TRADE NEWS WEEKLY

May 25–May 29, 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.

New China Section 301 List 3 Product Exclusions

On May 21, 2020, the U.S. Trade Representative (USTR) announced seventy-eight (78) new China Section 301 List 3 product exclusions. These new product exclusions are set forth in seventeen (17) ten-digit HTSUS classifications covering certain beans, seeds, potassium sorbate, nonwoven fabrics, and plastic toddler beds; and sixty-one (61) new product-specific descriptions covering a variety of goods such as certain freeze-dried products used for pet food, sodium permanganate, boron carbide, children's painting sets, liquid soap, toilet seat rings, artificial graphite, refrigerant gas, silicone monoxide, washing machine tub seals, NBR grommets, handbags, coin purses, garment travel bags, flooring planks, wood boxes, wood dowel pins, diaries, hand-knotted pile rugs, painting canvas panel boards, scaffolding equipment, stainless steel drums or barrels, stainless steel screws, portable iron or steel grills, stainless steel cooking assemblies, pet identification tags, gun safes, wind turbine hubs, upright coolers, fuel filters, shipping scales, portal cranes, self-regulating fuel pressure valves, headlamp assemblies for automobiles, countertop ovens, aluminum vehicle running boards, and floor-standing jewelry armoires. In addition, the USTR modified the scope of six (6) previously approved List 3 product exclusions describing hand-operated pumps, articulating video monitor wall mounting assemblies, polyester filament and polypropylene fiber tow, static converters, and 1,2-Dibromo-2,4-dicyanobutane. These China Section 301 List 3 product exclusions are retroactive to September 24, 2018, and expire on August 7, 2020. Note the very limited effective date for upcoming shipments.

The product exclusions from the China Section 301 duties are available for any importer for any product that falls within the special product descriptions and enumerated ten-digit HTSUS classifications. This is true regardless of whether the importer filed the initial product exclusion request. Importers may also benefit by filing Post-Summary Corrections (PSCs) or Protests for those entries now covered by a List 3 product exclusion to secure refunds plus interest. Unless liquidation extensions are granted, Protests may be required for liquidated entries. It is important to identify affected entries and filing deadlines. The refund process is complicated and should be carefully considered.

Source: Miller & Company P.C.

Medical Supplies Surge in May

Moves to reopen the global economy following the COVID-19 pandemic do not mean that the need for increased medical supply imports has abated. Japan's exports of medical supplies rose by 14.2% sequentially in April versus March. On a sequential basis, Japan's medical supply exports to the U.S. jumped by 119%, potentially due in part to FEMA's Project Airbridge.

U.S. seaborne imports of medical supplies also increased with imports of medical masks up by 461% year over year in the first 15 days of May and by 693% sequentially on a daily basis in May versus April. Imports of gloves rose by 19.3% on the same sequential basis while eyewear rose by 36.6.%. The outlier was surgical gowns, which dipped by 1.7%.

MOST PPE IMPORTS ARE CLIMBING IN MAY

Chart segments change in U.S. medical supply imports by product. May versus April based on data for first 15 days of month. Y-Axis curtailed for clarity. Source: Panjiva

Britain's COVID-19 Woes Wash Up on American Shores in May

The reopening of economies in Asia, Europe and the Americas as the COVID-19 pandemic wanes may boost global trade, though the shipping industry could continue to be disrupted for several months. U.S. seaborne imports, for example, fell by 19.8% year over year in the first half of May compared to a year earlier, accelerating from a 5.1% decline in April.

Shipments dropped across the board with imports from China down by 15.2% and those from Asia ex-China off by 23.3%. The fastest drop was seen in imports from Europe including a 54.3% slide in shipments from the U.K. The latter is due in part to a high exposure among U.K. exports to the automotive industry.

Total U.S. seaborne imports of automotive components from Europe slumped 65.7% lower year over year in the first half of May after a 21.1% drop in April. The uneven progress of supplies shown by that data-point illustrates the challenges the autos industry will face in restarting production.

Consumer and industrial demand more broadly may also have declined with U.S. imports of furniture from Europe down by 52.9% and machinery off by 48.1% in the first half of May compared to a year earlier.

