in airfreight pricing that resulted from wide-ranging bans on passenger travel and resulting loss of belly-cargo capacity.

It remains to be seen whether sufficient demand remains to support such services given reductions in manufacturing capacity and consumer demand as the coronavirus outbreak spreads.