TRADE NEWS WEEKLY

July 19–July 23, 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.

Shipping Alliances Face Risk of Regulatory Wave from Biden's Competition Order

President Biden's "Promoting Competition in the American Economy" Executive Order includes measures relating to the shipping and rail segments of the logistics industry.

The provision for shipping appears modest and calls on the Federal Maritime Commission to "ensure vigorous enforcement against shippers charging American exporters exorbitant charges." The FMC is already carrying out such a review and may expedite it after agreeing to work more closely with the Department of Justice.

The ongoing surge in container rates reflects the mismatch between rapidly changing demand and supply which is largely fixed on a year-to-year basis.

While rates have risen due to elevated demand during the pandemic, there was previously a 38.6% drop in total China outbound container shipping rates between Q2'15 and Q2'16. During that period, U.S. seaborne imports reversed from a 4.1% year over year expansion to a 1.6% decline.

A wave of merger-driven consolidation in the 2010s has been followed by the market share of the top 10 container lines in U.S. seaborne imports inching higher to 87.9% in the 12 months to June 30 from 83.2% in calendar 2016.

Additionally, the container shipping firms slot into three big alliances to coordinate route management. The largest is the Ocean Alliance with a 32.5% share of U.S. seaborne imports after growth of 27.3% year over year in the three months to June 30. The fastest growing alliance has been the 2M Alliance of Maersk and MSC with affiliate ZIM Shipping which climbed 32.0% year over year.

THREE ALLIANCES INCREASING SHARE OF U.S. IMPORTS

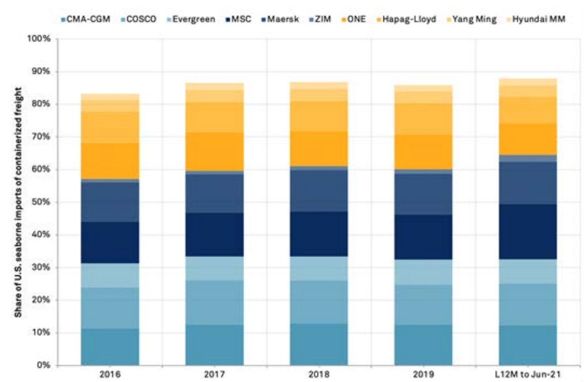

Chart segments U.S. seaborne imports by container line. Colors indicate container shipping line alliance or affiliation.
Source: Panjiva

U.S. Warning on Hong Kong May Add to China Trade Friction

The U.S. government has issued a "risk and considerations" advisory for firms operating in Hong Kong. That follows the introduction of the National Security Law in 2020 and China's Law on Countering Foreign Sanctions passed in June which could lead to firms that apply U.S. sanctions, in turn, becoming subject to Chinese sanctions.

While no new sanctions have been introduced by either side, the advisory comes as tensions between the U.S. and China are rising, with doubts emerging about the future of the Phase 1 trade deal.

U.S. exports to Hong Kong have already been in a protracted downturn, falling by 4.4% year over year in the 12 months to May 31 and by 22.0% compared to the same period of 2019.

Shipments of fruits and meats dropped by 67.9% and 54.6%, respectively, while shipments of electronics have also slumped. The latter has included a 58.3% drop in shipments of semiconductors aside from microchips and a 50.3% slump in shipments of optical fibers.

Democrats Follow the EU's Example with a U.S. CBAM Suggestion

U.S. Senator Chris Coons and U.S. Representative Scott Peters, both Democratic Party caucus members, have proposed legislation that would introduce a "border carbon adjustment" (BCA) measure that would apply additional duties to imports of carbon-intensive products including metals, cement and fuels.

Although the chances of the BCA tariff becoming law in its current form are low, it could be a clear response from the U.S. to the recently announced EU Carbon Border Adjustment Mechanism (CBAM).

Fresh Del Monte, WH Group Lead U.S. Food Boom as Inflation Hoarding Starts

Retailers are reportedly changing their approach to inventory management due to expectations of continued food price inflation. Elevated demand can be seen in U.S. seaborne imports of food and beverages which climbed 17.5% year over year in Q2’21.

Imports of meat rose by 29.1% led by a 175.9% jump in imports associated with WH Group while Cargill’s climbed 58.5% higher.

Imports of fruits and vegetables only expanded by 2.5% with hoarding largely impossible on a month-to-month basis. Imports linked to Dole Foods fell by 3.5% year over year while Fresh Del Monte has expanded throughout the pandemic, culminating in a 120.8% jump in shipments.

