TRADE NEWS WEEKLY

February 4–February 8, 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.

Trade Action Update

Congress started the year in international trade by introducing bills to limit presidential authority to order import restrictions. There are two significant pieces of legislation in the House, and one in the Senate. I will briefly summarize the House bill, H.R. 723, entitled Global Trade Accountability Act of 2019, which was introduced in the House on January 23.

H.R. 723 would add a provision to trade legislation requiring that any "unilateral trade action" by the President be effective only after a congressional joint resolution approving the action. A "unilateral trade action" means any presidential decision under several statutes. The Trade Act of 1974 includes authority to act in response to balance of payment issues (section 122); to unfair acts in international trade (section 301 and following); market disruption (sections 406, 421 and 422); foreign discrimination against products of the United States (19 USC section 1338); national security actions (section 232 of the Trade Expansion Act of 1962); implementation of trade agreements (section 103(a)) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015; the Trading with the Enemy Act; and the Emergency Economic Powers Act. This bill is clearly not limited to section 232 actions. While the President could take action for a non-renewable period of 90 days, any longer unilateral action would have to approved by a congressional joint resolution in order to take effect. This would be affected by a new statute (section 155, amending the Trade Act of 1974) that prescribes procedures for consideration of such a joint resolution.

The bill was introduced January 23 with ten cosponsors, all Republicans. It has broad business community support, but it is not bipartisan, at least not yet.

This bill and the Bicameral Congressional Trade Authority Act of 2019, introduced in the House and Senate on January 30, are the first efforts in the new Congress to restrict the President's authority to impose tariffs, quotas and other trade restrictions that may harm essential industries in the United States without consulting Congress. It is too early to predict where this effort will lead. However, it appears that many members of Congress are serious about reducing the likelihood of future disruptive trade actions without congressional involvement.

I will, in future updates, summarize other legislative proposals, including a bill that would expand the President's authority to order trade restrictions.

Source: The Law Offices of Trade Attorney, Lewis Leibowitz.

Controversy Builds as Structural Steel Elevated

The U.S. government has received a petition to review alleged dumping of fabricated structural steel – used in construction – from China, Canada and Mexico. The products were already covered by 25% duties applied against Chinese exports in August but were not captured by the section 232 review of the steel industry.

The case could prove controversial given steel duties are one issue holding up ratification of the U.S.-Mexico-Canada Agreement (USMCA) in all three countries. Shipments from Mexico to the U.S. have been growing the fastest with a 26.1% jump in 4Q compared to a year earlier. Suppliers from outside China and USMCA may also have an opportunity to expand. Shipments from Germany and Taiwan are already 57.8% and 30.4% higher year over year in 4Q respectively.

WIDE RANGE OF STEEL SUPPLIERS LOOKING TO BUILD MARKET SHARE IN THE U.S.

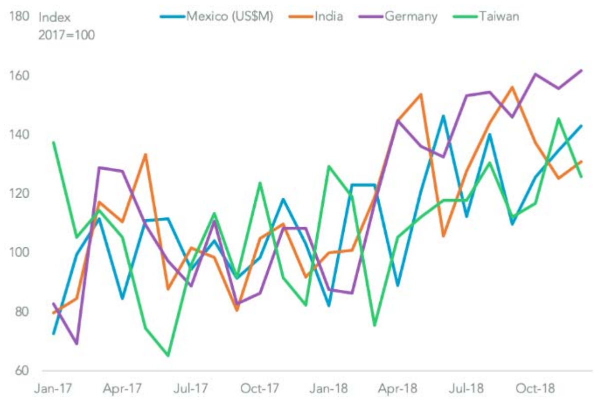

Chart compares Mexican exports of all structural steels to the U.S., measured in U.S. dollars, to seaborne imports to the U.S. segmented by origin on a rebased-basis where 2017 average imports = 100.

Source: Panjiva

American Export Confidence Dips Slightly

U.S. business sentiment improved slightly in January according to the latest ISM survey, including an improvement in import expectations. The latter may suggest optimism regarding the potential for a continued standstill in the U.S.-China tariff spat. Yet, export expectations at 51.8% (50% is neutral) were down from 52.8%. As a result, that measure reached its lowest since November 2016. The decline comes at the same time as a downturn in expectations in France and Germany and as Chinese export sentiment remains firmly negative.

No New Trade Policies in the State of the Union

President Donald Trump's second State of the Union address did not include major new initiatives in the trade sphere. The President repeated the importance of current China trade negotiations, including a focus on the trade deficit. Passage of USMCA was also called for, but prior threats to cancel NAFTA if it isn't passed were not repeated. The Reciprocal Tariff Act received a mention but it's more likely that Congress will seek to limit rather than expand the President's tariff-setting powers.

The State of Trade - A Work In Progress

The U.S. trade-in-goods deficit reached $872.9 billion in the 12 months to Oct. 31 versus $751.0 billion in 2016. Subsequent data suggests it has increased further. Traffic through seven U.S. seaports shows imports climbed 14.6% in December while exports fell 9.1%.

