TRADE NEWS WEEKLY

April 12–April 16, 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. Supply Chain Prices Inflate More Quickly Than Expected

U.S. producer price inflation for final demand rose by 4.5% year over year in March, the fastest growth since 2011 and more than the 3.8% increase expected by economists.

Some care is needed in reading through year over year increases in the coming months given the comparison to the pandemic period. Yet, continued sequential increases suggest upward supply chain price pressure is continuing.

Wolverine Worldwide, Nike Between U.S.-China in Tech War

U.S. Commerce Secretary, Gina Raimondo, has stated that the Administration is "in the middle of the overall review of the China policy" with the aim to "compete in the long run with China" using "all the tools in my toolbox as aggressively as possible." Section 301 tariffs on imports from China are, therefore, likely to stay in place for the foreseeable future.

While U.S. imports from China rose by 49.5% year over year in February, the pandemic and lunar new year basis effect was the main driver, with shipments only up by 2.5% versus February 2019. Imports covered by Section 301 duties fell by 3.8% over that time period while products not covered by tariffs soared.

The longer-term tariff impact is still very much present with imports of List 1 and List 2 products, typically representing technology supply chain products where tariffs were applied in 2018, down by 23.4% and 20.4%, respectively, in February versus February 2017. Shipments of List 3 and List 4A products, which include assembled capital goods and some consumer goods, fell by 20.6% and 11.4%, respectively.

The List 4A goods include products a long way removed from the high-tech center of the U.S.-China rivalry. Indeed, imports of footwear covered by the 15% duties fell by 41.0% in the three months to February 28 versus the same period of 2017. Many importers, including Wolverine Worldwide, Nike and Deckers Outdoor, have switched their supplies to Vietnam instead.

FOOTWEAR BUYERS SWITCH TO VIETNAM FROM CHINA EVEN DURING PANDEMIC

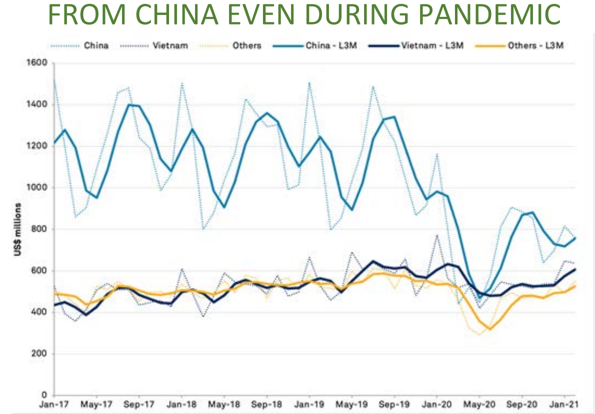

Chart segments U.S. imports of footwear by origin on a monthly and three-month average basis. Source: Panjiva

Oakland Overload Increases as Ships-at-Anchor Double

The corollary of increased demand for shipping has been worsening congestion. Hapag-Lloyd has noted a marked increase in vessels waiting to be unloaded outside the port of Oakland, with 24 ships at anchor representing a doubling

HAWAII FOREIGN-TRADE ZONE NO. 9
521 Ala Moana Blvd, Ste 101 • Honolulu, HI 96813
Tel. 808-586-2507 • administrator@ftz9.org
www.ftz9.org • www.facebook.com/HawaiiFTZ
Twitter at: @FTZ9

in the past month. The firm has stated that is due in part to reduced capacity linked to a crane replacement. The latter may not be back in place until May. Congestion at the ports of Los Angeles and Long Beach have also continued.

As noted above, U.S. inbound activity remains elevated as the congestion is worked through, though the arrival of ever-larger vessels raises questions about the longer-term capacity of the west coast ports to handle unloading on a timely basis.

The impact of the Suez Canal blockage won't impact upon west coast ports, though a surge in Transatlantic rates to a record high of $3,000 per FEU indicates the east coast ports can expect challenges ahead.

China's Steel Prices Climb Nearly 45%

China's Premier, Li Keqiang, has presided over a meeting that has warned that "the sharp rise in international commodity prices has brought great pressure on enterprises to increase costs" with a potential need to "strengthen market regulation of raw materials to ease the cost pressure of enterprises."