Spice Supplier McCormick Scales Back Imports

Spice supplier McCormick and Company reported FY2’21 revenues (to May 31) which increased by 11.1% year over year. The firm also scaled up inventories, which rose by 38.1% over the same period, as the firm invested "in our supply chain to expand our capacity and capabilities as well as increase our resiliency" according to CEO, Lawrence E. Kurzius. That required a downshift in U.S. seaborne imports linked to the firm which fell by 33.7% year over year in the three months to May 31 after a 64.9% jump in the prior three months.

The firm has also been restructuring its supply chain towards Asia over the past three years. Imports from Asia ex-China reached 55.4% of imports in the 12 months to May 31 compared to 47.4% in calendar 2019, though shipments from Europe have been more resilient recently.

The Biden Administration’s actions after the recent critical supply chain review may help supplies in the long-term. In the short term, removing Section 301 duties of 25% on imports from China that were applied as part of the trade war will at least reduce costs in the near-term.

Vietnam's Currency Pledge Cuts Tariff Risks

The State Bank of Vietnam has agreed that it "will continue to improve exchange rate flexibility over time," addressing a major concern of the U.S. Treasury Department that the Vietnamese government had been competitively devaluing its currency to boost exports.

The move should greatly reduce the risk of new U.S. import tariffs under the Section 301 investigation that was started by the Trump administration. The Biden Administration had since declared Vietnam to be a currency manipulator and used that designation in a tire tariff case.

The ongoing strength in imports from Vietnam likely reflects continued surging consumer demand, particularly for products that were previously manufactured in China.

Biden's Antitrust Reforms Wide, But Indicate Shallow Results in Shipping

The Biden Administration's Executive Order on "Promoting Competition in the American Economy" covers a wide range of actions that could impact a broad set of industries including healthcare, technology, agriculture and logistics. For the latter, the Administration's attention focuses on railways and shipping, noting the high degree of concentration in both sectors.

In the case of railways, the Surface Transportation Board must ensure rail firms "provide rights of way to passenger rail and to strengthen their obligations to treat other freight companies fairly." That may not rule out, but could complicate, the merger of Kansas

City Southern and Canadian National (which beat Canadian Pacific's original offer).

The shipping industry has gone through an extended period of consolidation, surging shipping rates and shifting business practices that had already garnered the attention of the Federal Maritime Commission. The Order simply "encourages" the FMC to ensure vigorous enforcement against shippers charging American exporters exorbitant charges." That process is already underway, though the Order may accelerate the FMC's decision-making.

U.S. importers are also facing higher costs. Shipping rates have continued to soar with rates for shipping from China to the U.S. west coast having increased for 12 straight weeks through July 9, including a 6.2% rise in the last week alone.

Biden's Competition Order Yields Rapid FMC Audit Action

The U.S. Federal Maritime Commission has launched a new audit program to enhance "the regular monitoring of the marketplace for ocean cargo service." It will "analyze the top nine carriers by market share for compliance" with Commission rules on detention and demurrage with a quarterly cadence.

The move comes shortly after President Biden's "Promoting Competition in the American Economy" Executive Order which includes a close focus on rising shipping costs for U.S. exporters. It should be noted though that the FMC's newest action is about monitoring the top nine container lines rather than looking to change their behavior, particularly regarding shipping alliances.

EU-U.S. Digital Tax Differences on Pause, Carbon Taxes Loom

The EU will delay its planned Digital Services Tax implementation from July 20 to the autumn as part of a wider agreement on global taxation agreed at the G20. The latter extends the G7's deal while the DST delay suggests a bilateral tariff war between the EU and U.S. will be averted on that topic. Yet, the EU is scheduled to publish the details of its Carbon Border Adjustment Mechanism later this week which could cause a new round of disputes with the U.S.

Lupin, Cadila May Have Growth Opportunity from Biden's Drug Competition Order

President Biden's "Promoting Competition" Executive Order includes provisions to cut pharmaceutical prices including increasing imports from Canada and removing "pay for delay" deals in instances when drugs come off-patent.

Supplies from Canada accounted for just 3.6% of U.S. pharmaceutical imports in the 12 months to May 31, down from 4.2% in 2017. Imports from Canada fell by 12.4% in the three months to May 31 driven by reduced shipments of anticonvulsants and immunosuppressants.

