TRADE NEWS WEEKLY

January 4–January 8, 2021

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. Modifications to European Union Boeing/Airbus Retaliatory Duties

The United States has announced modifications to tariffs previously imposed on certain European Union (EU) products based on World Trade Organization (WTO) Large Civil Aircraft litigation involving Boeing/Airbus. The tariff modifications add certain French and German non-sparkling wines, brandies, and aircraft fuselages, fuselage sections, wings, wing assemblies, and horizontal and vertical stabilizers, effective January 12, 2021. The move is in response to EU retaliatory duties of 15% and 25% on certain U.S. products, which the U.S. alleges are disproportionate because the EU relied on a benchmark reference period impacted by the COVID pandemic and excluded UK shipments. ***Source: Miller & Company P.C.***

U.S. May Apply Tariffs to Vietnam

The U.S. appears set to apply tariffs to imports from Vietnam after the Trump administration declared it to be a currency manipulator. Relations with the EU may be strained after the latter signed a Comprehensive Agreement on Investment deal in principle with China covering autos, telecoms and computing among other sectors. The deal partly replicates the U.S.-China Phase 1 trade deal.

Exports Fall End of 2020

U.S. exports fell by 6.6% year over year in November due to an extended downturn in automotive and capital goods products, though a consumer-led import boom has continued and left the trade-in-goods deficit at the highest since at least 2008. Preliminary data for U.S. seaborne imports in the first four weeks of December show a likely continuation with 22.1% year over year growth.

U.S. Trade Activity Lower Than Expected

U.S. international trade activity remained in the doldrums in November with aggregate imports and exports across goods and services having fallen by 5.6% year over year, the 14th straight decline. While imports of goods extended their recovery with a 5.8% improvement, there was a continued downturn in transport and travel services as well as weak goods exports despite the impact of the Phase 1 trade deal with China.

The gain in imports was driven by electronics. Imports of telecoms equipment up by 20.4% year over year, likely due to Apple's iPhone 12. Videogame imports surged 152% on new systems from Microsoft and Sony. On the other hand, imports of crude/refined oil and aerospace products continued to fall, likely due to the pandemic.

Likely Trade Promotion Authority Will Be Extended

The Democratic Party has likely taken control of the U.S. Senate after AP declared two run-off elections in Georgia in their favor. In theory, Democrats' control of the House, Senate and Presidency should free President-elect Biden to: complete cabinet appointments in a timely manner; increase the likelihood of Trade Promotion Authority being extended and; deliver international trade deals into law given only a simple majority is needed.

That is not to say that passing TPA extension or trade deals will be simple. First, any deal will need unanimous approval across the Party's various ideologies. Secondly the midterm elections are just 23 months away which could change the complexion of Congress again. In any event the President-elect has made it clear that there will not be a rush to sign new deals or to alter existing import tariffs, particularly regarding China, until discussions are held with U.S. allies.

U.S. ITC - Seasonal Produce Review Widens

The U.S. ITC received just six trade infraction complaints in December with no anti-dumping/ subsidy petitions filed. The U.S. Trade Representative has filed for an investigation into imports of cucumbers, gherkins and squash due to concerns about the impact of seasonal supplies on U.S. producers. That follows a similar investigation into berries and peppers launched in November.

U.S. imports of the three products are dominated by Mexico which represented 77.2% of imports in the 12 months to October 31 with a peak in the first five months of the year. Should the ITC review lead to an assessment that harm has been done, the case could lead to a challenge under the newly emplaced USMCA dispute process.

Leading exporters from Mexico include Sofia Produce and Delightful Quality Produce. The former's shipments to the U.S. rose by 107.7% year over year in the three months to November 30 while the latter's slumped by 93.1%.

Digital Services Tax War Widening Put on Hold

The U.S. Trade Representative has ruled in its Section 301 review of digital services taxes that DSTs applied by India, Italy and Turkey "discriminate against U.S. companies, are inconsistent with prevailing principles of international taxation, and burden or restrict U.S. commerce."