Domestic price restrictions and an imperative to maintain production could lead to a surge in exports. Chinese steel exports climbed 44.8% higher year over year in January and February combined and by 3.5% compared to the same period of 2019.

A renewed surge of exports to the U.S. would likely harden the Biden Administration's stance towards Section 232 tariffs. Seaborne imports to the U.S. of steel and aluminum covered by those tariffs from China climbed 151% year over year in March and by 52.2% versus March 2019. The expansion in March 2021 versus March 2019 was led by Henan Mingtai and China Baowu Steel with growth of 183.3% and 52.3%, respectively.

Technology Leads China's Continued Trade Boom

China's combined merchandise imports and exports increased by 34.1% year over year in March. The expansion was only in part due to the drag from the pandemic-related closures a year earlier, with trade also having increased by 27.5% compared to 2019.

Exports increased by 30.6%, led by high tech products including semiconductors, which rose by 33.0% and shipments of computers which increased by 45.9%. Notably, exports of telecoms products were 30.6% higher than a year earlier but fell by 5.6% compared to 2019.

Importantly, for relations with the U.S., there was still evidence of a continued upswing in imports, with growth in imports of 75.1% year over year. Some caution is needed, however, as the growth versus 2017's level of 17.0% may not be commensurate with delivery of the Phase 1 purchasing commitments.

Biden Supercomputing Export Restrictions Expected to Have Minimal Impact

The Biden Administration has applied export restrictions to three Chinese supercomputing firms and four departments of the state supercomputing center that it alleges have ties to the military. The move isn't a surprise given the importance of supercomputers to military research and given the whole-of-government approach being used by the Biden Administration.

The addition of the firms to the "Entity List" doesn't completely prohibit exports by U.S. firms but rather requires a license. There may be broader ramifications should Commerce widen its targets to include non-U.S. suppliers to the Chinese firms, too.

SK-LG Settles Battery IP Spat, Opens Door for U.S. Investment

SK Innovation and LG Chem settled a U.S. intellectual property lawsuit brought by LG Chem against the SK Innovation regarding electric vehicle batteries. The Biden

Administration had threatened possible intervention after a review which was due by April 11. The settlement also mitigates the risk of disruptions to EV supply chains, particularly for Ford and VW.

Electric vehicle manufacturing supply chains may evolve once more depending on the outcome of the Biden Administration's ongoing review of critical supply chains, including vehicle batteries, which is due to report in early June. There's also the potential for considerable support for EV development within President Biden's proposed infrastructure bill.

Executives from the automotive and semiconductor industries met at the White House on April 12 to discuss short- and long-term measures to resolve the shortage of chips for cars and other applications. There is $50 billion of specific funding to onshore semiconductors in the infrastructure bill.

Ports Miss March Off-Peak Lull as Shipping Demand Remains Elevated

Union truck drivers at the ports of Los Angeles and Long Beach have started a strike. While so far focused on a single logistics firm, it does raise the specter of industrial action adding to the ports' congestion challenges.

Seaborne imports to the ports of LA and Long Beach climbed 98.3% year over year in March and by 65.7% versus the same period of 2019. Historically, March has been the lowest import month of the year, with elevated shipments potentially storing up problems for later if maintenance and vacations are delayed.

The larger ports have also seen faster growth due to the increased use of the largest container vessels. Imports to the ports of Newark/New York climbed by 52.5% in March while those into Savannah rose by 64.0%. Smaller ports including Port Everglades and New Orleans saw declining volumes.

We Can Work It Out, Once Our People are Vaccinated

USTR Ambassador, Katherine Tai, held a series of meetings with representatives of the manufacturers of vaccines as well as advocacy groups to address global trade in COVID-19 treatments. Notably, the read-out included reference to "working with other WTO members on a global response to the COVID-19 pandemic, including the role of developing countries in any solution."

While that's a long way from committing to the U.S. to exports - the Biden Administration has made it clear U.S. vaccinations will be met first, followed by Mexico and Canada - the potential cooperation via the WTO is encouraging. The key question is relaxing intellectual property rules in relation to the vaccines. There are also still significant challenges with vaccine distribution including restrictive actions in India (the likely "developing countries" reference) and the European Union.