Tesla Readies for USMCA as Round Three of China Tariff Exemptions Wrap Up

The U.S. government has granted a final round of exemptions from tariffs on imports from China under the Section 301, List 3 program where duties have been applied at a 25% rate as part of the trade war. Those tariffs are likely to stay in place and may even rise as relations between the U.S. and China deteriorate.

The exemptions include 68 products and 63 companies ranging from Siemens Gamesa to Tesla and will allow firms to complete their supply chain planning.

Tesla's reliance on China had been minimal and represented just 1.8% of U.S. imports linked to the firm in the 12 months to April 30 compared to 3.3% in 2017. Supplies from Mexico have been more important with shipments having risen to 92.6% of shipments in the past 12 months compared to 82.2% in 2017. That may reflect Tesla's reorientation of its U.S. supply chain ahead of the implementation of the U.S.-Mexico-Canada Agreement.

TESLA'S MEXICAN SUPPLIES SLUMP AS FACTORIES DEEMED NON-ESSENTIA

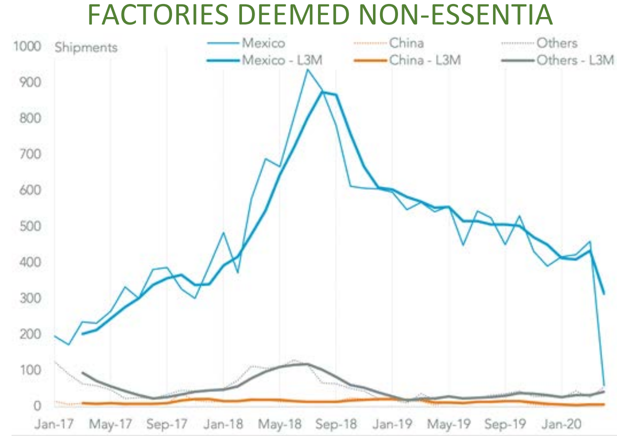

Chart segments U.S. imports by sea and from Mexico by origin on a monthly and three-month average basis. Source: Panjiva

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China's Clampdown Raises New U.S. Trade Challenge for Hong Kong

The Chinese government's move to impose new national security rules in Hong Kong has led to a new round of protests as well as threats of trade policy action from the U.S. The Hong Kong protests in 2019 likely contributed to a 4.1% year over year decline in exports from the region for the full year.

The U.S. State Department's annual review of Hong Kong's independence and eligibility for preferential trade rules had been due by May 25 under the Hong Kong Human Rights and Democracy Act but has been delayed due to the Chinese government's latest move.

A negative ruling could remove Hong Kong's special trade status. President Trump has indicated the U.S. will react "very strongly," though the U.S.-China Phase 1 trade deal may be part of the calculations in how to react.

However, a restriction on U.S. imports from Hong Kong may not make a significant difference. The U.S. represented just 7.4% of Hong Kong's exports in 2019 with gems, jewelry and small-scale e-commerce representing 62.7% of the total sent to the U.S. Shipments of gems and jewelry spiked in March to their highest since at least 2009.

The remainder includes $444 million of electronics, potentially including those linked to Spectrum Brands and Jinko Solar, Seaborne shipping data shows, as well as $42 million of toys which may include those for Wowwee.

Semiconductor Trade Beats COVID-19 and U.S.-China Trade War

The semiconductor industry has proven resilient during the COVID-19 pandemic. Exports of semiconductors from China, Japan, South Korea and Taiwan combined increased by 5.3% year over year in April, led by a 26.5% jump in exports from Taiwan and a 7.0% increase in shipments from China.

Yet, the industry faces significant disruptions from the re-emerging U.S.-China trade war. U.S. moves to limit Chinese exports of U.S.-sourced intellectual property has led China to vow to take "all necessary measures" to protect Chinese businesses. Actions taken by the U.S., so far, have done little to prevent the flow of semiconductors. China represented 27.9% of U.S. semiconductor exports in the 12 months to March 31, up from 20.4% in 2016.

