China Section 301 Product Exclusion Update

On July 7, 2020, the U.S. Trade Representative (USTR) announced sixty-one (61) new China Section 301 List 4A product exclusions covering a variety of goods, such as certain monkeys for research, duck or geese feathers, bottle nipples, eye masks, plastic shower heads, plastic brackets, plastic battery covers, earplugs, wallpaper, printed art and pictorial books, dust and pillow covers, comforter and pillow shells, athletic headgear, stainless steel seamless tubes, galvanized round wire, razors, sewing machines, earth-drilling power augers, gas-powered engines with ice cutting auger bits, copper faucet parts, back-flow preventer valves, digital trail cameras, non-prescription spectacles, pianos, prism binoculars, guitars, motor vehicle seat adjustment parts, exercise machine parts, arrowheads, fishing reels, artwork, postage stamps, and antiques. The notice also includes technical corrections to 27 previously approved product exclusions. These China Section 301 List 4A product exclusions are retroactive to September 1, 2019, and expire on September 1, 2020. Note the very limited effective date for upcoming shipments.

Perhaps more notable, the USTR posted denials of 4,471 List 4A product exclusion requests on July 7. These 4,471 denials of List 4A product exclusion requests cover over half of all List 4A product exclusion requests (51% of 8,780).

In addition to these new List 4A product exclusions, the USTR also announced the extension of only twelve (12) of one hundred and ten (110) List 1 product exclusions set to expire on July 9, 2020. These product exclusions will be extended only until December 31, 2020. The extensions include certain pneumatic actuators, pump casings, pump covers, plastic pump parts, compressors, aluminum electrolytic capacitors, rotary switches, zinc anodes, and weather station sets. The remaining ninety (98) List 1 product exclusions approved on July 9, 2019, will expire on July 9, 2020.

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 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.

Bobcat Hopes to Rebuild with U.S. Construction Industry

Construction equipment maker Doosan Bobcat had a weak fiscal first quarter but is hoping that economic stimulus will drive improved demand, though the EU and North America are only “expected to recover gradually.” The firm has been restructuring its supply chain with U.S. seaborne imports from South Korea jumping 67.2% year over year in April and May while those from France fell.

The recovery in the U.S. may be helping parts shipments first, with an 11.0% year over year increase in April and May. Shipments of bulldozers and forklifts are suppressed as capital purchases are kept on hold with declines of 46.9% and 14.6%, respectively, over the same period.
Acuity Lighting Moves to Mexican and Away from China

Alpan Lighting is switching production of its solar garden lights away from China to Indonesia, in part due to U.S. tariffs of 25% applied as part of the trade war. It’s the latest firm to implement a new supply chain strategy, with others potentially doing the same as part of “China+N” structures after COVID-19 showed the importance of diversification.

U.S. seaborne imports linked to Alpan surged 89% year over year in Q2 reflecting a recovery in imports from a 50.0% slide in March linked to manufacturing outages. Other major shippers to the U.S. from China could review their strategies.

Total U.S. imports from China of lighting rose 26.4% in Q2 after a 17.2% drop in Q1 while a rise in imports from Mexico drove a 31.4% increase in total imports in Q2. Leading importers from China include MLS and Acuity Brands whose shipments rose by 75.5% and 27.4% year over year, respectively, in Q2. Acuity Lighting also increased its shipments from Mexico. GE Lighting and Signify, meanwhile, saw shipments from China to the U.S. rise by just 0.8% and drop by 45.5%, respectively, in Q2.

Logistics Employment Rises, But Still Sees Heavy Losses

U.S. logistics employment improved by 2.0% sequentially in June, or by 92,100 jobs. Yet, that compares to 380,500 jobs lost since February as a result of the COVID-19 pandemic, i.e. there’s been a recovery of just 24.0% of jobs lost. While most sectors saw an improvement, there was a continued 1.7% dip in rail employment due to the implementation of precision railroading and the slow recovery of the automotive industry.

Sea freight employment recovered by 3.0% sequentially but is still down by 10.3% year over year. With U.S. inbound freight having declined by 9.7% year over year in the first three weeks of June, the weakness in employment is not surprising and may take some time to recover.

Canadian Exports Slide Ahead of USMCA

Canada’s international trade activity dropped by 33.4% year over year in May due to a 34.1% slide in exports. The drop was due to reduced shipments to the U.S. and Mexico, reflecting widespread industrial closures in all three countries as the result of COVID-19 and came ahead of the implementation of USMCA on July 1.

Exports to China actually improved by 11.9% after declining steadily since Q2’19. That may not prove sustainable as disagreements surrounding Huawei and potentially Nortel could take a toll on relations with China. Canada’s downturn means all 26 countries to report data for May have seen declining exports with an average rate of 17.9% year over year.

C.H. Robinson Innovates as COVID-19 PPE Needs Surge Once More

The resurgence of COVID-19 cases in many U.S. states has raised the importance of the security of medical supply chains once more. Panjiva’s analysis shows that U.S. imports of products defined by the government as being needed to treat COVID-19 increased by 21.9% sequentially in May and by 68.6% year over year to reach $14.1 billion.

Shipments of protective equipment climbed 54.3% higher sequentially while diagnostics only increased by 1.9%. Oxygen therapy gear actually declined in May though have likely climbed 22.7% in June according to seaborne shipping data.

The new service offering may be bearing fruit with U.S. seaborne imports of PPE handled by C.H. Robinson having increased by 43.0% sequentially in June compared to an industry average of 37.3%. Shipments linked to Expeditors rose by 34.3% and K+N’s increased by 7.3%.