Passage of USMCA through Congress, the Mexican Senate and Canadian Parliament is still not solidified. Talks with China continue, however, there are uncertainties regarding the outlook for tariffs. A 2.3% year over year decline in U.S. seaborne imports from China in January, led by a 6.8% decline in steel shipments and 5.1% decline in auto-components, indicates a return to normal for now however.

The use of the section 232 "national security" tariff measure for the automotive industry remains controversial in Congress. Yet, automakers only increased their seaborne imports by 2.4% year over year in January on a preliminary basis, suggesting they are relatively unconcerned.

SLOWDOWN RATHER THAN COLLAPSE IN IMPORTS FROM CHINA

Chart segments U.S. seaborne imports from China by product category (HS-2). Data rebased to 2016 average = 100.
Source: Panjiva

EU-Japan Deal Unlocks Farm Potential

The Economic Partnership Agreement free trade deal between the EU and Japan came into effect on Feb. 1. It could provide significant opportunities to increase agricultural and food trade between the two countries. EU exports to Japan of food and beverages were worth just 5.42 billion euros ($6.18 billion) in the 12 months to Nov. 30.

That was just 0.3% of EU exports to Japan whereas food and beverages represented 3.3% of EU exports globally. The deal could provide a template for EU negotiations with the U.S. where the EU has so far ruled out including food. EU exports of food and beverages to the U.S. were worth $25.8 billion in the 12 months to Oct. 31 but $14.5 billion of that was beverages. Products that are under-represented in EU exports to the U.S. versus the EU's global exports include meat – 2.3% of food exports to the U.S. versus 8.1% globally – and cereals.

ONE Struggle to Take a Step Forward with China Downturn Ahead

The big three Japanese shipping lines (K-Line, Mitsui OSK and NYK Lines) saw a 5.1% increase in revenues in calendar 4Q 2018, up from 1.6% in the prior three quarters. That was likely due to a 10.7% drop in bulk shipping rates being offset by a 9.3% rise in container rates at their joint subsidiary Ocean Network Express (ONE).

Yet, ONE's volumes have likely continued to struggle after teething problems in April when the business was formed. ONE's U.S. seaborne imports rose just 4.0% year over year compared to an industry average 9.6%. With 45.4% of its inbound shipping to the U.S. coming from China, ONE also faces the risk of a future downturn in volumes.

CHINA THE ONLY REASON ONE HAS GROWN RECENTLY

Chart segments U.S. seaborne imports handled by Ocean Network Express and its predecessors on a monthly and three-month average basis.
Source: Panjiva

Schindler Lifts Its Imports Just as Tariff Leniency is Denied

The process of granting exemptions to U.S. duties on Chinese exports has continued following the end of the government shutdown. A total of 13,739 requests have been made regarding the 25% duties on $50 billion of products by 1,659 companies. So far, 71.7% of cases where a decision has been made have been rejected. At the current rate of review, it will take 40 weeks for the review process to be completed.

A successful conclusion to U.S.-China talks could obviate the need for tariffs of course or extend them to four times as many products should the negotiations fail. The latest round of denials has included an application for exemptions of elevator parts by Schindler.

The company had cut its imports of elevator parts to near-zero following the tariffs' implementation. It has subsequently increased them in January to levels half those seen before tariffs. That may have been driven by an expectation of a reduction in tariffs. Among Schindler's competitors, United Technologies' Otis, followed a similar strategy while Kone has maintained imports throughout the past six months.

SCHINDLER AND OTIS CHINESE IMPORTS HEADING BACK UP

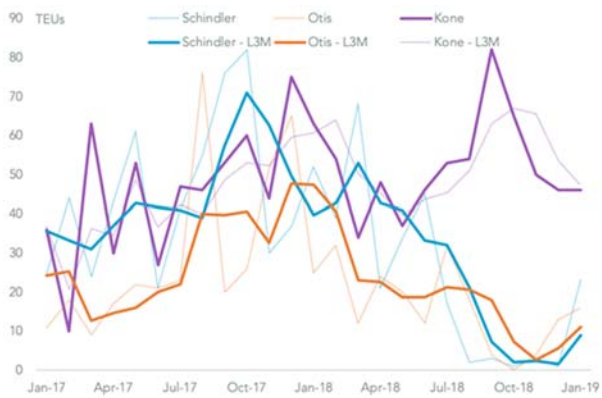

Chart segments U.S. seaborne imports of elevator parts (HS 8431.31) from China by consignee.
Source: Panjiva

Tight LA Warehousing May Slacken as Small Chinese Ports Suffer Slowdown

Warehouse availability in the Los Angeles area has shrunk due to the 4Q surge in imports from China. That's left industrial vacancy rates at just 1.6% according to Cushman & Wakefield. There's likely to be a slowdown in shipments to the area, though Prologis CEO, Hamid Moghadam, has stated that can "take actually a lot longer than most people think."

Indeed, seaborne containerized imports to Los Angeles and Long Beach from China dropped by as much as 9.9% year over year in January. On the China side of the equation, it appears smaller ports are losing out more with shipments from Qingdao to LA down 18.7% in January. Chinese ports outside the top five saw a 16.3% drop in aggregate.