TRADE NEWS WEEKLY

August 3–August 7, 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.

Significant Customs Section 321 Duty-Free Development

On July 31, 2020, U.S. Customs and Border Protection (CBP) published an administrative ruling HQ H290219 (July 28, 2020) and corresponding CSMS Message #43534680 concerning eligibility for informal duty-free entry under 19 U.S.C. §1321(a)(2)(c) (Section 321) by online fulfillment service providers such as Amazon and eBay. CBP's new interpretation of Section 321 will have immediate implications for businesses relying on Section 321.

Section 321 provides for the duty-free entry of articles valued at $800 or less and imported by "one person on one day." Under this new CBP determination, when merchandise is imported into the U.S. that has not yet been sold to a consumer, CBP will consider the online fulfillment service provider to be the consignee for that merchandise and aggregate the value of these shipments to determine if the "one person on one day" and $800 or less value requirements are met. CBP will apply this standard whenever the U.S. owner or purchaser is not provided as the consignee. Customs intends to take "near term enforcement action against egregious violators" and future violators may lose their Section 321 privileges. This change will likely require formal Customs entry for much merchandise imported through online fulfillment services unless the identity of the ultimate purchaser is provided to CBP. Importers should read the CSMS message and detailed ruling carefully.
Source: Miller & Company P.C.

South Korea Shows COVID-19 Decent

South Korea's international trade activity continued its descent in July with preliminary figures showing a 9.4% slide. While that was the slowest rate since March, it is far from indicative of a recovery from COVID-19.

Exports did slightly better than exports with a 7.0% decline compared to 10.9% a month earlier. An accelerating rate of improvement in exports of semiconductors, which increased by 5.6% year over year after declining 3.0% on average in Q2, was the main driver. Exports of automobiles only fell by 4.2% in July from a 33.3% plunge in Q2.

The global export picture suggests that a recovery of sorts from COVID-19's ravages is underway - particularly in China where exports inched 0.5% higher in June - though the economy is still a long way from pre-pandemic levels. Getting there may take until well into 2021 according to industry experts.

U.S. and Mexico Meet to Discuss USMCA Mechanisms

Officials from the U.S. and Mexico are meeting to discuss a mechanism to coordinate future closures of "non-essential" businesses in the wake of COVID-19, according to Mexico's Ambassador to the U.S., Martha Bárcena. Mexico appears to have taken a much harder stance on what is deemed essential with a notable impact on the automotive industry as flagged in the Continental research above. Decisions on what mechanisms to use - for example would USMCA be adapted - and timings as well as other issues have yet to be addressed. Those factors make it unlikely that an agreement will be drawn up before the U.S. elections.

Tough Talk May Mean Tough Luck for U.S.-British Trade Deal

U.S. Trade Representative, Robert Lighthizer, and the Britain's Trade Secretary, Liz Truss, will meet this week to discuss progress on trade negotiations between the two. Truss has stated that aerospace and digital tax issues are holding up talks and the British will "be pressing hard to get these punitive taxes removed."

That's likely to get short shrift from the Trump administration given it has been willing to separate tariff policy and trade talks, most recently around the USMCA and tariffs on Canadian aluminum. As shown in data analysis, neither side appears to expect much progress on a deal before the U.S. general elections.

Brexit - Unilateral Dispute Settlement Unlikely to Fly

A glimmer of hope has emerged that there's room for compromise in a key area of disagreement between the EU and U.K. in negotiations for long-term trade and customs arrangements. The U.K. has insisted on the right to set its own policy for state aid and other regulations. The EU will reportedly offer a dispute settlement approach that would allow the U.K. to "regain sovereignty" while the EU "would reserve the right to decide on any consequences vis-à-vis access to the single market for U.K. companies as a result."

An effectively unilateral dispute scheme has been mooted before and been rejected by the U.K. With just three rounds of talks to go before an informal mid-October deadline it seems unlikely that a deal can be reached.

