TRADE NEWS WEEKLY

October 15 – 19, 2018

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.

FTZs and Section 321

There are industry efforts to expand Section 321 entries to FTZs, but Customs Headquarters has issued a second ruling denying Section 321 de minimis duty-free treatment to goods valued at less than $800 entered into U.S. commerce from an FTZ because the goods were first imported and admitted into the FTZ in bulk and valued over $800, reasoning that the $800 per day limit applies at importation, not entry.

Source: Miller and Company P.C.

NAFTA & 301

Customs has issued a ruling that applies the NAFTA Marking Rules to components imported into Mexico from China for assembly. The product assembled in Mexico is subject to the Section 301 25% additional duties as a Chinese product.

Source: Miller and Company P.C.

China Section 301, List 3

Effective September 24, 2018, 10% additional duties were imposed on $200 billion of Chinese products covering 5,745 HTSUS provisions on Section 301, List 3. The duty rate jumps to 25% on January 1.

- List 3 includes more consumer articles, such as non-electrical machines, cosmetics, and medical products.
- Covered Chinese products must be admitted into foreign-trade zones (FTZs) in Privileged Foreign (PF) status, unless they are "domestic" status merchandise.
- No product exclusion process has been announced, but trade associations and others are advocating for one. It is possible the administration will wait until after the January rate increase to 25% to announce an exclusion process.
- In retaliation, China has imposed 5-10% tariffs on $60 billion of U.S. goods.

Source: Miller and Company P.C.

China Section 301, List 1

Exclusion requests were due on October 9 for Chinese products on the first list. More than 10,000 requests were filed by the deadline. So far, the USTR has denied all 108 requests it has decided.

Source: Miller and Company P.C.

China Section 301, List 2

The U.S. Trade Representative (USTR) has published procedures to file exclusion requests from the 25% duties on Chinese products subject to Section 301, List 2 which went into effect August 23. The deadline to file exclusion requests is December 18, 2018. Interested persons will have 14 days to file responses in support or opposition.

Source: Miller and Company P.C.

China Section 301 Guide

Customs has updated its Section 301 HTSUS Reference Guide to include all List 1, 2, and 3 tariff provisions which can be found at: https://www.cbp.gov/document/guidance/section-301-htsus-reference-guide.

Source: Miller and Company P.C.

NAFTA TO USMCA

On September 30, 2018, the U.S., Canada, and Mexico reached an agreement in principle on the United States-Mexico-Canada Agreement (USCMA) to replace the North American Free Trade Agreement (NAFTA).

- The draft legal text has been published. Changes include: motor vehicle content requirements; new steel, aluminum and chemicals rules of origin; digital trade; agriculture; and certificate of origin requirements.
- The agreement includes a provision to prevent participants from entering into FTAs with non-market economies (e.g., China).
- The U.S. enabling legislation and regulations will provide additional detail.
- The deal could be signed by the three leaders as early as November 29 in Buenos Aires, Argentina during the G-20 Summit. The Agreement may go into effect by late 2019.
- The U.S. International Trade Commission has instituted an investigation into the impact of the USCMA. A public hearing will be held on November 15 and comments are due on December 20.

Source: Miller and Company P.C.

Daimler and Nissan Face Prodigious Parts Problems Under New Rules

Auto manufacturers are starting to grapple with the impact of the USCMA (U.S.-Canada-Mexico Agreement) agreement, formally known as NAFTA, on their North American manufacturing operations. Daimler's CEO, Dieter Zetsche, has indicated the firm's current supply chain is "not fulfilling the future requirements." The firm has accelerated its imports of cars and parts with a 12% rise in the three months to August 31 on a year earlier including 24% for cars. Rules-of-origin for parts are particularly pressing given the assembly of its GL-Class SUV in Alabama relies on parts including body panels.

Solar Cell Exemptions

The Office of the U.S. Trade Representative (USTR) has approved seven new categories of solar cells for exclusion from Section 201 safeguards. The exemptions are not retroactive. https://www.gpo.gov/fdsys/pkg/FR-2018-10-12/pdf/2018-21719.pdf#page=1

https://www.gpo.gov/fdsys/pkg/FR-2018-09-19/pdf/2018-20342.pdf.

Source: Miller and Company P.C.

Tesla's China Project Steps Up a Gear

Corporate reactions to trade policy changes can also fit with broader financial needs. Tesla is close to completing the purchase of land for its new electric vehicle factory in Shanghai. That forms part of both its supply chain localization and financial growth strategies. The latter has been put at risk by China's 25% retaliatory duties on U.S. exports applied since July. Total U.S. electric vehicle exports to China reached $1.5 billion in 2017 but fell by 76% sequentially in the three months to August 31.

Six Deals to Watch in 4Q 2018, and Beyond

The third quarter of 2018 was extremely active for the Trump administration's trade policy and the fourth quarter promises to be just as busy. (1) USMCA (aka new NAFTA) has to be agreed by Congress, likely after the midterm elections. (2) Without a clear "off-ramp" for the punch and counter-punch of tariffs on trade with China – an escalation is possible. (3) Trade negotiations with the EU will likely focus on technical barriers, not tariffs while (4) talks with Japan will stretch well into 2019. (5) Negotiations with India are less formal but will focus on tariffs. (6) A free trade deal with Taiwan may be economically desirable for both sides but politically unlikely.