Under the Trump administration, and on the basis of actions against France, that would normally lead to the imposition of tariffs though there are no recommendations from USTR on that count so far.

Other investigations covering the EU, U.K, Brazil and Indonesia are still underway and appear unlikely to be concluded during the Trump administration's term in office. That will leave the Biden administration to decide whether to await OECD negotiations' completion before acting.

Container Lines Project 2021 Recovery

The container lines also appear to expect the recovery in demand and higher rates to persist with Hapag-Lloyd, ONE and MSC to place new vessel orders and ZIM Shipping filing for an IPO. Cyber-security risks remained close with the Hades ransomware attack causing disruptions for Forward Air.

Time to Pay the Pipers – Logistics Issues

The logistics industry enters 2021 in a state of imbalance that has led global benchmark container rates to reach $3,561 per FEU on December 18 from $1,660 per FEU on September 30.

ALLIANCES DOMINATE U.S.-INBOUND SHIPPING, SHARE INCREASING

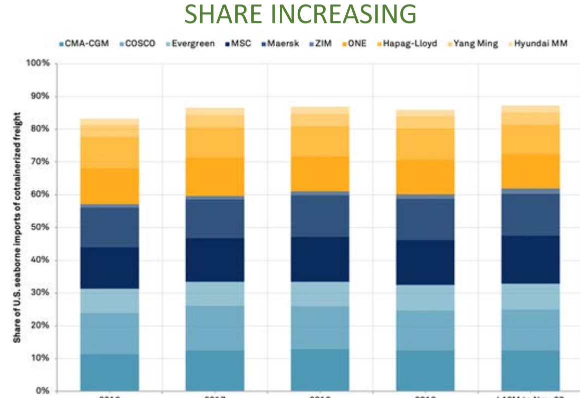

Chart segments U.S. seaborne imports by container line. Colors show alliance membership based on affiliations as at Nov. 30, 2020. Source: Panjiva

Existing system congestion could take months to clear while the specter of regulatory intervention hangs over the sector as governments examine the surge in rates. The big three container shipping alliances accounted for 83.5% of U.S. seaborne imports in the 12 months to November 30, up from 79.5% in 2016 and may face restrictive rules if rates remain high.

Increased investment in new vessels is needed for replacement, efficiency, GHG reductions and expansion needs though new orders for container ships were equivalent to just 7.1% of installed capacity at the end of 2020. Maersk has indicated investing in new vessels "is a risk when we do not know exactly what fuels that we'll be using from 2030." Yet, new orders from Hapag-Lloyd, ONE and MSC and an IPO filing from ZIM Shipping suggests industry confidence is building.

With the U.S. likely to rejoin the Paris Agreement on climate change and the EU set to apply new greenhouse gas emission rules, the importance of environmental investments and costs will rise. EU emission credit prices reached 31 euros per ton by mid-December versus an average of 25 euros per ton in 2019. Consumers will end up paying for the extra costs of cutting GHG emissions if the experience of desulfurization holds true.

Further consolidation in the industry looks unlikely among the container lines, though the freight forwarding sector remains highly fragmented. The top 25 forwarders only accounted for 18.3% of U.S. seaborne imports in 2020 compared to 14.5% in 2012.

New Year, Old Problems for Straits of Hormuz

Risks to shipping through the Straits of Hormuz have potentially returned after the Hankuk Chemi, a South Korean chemical tanker, was reportedly detained by Iranian forces. While apparently due to charges regarding pollution, the event is a reminder of the bottleneck risks for shipping via the Straits. The presence of the South Korean navy may increase the risk of an escalation.

The detention, as well as Iran's decision to increase its uranium enrichment plans, cast a cloud over potential actions regarding Iran sanctions by President-elect Biden. Rising risks may have a knock-on effect for global oil and derived product markets and potentially help U.S. oil and gas exporters.

Japan, Mexico Commit to Two Year Process of CPTPP Expansion

The foreign Ministers of Japan and Mexico met to discuss trade and security issues, stating that the "two Ministers confirmed that Mexico and Japan will continue to work together to steadily implement and expand TPP11 (CPTPP) as chairs of the TPP Committee last year and this year."