Fish is About More Than Just Fish for the WTO

WTO Director General, Ngozi Okonjo-Iweala, has stated this week's talks about fishery subsidy rules "is a top priority for this organization, not only for the fisheries, but also for the WTO system." The WTO sorely needs to show it can work as an effective mediator for multilateral trade issues. Reengagement by the Biden Administration is important, but reconstruction of the dispute settlement process is more so. A solution to the latter appears possible, but not until later this year.

Room for Further De-Escalation Between U.S. and EU

The EU's Trade Commissioner, Valdis Dombrovskis, has reportedly offered a six-month suspension of all retaliatory duties with the U.S. That comes on top of the suspension of aerospace tariffs and related measures for four months to allow a de-escalation of tensions in that long-running case.

The new measures could include steel and aluminum tariffs where the U.S. Section 232 measures have been a running sore between the two regions. Revocation by the U.S. seems unlikely, however, while capacity utilization in the industries remains low.

Accelerated Inflation Hits U.S. Supply Chain

U.S. supply chain inflation accelerated in March with U.S. import prices having increased by 6.9% year over year while the underlying figure, excluding food and fuels, rose by 3.8%. The latter's price index of 102.9 was the highest since April 2013, confirming the increased inflation rate is not just a pandemic-related basis effect.

The fastest rates of inflation have been among commodities and components, which add to rising freight rates within supply chain costs. Import prices for basic chemicals and plastics rose by 3.4% and 7.3%, respectively, with the latter's index reaching the highest since the series started in 1992.

The direct impact on consumers will take time to feed through. Import prices for consumer goods including furniture and cars only rose by 0.9% compared to a year earlier.

Levi Strauss Cuts Straight Through Logistics Challenges, Hikes Prices

Levi Strauss reported FQ1'22 (to February 28) revenues which fell by 13.3% year over year due to pandemic-related store closures. Analysts had expected revenues to drop by 17.3% while data shows U.S. seaborne imports linked to the firm declined by 6.9% over the same period.

The firm may be expecting a return to growth with shipments up by 17.8% year over year in March. Levi Strauss's CFO, Harmit Singh, has noted the firm is "seeing inflationary pressures" but also that it has locked in its costs for this year and "we'll offset any inflation we see in '22 with pricing."

Other denim importers to the U.S. will face similar elevated costs for cotton and freight. Total U.S. seaborne imports of denim were up by 31.2% year over year in March with the Q1'21 total having increased by 3.3%. The Q1'21 expansion was led by imports associated with V.F. Corp which grew by 278% while those linked to True Religion increased by 23.9%.

PVH, H&M LAG DENIM RECOVERY IN Q1

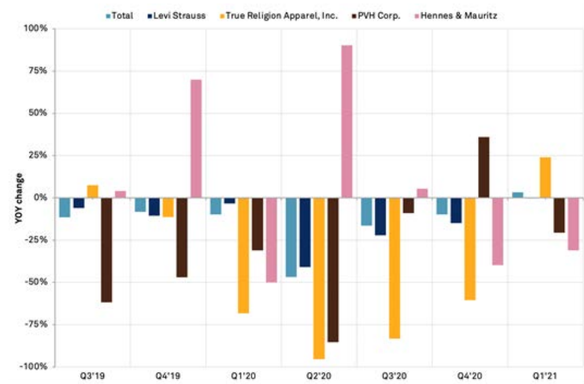

Chart segments change in U.S. seaborne imports of network-Chart segments U.S. seaborne imports of denim products by consignee. Source: Panjiva

Evergreen Marine Faces Perennial Insurance Problem

Evergreen Marine has confirmed that the Egyptian government has impounded the Ever Given, the vessel that blocked the Suez Canal, and that the "general average" principle for insurance will be used. The government is demanding payments of $916 million, including $300 million for reputational damage and $300 million as a salvage bounty. Perhaps unsurprisingly, the insurers oppose the payment demand.

Cargo owners will need to make advance payments under the centuries-old general average principle before reclaiming funds from their insurers. The process is likely to take weeks, if not months, to resolve, further compounding challenges for importers across Europe.