

# TRADE NEWS WEEKLY

March 30–April 3, 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.

## U.S. Senators Call on Trump to Limit Trade Restrictions

In a letter to the Administration dated March 25, 2020, twelve U.S. Senators called on President Trump to coordinate with other countries to ensure that import and export restrictions imposed in response to the pandemic are limited and do not jeopardize the global response. The U.S. appears to be moving in this direction, agreeing March 30 with other G-20 countries, that emergency measures designed to tackle COVID-19 must be “targeted, proportionate, transparent, and temporary,” and should not create unnecessary barriers to trade or disruption to global supply chains, and should be consistent with World Trade Organization rules.

The Senators also urged the President to pause any consideration of “Buy American” requirements for medical goods and equipment. Some Administration officials have reportedly been pushing for such requirements as a way to decrease U.S. reliance on foreign suppliers. The Senators said that while they can appreciate this goal, they are concerned that any such efforts right now could “risk paralyzing an utterly critical supply chain.”

In addition, they requested the Administration to conduct a thorough review, including consultations with medical professionals, to determine if additional medical devices, pharmaceutical products, and other health and safety products that would address immediate

needs warrant exemption from Section 301 tariffs.

*Source: Sandler, Travis & Rosenberg, P.A.*

## Customs Cargo Systems Messaging Service Releases COVID-19 Entry Summary Payment Guidance

In its continuing effort to work with the trade community in the wake of the COVID-19 pandemic, Customs CSMS has released guidance for Entry Summary Payments. More information can be found at:

<https://content.govdelivery.com/bulletins/gd/USDHSCBP-2839af1>

## Trump Administration May Defer Tariff Payments

The Trump Administration might defer payment of a range of tariffs covered by baseline, most-favored nation rate levels. That would likely exclude tariffs applied under other schemes such as Section 301 (China), Section 201 (solar, washers), Section 232 (steel and aluminum) and antidumping duties.

A moratorium on all tariffs may make sense as a tax break. Contrary to repeated assertions by the Trump Administration, tariffs are paid as a tax by importers not a contribution of cash by exporters in other countries.

Import duty payments in the U.S. were worth \$6.29 billion in February, up by 23.8% year



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over year. On the basis of Chinese imports of List 1 to List 4A products under section 301 around \$4.27 billion of the \$6.29 billion wouldn't be removed under the plans.

## Medline and Cardinal Health Could be Blessed with Further COVID-19 Tariff Exemptions

The U.S. government has granted exemptions to some medical device imports from China, which represented 40.8% of tariff leniency provisions in March, as a way to cut costs during the COVID-19 outbreak.

Analysis of filings that have not yet been granted shows there are still further medical product tariffs outstanding for firms including Stiehl Tech, NAI Group, and American Scientific for products including laparoscopic surgical tools and vacuum pumps.

Medline Industries and Cardinal Health both have pending requests – approval rates for both firms have been above-average so far. The firms' strategies for sourcing from China have differed though. Cardinal Health's imports from China rose by 9.3% year over year in the three months to February 29. Medline, meanwhile, experienced a 48.6% slide, likely due to stockpiling ahead of tariffs in 2018.

### CARDINAL HEALTH IMPORTS UP IN 2020

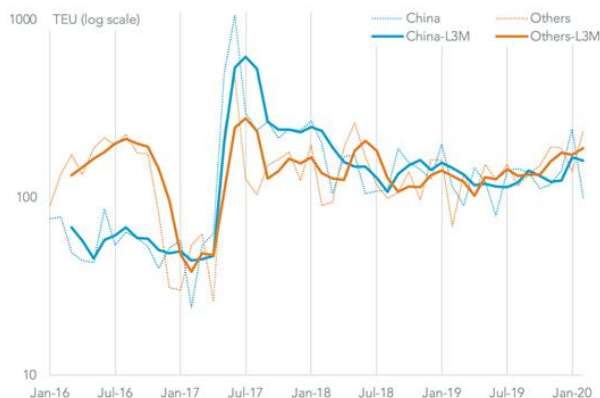


Chart segments imports associated with Cardinal Health by volume on a monthly and three-month basis.

Source: Panjiva

## Work at Home Rises, Laptop Availability Declines

A shortage of laptop computers may be emerging in the U.S. as companies seek to meet coronavirus-linked work-from-home requirements and imports fall. A recent 451 Research survey finds that 84% of companies that have increased their spending on laptop computers have also implemented expanded work-from-home policies.

An anecdotal search by Panjiva on March 24 showed resellers SHI and CDW were almost completely out of stock. The 451 survey also found that large firms were spending more on parts and materials, 12.4% higher than small firms. Meanwhile, smaller companies are more likely to show extreme views on supplier reliability, both positive and negative.

Data shows that the laptop shortage may have been amplified by imports of laptops that fell 4.1% year over year in the three months to January 31. Seaborne import data indicates a 71.2% year over year drop in February and a 50.9% year over year decrease in the first three weeks of March.

Business laptop manufacturer imports may also have fallen. Shipments linked to HP, Inc., fell by 66.0% year over year in the three months to February 29, while those associated with Dell and Lenovo dropped by 49.0% and 42.5%, respectively.