U.S. Trade Outlook Shifts into Positive Territory

U.S. trade sentiment returned to positive territory in July with the latest ISM export order survey reading reaching 50.4 from 48.8 a month earlier, where a figure over 50 indicates an expansion. It should be noted though that only six sectors out of 17 returned positive readings and only two improved compared to a month earlier. Nonetheless, that's the first positive reading since the pandemic and matches a similar improvement seen in China and Germany.

The global trade slowdown in the wake of COVID-19 is also showing signs of lessening. Only 18 out of 25 countries that have reported June data showed a year-on-year drop in exports. The average rate of decline across the 25 countries of 7.4% year over year compared to a 23.4% drop in global trade in May. A turn around in U.S. exports is sorely needed after they fell by 23.9% in June.

Phase 1 Review Due Next Week as Hong Kong, Uighers and TikTok Weigh

The U.S. and China will hold ministerial level trade talks on August 15 to discuss progress on delivering the Phase 1 trade deal between the two countries. The review is a requirement of the deal. U.S. trade data would suggest that China is as much as $27 billion behind its purchasing commitments as at the end of May, with data for June due shortly.

The two sides could deploy the "market conditions" clause to cut the required purchasing by China for 2020 though the Trump administration has sounded more apathetic towards the deal recently and could go as far as abandoning it. Recent controversies regarding Hong Kong, Uigher related sanctions and TikTok will complicate matters.

Sanctions, Bankruptcies and Election Strategies

The impact of the COVID-19 pandemic hit home for the retail sector in July with signs of recovery coming too late for retailers declaring bankruptcy protection including Ascena Retail, Brooks Brothers & Muji.

Broader export sentiment among businesses in the U.S. and China improved but remained negative while the logistics sector is facing technical challenges in keeping the right equipment in the right place at the right time. One sector that has done well throughout the pandemic has been solar power equipment makers.

The regulation of international trade has remained important throughout the pandemic, too. The U.S. Customs & Border Protection authority detained shipments of medical supplies linked to Top Glove on the basis of accusations of the use of forced labor in Malaysia. Sanctions were also applied against 11 Chinese companies in relation to repression of the population – we identified companies whose supply chains may be exposed.

U.S. trade policy more broadly has continued to evolve in the face of a dip in medical supply imports. That's led to policy statements from both the administration of President Trump and the campaign of former Vice President Biden ahead of the elections. Finally, the state of the U.S.-China trade deal remained a focus as the Chinese government started to apply restrictions to shipments of farm goods.

CIMC, Schneider National May Have to Carry Higher Costs After Dumping Case

Submissions to the U.S. ITC to investigate trade policy infractions hit their highest since at least 2014 in July with 17 new filings compared to nine in June. Those are led by intellectual property complaints while the increase in anti-dumping cases includes a new request to investigate alleged dumping of trailer chassis assemblies from China. Pressure from the COVID-19 pandemic may be driving the case as well as direct concerns about dumping.

China represented 21.0% of the $3.3 billion of U.S. imports of trailer chassis covered by the case in the 12 months to May 31. Shipments had already fallen by 46.2% year over year in the three months to May 31, potentially as a result of trade war related tariffs. Importers from China of chassis assemblies more broadly that may face higher costs include Schneider National and CIMC with 1,326 TEUs and 1,971 TEUs shipped, respectively, in the 12 months to June 30.

Hasbro, Mattel Diverge as Supply Chain Resilience Proves Key

Container shipping rates may have peaked for Asia-U.S. lanes. While there was a 2.9% rise in rates in July, they ended the month at $2,700 per FEU, down from a peak of $2,900 per FEU earlier in the month. A reduced number of blank sailings by the shipping lines, indicating an increase in available capacity, is the likely reason for the intra-month reversal. That should not be a surprise given bunker excluded rates rose by 16.7% on average in July versus June on average, boosting profitability for the liners.

