TRADE NEWS WEEKLY

December 31, 2018–January 4, 2019

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.

USTR Product Exclusions For China Section 301 List 1

The Office of the U.S. Trade Representative (USTR) published a Notice of product exclusions in Friday's Federal Register. The product exclusions cover a very limited number of products on the first list of Chinese products subject to 25% additional duties under Section 301. These 25% additional duties went into effect on July 6, 2018, and apply to 818 8-digit subheadings of the Harmonized Tariff Schedule of the United States (HTSUS).

The USTR Notice provides relief from these 25% additional duties for 31 products/product categories. The exclusions are defined two different ways:

1. 7 product categories (covering certain hydraulic engines, drinking water coolers, injection molds for plastics, ball bearings, and CB radios) are excluded by totally excluding entire 10-digit HTSUS subheadings (i.e., HTSUS subheadings 8412.21.0075, 8418.69.0120, 8480.71.8045, 8482.10.5044, 8482.10.5048, 8482.10.5052, and 8525.60.1010.

2. 24 products are excluded by new unique product-specific descriptions. These products include certain outboard engines, belt conveyors, parts of papermaking machines, radiation therapy systems, and thermostats.

A copy of the Federal Register notice that includes the Annex to the HTSUS with the product-specific language may be accessed here: https://www.govinfo.gov/content/pkg/FR-2018-12-28/pdf/2018-28277.pdf

These exclusions from the Section 301 additional duties apply retroactively back to the July 6 implementation of the additional duties and prospectively for 1 year from the publication of this Notice (i.e., December 28, 2019). The USTR Notice indicates that Customs is to publish guidance on the Customs entry process. Therefore, we expect that Customs will issue a CSMS message shortly. The USTR Notice does not provide any guidance on its application to excluded products that were previously admitted into FTZs in Privileged Foreign (PF) status. Hopefully, this will be addressed in the Customs guidance.

The USTR Notice states that it continues to review Exclusion Requests and will periodically issue decisions. Thus, despite the limited scope of this Notice, it offers encouragement that more importers could receive relief from the Section 301 additional duties.

Source: Miller and Company P.C.

Nestle, NSK Win Tariff Reprieve As Exemption Rate Reaches 78%

The U.S. government has granted exemptions from 25% duties on Chinese imports to 101 companies relating to 18 product-line requests. That compares to 1,258 requests that have been formally denied so far. The 78.2% accept-deny ratio may give hope to importers who still have a total 10,198 requests outstanding.

The largest product-lines where exemptions have been granted include valve bodies, including those for air-brakes, where total imports from China in the 12 months to June 30 were worth $755.8 million. Shipments of ice-making equipment, including those by Nestle, worth $445.0 million and unground ball bearings – including NSK's – worth $283 million have also won a reprieve from tariffs.

It's notable that imports of unground ball bearings from China only accounted for 25.7% of all U.S. imports in the past 12 months. That would suggest company-specific matters are as important for the exemption process as those relating to products.

2019 Outlook - US Trade Policy

There are five major trade policy actions that matter for the administration of President Donald Trump in 2018. The first two – passage of USMCA and the automotive section 232 review – may not go the way the administration wants. Passage of USMCA is dependent on the support of the Democratic Party-led Congress, though Canadian elections in October may prove the more challenging hurdle.

Second, the automotive industry review may fall foul of restrictive actions by any or all of the Court of International Trade, the General Audit Office and both houses of Congress. Its effectiveness will also be limited by narrow coverage that excludes Canada, Mexico, the EU and Japan.

The administration's ongoing trade negotiations with the EU and Japan could unlock $12.40 billion and $4.16 billion of tariff reductions, respectively. Yet, the fact that the trade deal reached between the EU (which will get a new Commission in November) and Japan took four-and-a-half years to complete would indicate a finalization in 2019 is unlikely.