The logistics industry continues to find innovative ways to ensure delivery. C.H. Robinson has stated that its expedited less-than-container load seaborne service is up to 14 days quicker than regular sea freight services and costs just 20% as much as air freight.
Asia-USWC Rates Surge to Highest Since November 2018

Container freight rates surged last week with S&P Global Platts’ assessment of global rates having jumped 8.5% higher while shipments out of China improved by 1.4%. The latter included a 5.7% jump in China-to-U.S. west coast routes of 5.7%. That brought rates to their highest level since November 2018.

A monthly rate review as of June 30 reveals a shortfall of capacity as a result of container-lines’ blank sailings coinciding with the start of peak season and a widespread reopening of industrial and commercial activity after COVID-19.

There’s also a lot of fine-tuning on specific routes. One example is CMA-CGM’s decision to apply a peak season surcharge on routes running from India and the surrounding region to the U.S. That’s particularly notable given U.S. imports from India had previously slumped in early June.

Not all of the rise in rates will flow through to the container-lines’ bottom line though. Bunker fuel rates rose by 1.8% last week including a 3.5% increase in low-sulfur fuel oil with the result that bunker-excluded rates only increased by 0.9%.

USMCA - New Test for Traton, Navistar as Shacman Moves to Mexico

Chinese heavy truck manufacturer Shacman is planning to start assembly in Mexico in order to take advantage of new rules under the U.S.-Mexico-Canada Agreement (USMCA). Thus far, Mexican imports of heavy trucks have been dominated by shipments from the U.S. including imports associated with Volvo and Traton which fell by 40.2% and 13.8% year over year in the 12 months to May 31.

The export industry has also been depressed with total shipments of heavy trucks from Mexico down by 71.9% in May compared to a year earlier after a 31.6% drop in April as non-essential manufacturing was closed in response to COVID-19. Daimler and Navistar accounted for 94.7% of exports in the past 12 months and have both seen an extended downturn. Exports linked to Daimler fell by 7.7% year over year in the 12 months to May 31 while Navistar’s fell by 29.4%.

Nestle’s Mexican Exports Sour as Coffee Contraction Continues

The government of Guatemala is withdrawing from the International Coffee Organization, citing dissatisfaction with the progress of global coffee prices which have fallen by 20.4% year to date. That has largely been driven by COVID-19 related closures in the food service sector. Guatemala only represented 2.4% of ICO volumes in the 12 months to May 31.

Indeed, it has done better than most with a 0.2% year over year slip in the past 12 months compared to a 1.4% slide in total ICO group exports and a 14.1% slump in shipments from Mexico. Reduced demand cut total ICO exports by 14.6% in the month of May versus a year earlier with Mexican exports down by 11.7%.

Mexican coffee exports linked to Nestle dropped fastest with a 55.3% year over year slide in May while those linked to J.M. Smucker dipped 5.4% lower. The outlier is Neumann Gruppe with shipments that surged 136.1% higher, potentially reflecting a change in its global sourcing patterns.

Trump’s Phase 1 Ammunition Builds as Chinese Purchases Rise, But Not by Enough

U.S. international trade activity dropped by 28.0% year over year in May, the 12th straight decline and an acceleration from a 24.7% slide in April. The impact of COVID-19 on manufacturing and demand for industrial and commercial products were the main drivers with exports of goods having fallen by 35.3% compared to a year earlier. Exports to Canada and Mexico slumped 48.1% lower while shipments to
Europe and Asia ex-China fell by 33.1% and 32.3%, respectively.

Shipments to China, meanwhile, rose by 6.3% compared to a year earlier as the result of increased purchasing of commodities under the Phase 1 trade deal. Exports of products covered by the deal climbed 11.5% higher year over year and by 11.0% compared to May 2017, the baseline year for China’s commitments in the deal. Exports of agricultural products climbed 39.8% on the back of increased meat shipments while energy exports surged 148% due to increased crude oil deliveries.

Yet, exports of cars and pharmaceuticals dropped with the result that total manufactured goods exports to China covered by the deal fell by 4.2%. Overall, the exports of 548 products covered by the trade deal reached $6.53 billion in May compared to the Phase 1 trade deal’s implied target of $11.9 billion per month.

**COMMODITY FLOWS PICKING UP, INDUSTRIALS IN DECLINE**

Making up the existing shortfall would require exports of $16.6 billion to meet the deal’s commitments by the end of 2020. A crunch point may yet be reached when the Trump administration either has to renegotiate the target – for example by declaring unfavorable market conditions – or decree that China has violated the targets.

**Technology Managers Turn to Cloud as Hardware Supplies Evaporate**

IT managers are likely turning to the cloud as materials and resources for their organizations remain scarce due to the COVID pandemic. 451 Research’s, “Voice of the Enterprise: Digital Pulse, Coronavirus Flash Survey June 2020,” indicates that many IT decision makers are using the recovery from the COVID-19 pandemic as an opportunity to reform their supply chains.

One large financial services institution stated they “believe the cloud has offered an opportunity to bypass the legacy purchasing, the legacy infrastructure, and the legacy culture that still controls those environments today.” The impact of COVID-19 disruptions can be seen in the 40.0% of large firms experiencing procurement delays and the 31.1% that have been exposed to higher logistics costs, two issues that cloud solutions can help mitigate.

Data shows U.S. imports of hardware, storage and peripherals fell by 13.0% year over year in April and May combined. By contrast, shipments of components used by U.S. manufacturers rose by 85.3% year over year as IT hardware demand remained robust.