Imports from India and China, which mostly represent generic drug suppliers, rose by 4.4% and 48.4%, respectively, over the same period. More recently, all U.S. seaborne imports of drugs have increased by 21.7% year over year in Q2'21. The expansion has been led by Lupin and Cadila with growth of 211.4% and 155.7%, respectively.

Starbucks, JM Smucker Face Higher Prices as Brazilian Beans Dry Up

Global coffee prices have soared as a result of a once-in-a-century drought and the reopening of cafes as pandemic related lockdowns are eased. The importance of the drought can already be seen in a 19.6% year over year drop in Brazilian coffee exports in May which dragged global exports down by 10.0%.

The drop in exports from Brazil has varied significantly by buyer. Exports linked to JDE Peets and Lavazza fell by 10.0% and 18.9%, respectively, in May versus a year earlier. JM Smucker and Starbucks-linked exports climbed 13.9% and 158.3% higher, respectively, though Starbucks' shipments were still well below 2019 levels.

STARBUCKS' BOUNCE LEAVES IT WELL BELOW PRE-PANDEMIC LEVELS

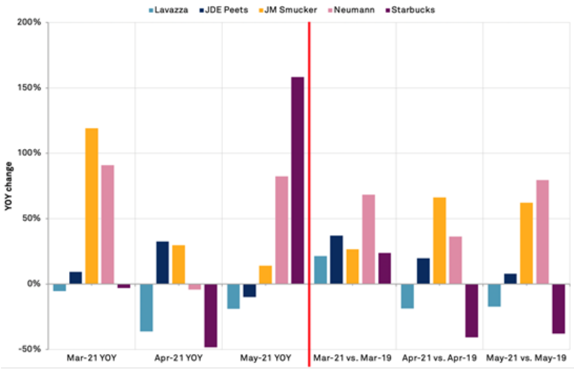

Chart segments Brazilian exports of coffee by consignee. Source: Panjiva

Bangladesh Factories Close for Two Weeks, Apparel Disruption Likely

The government of Bangladesh has confirmed that all factories will close for two weeks from July 23 after Eid-ul-Azha. That follows an earlier acceleration in the spread of COVID-19.

Apparel supply chains will likely be most at risk with U.S. importers including H&M and Levi Strauss potentially facing supply chain disruptions. It also comes as an increasing number of apparel factories in Vietnam are having to close.

Dalian-Style Disruption Spreads to Three More Ports

The disruptions at mainland Chinese ports aren't just limited to Yantian or to regular container shipping. Hapag-Lloyd has noted that imports of refrigerated containers to Lianhuashan, Jiaoxin, and Zhanjian have been suspended "due to the COVID-19 pandemic impact."

It's not clear whether the impact is linked simply to the staff shortages suffered at Yantian or whether there are customs inspection issues similar to those that had previously suspended refrigerated imports to the port of Dalian in January. The latter required significant diversions, both to other mainland Chinese ports and to other countries and took several weeks to resolve.

Back-To-School Not Back to Pre-Pandemic Levels Despite Import Rebound

The annual back-to-school shopping season is a key sales period for retailers. Sales and supply chain activity in 2020 were curtailed by the pandemic. A phased return to school during 2021 as well as more summer schooling present planning challenges for retailers' supply chain activities, too.

U.S. seaborne imports of kids shoes/apparel and backpacks have improved by 64.4% and 9.8% year over year, respectively, in Q2'21. Yet, when comparing Q2'21 to Q2'19 shipments of shoes and apparel were down by 12.6% and backpacks by 15.2%.

The longer-term shift away from department stores towards budget- and fast-fashion brands can be seen in a 78.6% slump in kids' shoes and apparel shipments linked to JCPenney in Q2'21 versus Q2'19 while those linked to Primark and H&M rose by 82.4% and 11.1%, respectively.

Leisure, Apparel Supply Chain Activity Lags as Retail Sales Boom in June

U.S. retail sales, excluding autos and fuel, rose by 16.1% year over year in June and by 20.0% compared to June 2019.

The fastest rate of growth came in sports and leisure stores with 41.5% growth in June 2021 versus June 2019 as consumers prepared for a reopened summer. U.S. seaborne imports of leisure goods, by contrast, rose by a more modest 13.6% over the same period suggesting a scaling back of inventories or potential shortages.

Sales by consumer electricals stores rose by just 2.3% while imports fell by 13.8%, suggesting demand for large devices may be waning after an earlier boost during the pandemic. The apparel sector may be facing a constrained back-to-school season with sales by apparel stores up by 17.2% while imports fell by 4.9%.