## G20 Has Best Intentions, Doesn't Rule Out Worst Actions

A meeting of G20 trade ministers may have reduced the probability of a further extension of further trade restrictions being applied. A WTO study shows that nine countries and the EU have introduced export barriers, though on the other side of the equation, major importers - including the U.S. - have cut tariffs or regulatory restrictions.



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The G20 agreement states the aspiration to ensure equal access to medical supplies but doesn't rule out interventions by countries or regions. It allows for measures as long as they are "targeted, proportionate, transparent, and temporary," and in line with WTO rules. Should the latter prove controversial it's unlikely that WTO rulings blocking the move could be implemented in the near-term.

## Asia Data Points Show Business Sentiment Improvement

Two new data points in Asia could be read to suggest the impact on global trade of coronavirus-related disruptions are as bad as feared. Such an interpretation may be wrong. China's latest business sentiment survey for exports improved to 46.4% (50% indicates a neutral view on orders) from 28.7% a month earlier. Yet, the government has warned that the survey is based on an inconsistent group of respondents and is still in contractionary territory.

South Korean exports fell by just 0.2% year over year in March, including a 5.6% decline in shipments to China offset by a surge in exports to the U.S. and Europe. The improvement doesn't mean those products will actually be moved out of inventory by buyers who signed contracts ahead of the COVID-19 outbreak.

Furthermore, the figures are flattered by a surge in exports of work-from-home equipment - including an 82.3% jump in computer shipments - which may prove temporary. Exports of industrial materials ranging from steel to semiconductors all continued to decline, suggesting underlying industrial activity may still be weak.

## Japan May Float Shipyard Mergers in Response to Global Consolidation, COVID-19

The Japanese government may be considering a wide-ranging merger of shipbuilders, following

an alliance involving Imabari Shipbuilding and JFE Holdings. In the short-term, that may improve the financial viability of the sector in the aftermath of the coronavirus outbreak.

It's also a longer-term response to consolidation in the sector that has seen the merger of DSME and Hyundai Heavy in South Korea and a wide-ranging restructuring in China. Conditions in Japan, expressed as shipyards' exports, have improved recently with an 8.9% year over year rise in exports in the first two months of the year.

Exports from China, by contrast, fell by 20.1% as the first effects of coronavirus-linked disruptions were felt. The outlook for shipyards depends on the willingness of shipping firms to invest in the face of considerable uncertainty.

New shipping orders for Chinese shipyards climbed 41.4% year over year in the first two months of the year, although that includes an unusually low comparator while the remaining orderbook of business is only equivalent to 17 months of production at recent rates.

## "Operation Airbridge" Could Offset Sea Freight Shortages

The U.S. government has started airlift shipments of medical supplies from China as part of "Operation Airbridge." The shipments are set to continue over the next four weeks as the Trump Administration seeks to address the emerging shortfall in supplies. As reported, there's been a slump in shipments of basic personal protective equipment by sea at the start of March as China and others have prioritized domestic buyers.

## Ceva's Force Majeure Bodes Ill for Supply Chain Certainty

Freight forwarder Ceva Logistics has declared force majeure and asserts it is "temporarily relieved" of its contractual obligations and may "modify all or part of its services." If repeated across the industry - as DP-DHL's forwarding

business has done – it decreases the certainty of shipping timings/routings for supply chains.

If the move proves more limited, then Ceva may lose market share. Ceva had already experienced a 14.6% year over year drop in U.S.-inbound seaborne shipments in the first two months of 2020, Panjiva's data shows, including a 26.3% slide in shipments from China.

There may be a knock-on effect for container-lines that Ceva works with if it uses the force majeure declaration. Ceva's owner, CMA-CGM, accounted for 20.9% of U.S. inbound shipments linked to Ceva in 2019 and saw a 17.5% drop in volumes directed to it from Ceva in January and February combined compared to a year earlier.

#### CMA-CGM NOT GETTING SPECIAL TREATMENT FROM CEVA



Chart segments U.S. seaborne imports linked to Ceva Logistics by container line on a monthly and three-month average basis. Source: Panjiva

## Trade Dispute Process Unbunded but WTO Reform Still Far Off

Fifteen countries plus the EU have reached agreement on a parallel trade dispute settlement process that bypasses the WTO. The latter has not been able to rule on disputes this year due to the in quoracy of the appellate function of the dispute settlement process.

A reformation of the WTO's processes is unlikely without significant concessions from the U.S.

Notably, the new group includes Mexico and Canada, raising questions about how disputes between the two would interface with their USMCA commitments.

## 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 companies 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.

85 Fed. Reg. 12207 (March 2, 2020).

## USMCA - T+3 Month Countdown Continues

The implementation of the U.S.-Mexico-Canada Agreement has slipped from June 1 from July 1. That's down to technical issues rather than political will with the USMCA rules stating it can only enter into force in the third month following the last notification from each country that they have implemented the necessary regulations. The auto industry is particularly exposed to supply chain changes needed after the USMCA comes into force.



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