That leaves a potential deal with China, where talks are currently scheduled to run through March 1. Given that a five-fold increase in U.S. exports of energy and agricultural products to China will only cut the U.S. trade deficit with China by one-fifth, there will need to be more than just purchase commitments to avoid a "snap-up" in tariffs. The Chinese government has shown some willingness to adapt intellectual property and other practices already.

2019 Outlook - Global Trade Policy

The launch of the CPTPP trade area in Asia and a series of bilateral deals in 2018 may prove a high point for global trade policy, with 2019 offering a more challenging outlook. The impact of Brexit, due Mar. 29, will depend on whether the British Parliament will approve the withdrawal agreement with the EU. If it doesn't, there will be significant disruptions to supplies of the 70.8% of British food and 76.8% of medicines that are sourced from the EU.

Negotiations to create the China-led RCEP trade deal may falter if South Korea chooses to pursue CPTPP membership instead. Arguably, China may be better off in CPTPP too. India would be the loser in that instance, though with elections due in April it may start scaling back import tariffs anyway as a reflationary measure. Protectionism may deepen in the steel sector as responses to U.S. tariffs widen. The EU already has safeguarding measures in place but has seen steel imports rise 15.4% in the 12 months to Oct. 31 on a year earlier.

A more fundamental concern for world trade is that the future of the WTO remains in doubt. Reform of the dispute settlement process is needed as two of the remaining three appeals panel members' terms end on Dec. 10. That comes at a time when arbitration is more important than ever after the largest number of disputes in 20 years were filed last year.

Dates Set, Deals Planned

Global supply chains never sleep – there were 12 major events over the past two weeks that will continue to drive trade policy and logistics industry activity in 2019.

U.S.-China negotiations will take their next step forward on Jan. 7 with sub-ministerial talks. The Chinese government has already started to change intellectual property rules and will start importing U.S. rice.

President Trump and his administration remained hawkish on trade policy during the government shutdown. The President made renewed assertions to close the border with Mexico while Commerce Secretary Ross committed to continuing the section 232 review of the auto industry. Automakers pushed seaborne imports of car parts up 12.9% in the fourth quarter as uncertainties about their supply chains swirled. The section 232 review may impact talks with Japan where the administration has only just published its negotiating stance.

More positively, the CPTPP trade deal came into force on Dec. 30, potentially helping maintain positive momentum in global trade activity which grew for a 33rd straight month in October. Yet, a slowdown is already evident in South Korea's 1.2% drop in exports in December.

That phenomenon can also be seen in the 10.8% drop in China-U.S. west coast container rates in December vs. November, though dwell times at California's ports remain problematic. The logistics industry may nonetheless be entering a period of strategic upheaval – Maersk's CEO, Soren Skou, has indicated the firm may be close to making acquisitions to provide a wider range of integrated logistics services.

China Finds 706 Ways To Reflate The Economy Via Tariff Cuts

China's Ministry of Finance has announced a series of import tariff cuts as part of wider efforts to help reflate the slowing economy. The reductions, made to 706 items, follows two other major rounds of tariff reductions that have been targeted at both industrial supply chains and the consumer economy more broadly.

Data, combined with the tariff reduction announcement, suggests the total value of products targeted for tariff reductions includes products worth as much as $288.3 billion in 2017. A wide range of products has been targeted this time around across both the industrial and consumer sectors across both basic materials and complex manufactured items.

TARIFF CUTS INCLUDE COMMODITIES, MANUFACTURING AND FOOD

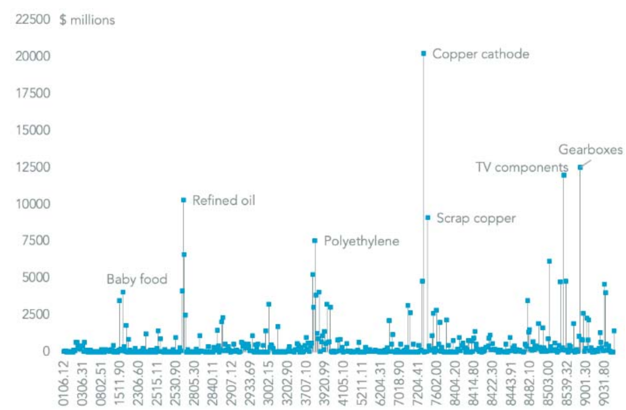

Chart shows Chinese imports by product (HS-6 total) where tariff reductions (for individual HS-8 products) have been announced. Calculations shown for 2017 imports. Source: Panjiva