SOME OF THE LARGEST TARGETS ARE THE LEAST DESIRABLE

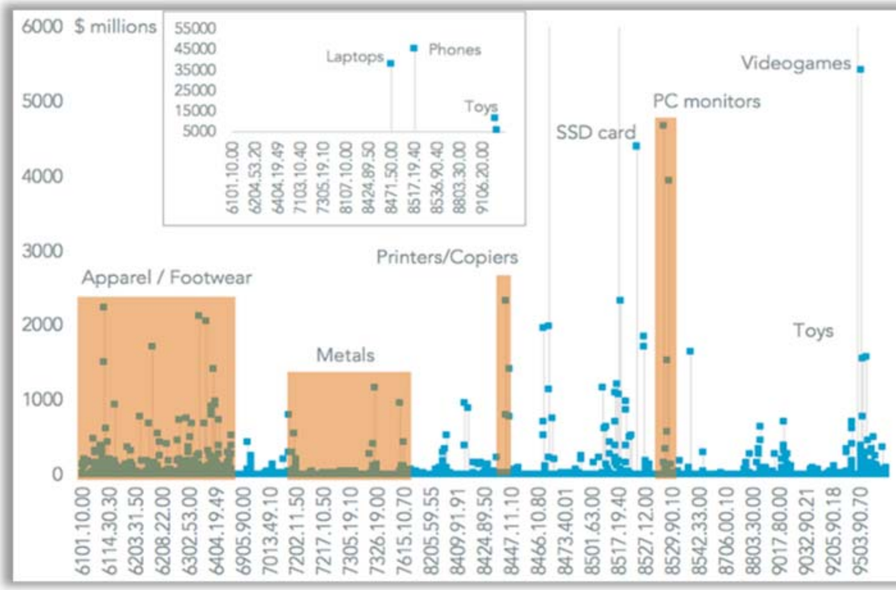

Chart segments U.S. imports from China not yet targeted for section 301 duties by product (HS-8) for the 12 months to July 31 - agricultural, basic industry and chemicals excluded. Source: Panjiva.

Latest round in US/China Trade

The Trump administration's key metric for success in trade policy is the merchandise trade deficit. The overall U.S. goods-and-services deficit surged 21% higher in August vs. a year earlier, including a 17% jump in the goods deficit to a record $77 billion. The most significant gain in the latter was with China with an 11% increase to $39 billion. In August, imports rose by 5% while exports to China fell by 14%, the first decline since January. Much of that was accounted for by four product groups including a 95% slump in soybeans and a 56% drop in passenger car exports. State-owned enterprises' purchases of aircraft and oil – the latter fell to zero – also had a marked effect.

Orient Overseas bets on Chinese resilience

It's not all doom and gloom for the container-lines though, with three developments that show confidence in the sector's outlook. Firstly, Orient Overseas has launched a new container-line service from four Chinese ports to the U.S. ports of Houston and Mobile. It will face tough competition for volumes on the route with leading liners including its Ocean Alliance partners COSCO Shipping (38% share and which recently bought Orient Overseas) and CMA-CGM (21%) as well as the competing 2M Alliance of Maersk and MSC (29%).

Trump-Juncker process could be broader than expected

On the topic of trade negotiations, the U.S. Trade Representative has formally notified Congress of plans to carry out talks with the European Union. That is a requirement under Trade Promotion Authority rules to ensure any subsequent deal is only subject to an "up-down" vote by Congress rather than a full review with attachments to legislation. While this means formal talks can't start until mid-January, it suggests a deal could go well beyond the technical measures, discussed in our 9/11 research, and may include tariff cuts. Further details could come as soon as mid-December.

Revised KORUS

On September 24, U.S. President Trump and South Korean President Moon signed a revised South Korea-U.S. Free Trade Agreement. The revised agreement removes some restrictions on U.S. auto exports, extends a 25% U.S. tariff on imported Korean trucks, and is to reduce

Korean customs requirements. Congressional approval is not needed for the revised agreement to take effect, but it must clear political hurdles in South Korea before it can be implemented.

Toy Supply Chains More About Who'R'Next Than Growth

One industry that has been immune to the trade war so far has been toys. The U.S. toy industry is showing signs of life as retailers look to take advantage of the absence of Toys'R'Us – for example Target has significantly restructured its stores and increased its lines offered by 1.8x. American toy imports increased 2% on a year earlier in September with Target's imports having risen by 18%. Manufacturers may also be increasing their own shipments to reduce reliance on a single retailer. Hasbro's seaborne imports climbed 33% on a year earlier in September. It may be too soon to expect a renaissance in the industry though, given imports by all retailers and suppliers in the prior three months were down 2% and given growth in the prior two years was just 1%

Shipbuilding Downturn Gathers Pace

A potential slowdown in Transpacific trade due to the U.S.-China trade war is the last thing the shipbuilding industry needs. The downturn in global shipbuilding that started in March has accelerated with exports from China, Japan and South Korea having fallen 31% on a year earlier in September. As a result, the past 12 months total has dropped to $4.6 billion, the lowest since at least 2009. There's little prospect of a near-term turnaround given Chinese export orders in September were their lowest since October 2016 (when Hanjin Shipping went into bankruptcy) and the container-lines remain more focused on rebuilding profitability than investing.

Trump Wants to Sweeten the Sour Impact of Sulfur Cap

The administration of President Trump is also reportedly looking for the International Maritime Organization to phase in its new sulfur-emission rules for marine shipping, rather than implement them in one go in 2020 as planned. The principal concern is to avoid an increase in costs for consumers and industry. As flagged in our 9/19 research, the new rules could add 19% to per-container shipping costs. Additionally several of the container-lines, including Maersk and Orient Overseas as discussed in our 4Q 2018 Outlook, have already outlined plans to pass costs through to their shipping customers.