Exports from the U.S. to Mexico and Canada have been expanding, with shipments to Mexico linked to Wistron having climbed 20.8% higher. Not all importers to Mexico from the U.S. have seen an increase though with shipments for Sanmina and Jabil falling by 24.6% and 29.4%, respectively.

Rising Fuel Costs Cast Cloud Over Container Lines

Container shipping rates inched lower last week with global rates falling by 1.7% while routes out of China saw a 0.3% increase. Shipments from China to Europe improved by 1.0%, potentially due to relaxed COVID-19 lockdowns, while intra-Asian routes declined.

There are some concerns about activity in the market though with an emerging increase in cargo rolls - where containers are held back for later sailings due to a lack of space - and widening spreads in quoted prices between different container-lines, as reported in S&P Global Platts.

More importantly for the container-lines was a 9.5% rise in global bunker fuel rates. As a consequence, the bunker-excluded rates - a proxy for profitability - may have fallen by 1.3% in the week, making life more difficult for the liners as they attempt to bring shipping capacity back online.

SQM Warns Lithium Will Lose Power After Q1 Exports Increase

The downturn in the electric vehicle and consumer electronics industries due to COVID-19 is finally taking a toll on the lithium mining industry. Miner SQM has stated global demand for lithium in 2020 "could be similar to levels seen last year" with the firm's sales having fallen by 20% year over year in Q1.

SQM's exports of lithium from Chile actually rose by 4.7% year over year in Q1, suggesting a buildup of inventories overseas. That included a surge in sales to China compared to zero a year earlier. Shipments to the rest of the world fell.

Total Chilean lithium exports increased by 5.0% year over year in Q1 with exports by Albemarle's Rockwood also having increased. Aside from shipments to China there was also a 91.8% jump in exports to the EU.

Global Trade Downturn Accelerated in March

Global trade activity fell by 4.3% year over year in March according to CPB World Monitor data. That was the fastest rate of decline since October 2009 while the activity index reached its lowest since April 2017. A 47.0% drop in fuel prices and a 4.5% slide in non-fuel commodity prices were contributing factors.

The downturn in global trade was led by a slide in exports from Europe, which in CPB terms represented an 8.1% drop in exports from the Eurozone. Not all regions experienced a downturn, however, with exports from Latin America and Africa / Middle East having improved by 5.5% and 0.4%, respectively.

EU Removes Medical Supply Restrictions

The European Union has removed its restrictions on exports of medical supplies. The restrictions had been imposed to prevent member states pursuing their own restrictions during the COVID-19 pandemic.

SpaceX's Journey to ISS Still Needs Earth's Industrial Supply Chain

SpaceX is due to launch the first manned space mission from U.S. soil since the Shuttle program on May 27. The launch to the International Space Station is an important step in SpaceX's journey from developing commercial satellite delivery through to landings on Mars.

The increased availability of launch capacity in the U.S. from SpaceX and United Launch Alliance may explain the drop in U.S. exports of communication satellites and other spacecraft. Exports in 2019 were worth $640 million in 2019, down 76.5% from their peak in 2017.

SpaceX's supply chain includes a wide range of regular industrial materials. Data shows that U.S. seaborne imports linked to the firm include aluminum components from Constellium, fuel systems from Airbus and tooling equipment from Kobe Steel.

Expeditors Steps Up Tech Game to Tackle Fedex and Flexport

Expeditors International has acquired digital freight forwarding platform, Fleet Logistics. Strategically, that may help it compete with FedEx, which recently announced a venture with Microsoft, as well as digital-native forwarder, Flexport.

Expeditors has underperformed its peers on U.S.-seaborne import routes in the past five quarters including a 10.7% year over year slide in shipments in Q1 compared to a 5.2% decline for the freight forwarding sector's shipments overall. Expeditors will be able to expand the range of container lines offered through Fleet Logistics.

The largest container line handling Expeditors' traffic on U.S. inbound lanes in the six months to April 30 was Hapag-Lloyd with a 17.4% share, compared to 11.9% in 2017. Shipments linked to MSC also rose to 11.4% of the total in the past 12 months from 7.4% in 2017. That's come at the expense of CMA-CGM and Ocean Network Express whose shares have declined over the same period.