While the average tariff for the products covered only fell to 2.5% from 6.6%, the total value of tariff reductions could be worth as much as $11.6 billion based on 2017 imports. The largest tariff cut in terms of the value of reduction was to light fuel oils including kerosene where a cut to 0.0% from 9.0% could be worth as much as $928 million. That will help cut costs to the economy more widely even at the same time that oil prices have begun to decline.

The industrial side of the economy has reaped other major tariff reductions including a 7.0% point drop in TV component duties, worth $840 million), 2.0% points in copper cathode ($405 million) and 3.0% for gear boxes ($405 million). Consumers will be helped by cuts to digital camera tariff cuts of 13.0% points ($644 million) and 10.0% points off baby food duties ($407 million).

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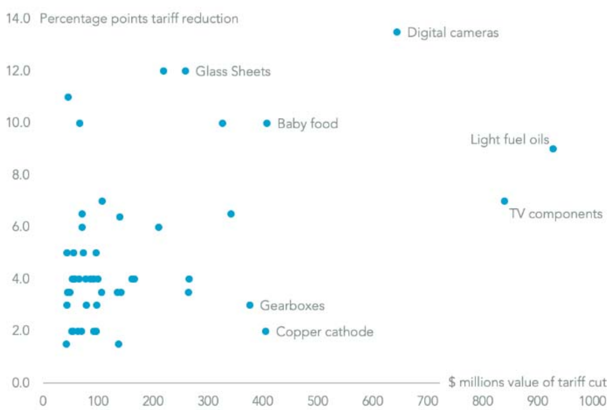

Chart shows Chinese tariff rate reductions (vertical axis) compared to the value of tariff reduction based on 2017 imports. Top 50 product lines only shown.
Source: Panjiva

China-Taiwan Tensions Could Have Knock-on Effect For Electronics Supply Chains

China President, Xi Jinping, has stated that "cross-Strait reunification (with Taiwan) is the trend of history, which can never be blocked by anyone or any force." While this position has been long-standing mainland Chinese government policy, the President's statements are particularly hawkish. Tensions between the two may have a knock-on effect for regional supply chains if either side chooses to apply trade restrictions if conditions deteriorate to military measures. Chinese imports from Taiwan were worth $154 billion in 2017, with leading product lines including semiconductors (52.1% of the total) and high-precision electronics (7.0%).

The Next Story In Toys May Be A Move To Vietnam From China

Toy manufacturer Wah Shing may move production from China to Vietnam or India "where there is a great labor supply" should the U.S. apply tariffs to Chinese exports in 2019. There's a low likelihood at this stage of tariffs on toys arriving given U.S.-China trade talks are ongoing until March and given the political optics of applying tariffs to toys. The bigger issue is a slowing market for toys in the U.S., shown by seaborne imports which rose by just 2.1% on a year earlier in 2018. Wah Shing did better with an 11.1% rise though its shipments were half its 2016 levels. A move to lower cost labor markets may make sense for Wah Shing even without tariffs if it wants to build supplies to existing buyers including Spin Master and Mattel.

Maersk Slims Box Building As Reefer Demand Expands

Maersk will cut 2,000 staff at its Chinese container manufacturing business as the company focuses production on refrigerated capacity rather than regular container units. That follows the company's withdrawal from manufacturing in Chile. The move suggests the company sees two major trends emerging - a decline in regular shipping and continued growth in the specialist refrigerated container ("reefers") sector.

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