The desire to expand CPTPP membership is not a surprise while the timeframe of two years to do so may prove optimistic given the depth of CPTPP versus the goods-only RCEP.

President-elect Biden may face pressure to make an early decision given statements from President Xi that China may pursue membership. More likely in the near-term would be the accession of the United Kingdom as a key, post-Brexit trade deal. The U.K. also already has continuity deals with Mexico and Japan.

Maersk Leads Solar Shipping as Logistics Costs Complicate Tariffs

The U.S. Court of International Trade has ruled that the Commerce Department erred in its choice of shipping cost calculations in setting tariffs on imports of solar panels from China. Commerce reportedly used a shipping rate linked to Maersk sourced from Xeneta on the assumption it included handling charges when they did not.

The case, and others like it, can drive ongoing supply chain uncertainties for solar power project developers. Nonetheless, the impact of tariffs applied by the Trump administration has waned. U.S. seaborne imports of solar panels have climbed 52.0% year over year in 2020, though growth slowed later in the year with imports in Q4 unchanged year over year.

Maersk was the largest container line shipping solar panels to the U.S. with a 23.3% market share in 2020, putting it ahead of Cosco and CMA CGM. Maersk's handling also expanded by 76.1% year over year in Q4, significantly outpacing its peers.

Export Order Expectation Rebound Takes a Breather

U.S. manufacturing sentiment improved in December, according to the latest ISM survey, dragging up import order expectations to 57.5% (where over 50% indicates expansion) from 55.1% a month earlier. U.S. seaborne data shows shipments rose by 22.1% year over year in December, supporting the ISM evidence of continued U.S. import growth.

Yet, the export side of the economy may be cooling with export order expectations dipping to 57.5% from 57.8%, the first downshift since April. A similar trend has been seen in China's recent CFLP survey with a decline to 51.3% from 51.5%, the first sign since April that the engine of global trade growth may have paused.

Europe's business managers, by contrast, are seeing an accelerating improvement in export order expectations in both Germany and France, likely reflecting the avoidance of a hard Brexit.

Alibaba, Tencent's Loss Could Be Tariff Payers' Gain

President Trump has issued an Executive Order which, in effect, will block "persons under U.S. jurisdiction" from using Alibaba and Tencent's payment apps on national security grounds. The main tangible effect of the order will be a 45-day review of the issue by the Commerce Department, putting the resolution firmly in the purview of the Biden administration.

The move is consistent with recent Trump administration actions against China which have focused more on financing than physical goods trade. That reduces the risk of the Phase 1 trade deal being cancelled which, in turn, would lead to the return of escalating tariffs late in the Trump administration.

Daimler, VW Confident of Prolonged Sales Surge as Imports Rise

U.S. automotive sales took a step forward in December with year over year growth of 6.4% for all vehicle types including a 12.0% rise in sales of foreign light trucks and a 7.5% improvement in sales of all foreign-built vehicles.

Exporters may be expecting a continued but slower improvement. U.S. seaborne import data shows total shipments improved by 4.5% year over year in December, led by a surge in shipments by Daimler and Volkswagen of 53.1% and 47.4%, respectively.

China Backs Container-Lines, Up to a Point

The Chinese Ministry of Transport (MoT) has supported the recent rise in container rates in a response to complaints from exporters, citing a shortage of handling equipment and containers. A surge in rates on Asia-to-U.K. rate of a record $10,000/FEU is that the fundamentals that have driven higher rates have continued. Yet, the MoT has also reportedly committed to maintaining a close watch on the state of rates and the behavior of the container lines.

The need for new investment in shipping capacity, environmental measures and logistics technology provides the container-lines with ammunition to respond to rising government oversight in China and overseas in 2021.

A new order received by KSOE for six 15,000 TEU container ships for an unnamed Asian buyer is the latest evidence - on top of orders from Hapag-Lloyd, ONE and MSC - that the container lines are confident that profitability will remain strong.

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