There are also signs that the downturn in traffic resulting from COVID-19 is slowing as the peak shipping season begins, though there are logistical issues in markets including India. Rates for shipping from Asia to Europe are increasing though there may be concerns about a second wave of COVID-19 in parts of Europe and a drop in EU-U.S. traffic.

Reduced blank sailings and risks to demand raise the prospect of the industry returning to its default state of oversupply. This research is based on a report written by George Griffiths of S&P Global Platts.

MATTEL SHAKES OFF PANDEMIC EFFECT QUICKER THAN HASBRO

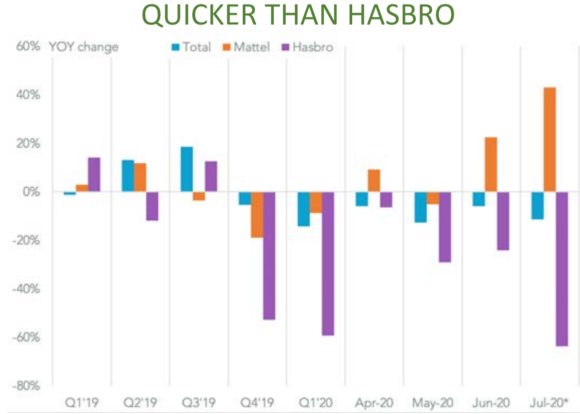

Chart segments U.S. seaborne imports of toys by consignee. Source: Panjiva

Yet, the decline has been driven, in part, by supply chain considerations. Imports linked to Hasbro dropped by 17.8% year over year in Q2. The firm has faced a "very challenging revenue period due to global closures in our supply chain," with the result that revenues in Q2 were 14.0% lower than analysts' estimates according to S&P Global Market Intelligence data. A shortfall in shipments from India was one of the reasons cited, which showed a drop by 39.0% in Q2.

Mattel, by contrast, delivered revenues that were down compared to a year earlier but still 5.8% better than analysts' expectations. The firm's "supply chain continued to perform well despite temporary closures," according to CEO Ynon Kreiz. That's demonstrated by U.S. seaborne imports linked to Mattel which climbed by 8.8% in Q2 and have surged 43.2% higher in the first half of July.

Jakks Suffers Halloween Scare

Brand merchandise maker Jakks Pacific reported a 17.0% year-on-year drop in Q2 revenues as "even the healthiest retailers are uncertain as to how the ongoing pandemic will affect demand for Halloween products," according to CFO John Kimble. U.S. seaborne imports linked to the firm fell by 6.2% year over year in Q2 but have reversed to improve by 13.8% in the first three weeks of July. There's been a divergence in performance across the toy sector, shown by majors Hasbro and Mattel as well as mid-sized firms such as Jakks. Shipments linked to WowWee, maker of the "Baby Shark" line, have surged 66.4% higher in July after a 16.2% drop in Q2. Imports linked to Spin Master, meanwhile, expanded in Q2'20 but have dropped by 35.6% in July.

JAKKS, WOWWEE WHIZ HIGHER;
SPIN MASTER IN REVERSE

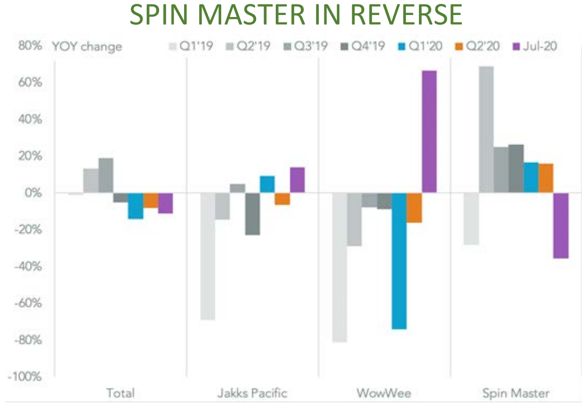

Chart segments U.S. seaborne imports of toys and games by consignee. Source: Panjiva