TRADE NEWS WEEKLY

June 3–June 7, 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.

India GSP Termination

On May 31, 2019, President Trump terminated, by Presidential Proclamation, India's status as a beneficiary developing country under the Generalized System of Preferences (GSP) effective June 5, 2019. The termination of India's GSP status has the following consequences:

- Goods of Indian origin will no longer qualify for special tariff treatment under the Generalized System of Preferences and will instead be subject to normal tariff rates.
- Goods of Indian origin are no longer exempted from Safeguard measures implemented on January 23, 2018, by Presidential Proclamations 9693 and 9694 concerning crystalline silicon photovoltaic (CPSV) cells and large residential washers.
- Any merchandise from India subject to these Safeguard measures admitted into a foreign-trade zone after 12:01 am on June 5, 2019, must be admitted as privileged foreign status and will be subject upon entry for consumption to the Safeguard measures.
- The Proclamation is silent on whether on-hand FTZ merchandise in privileged foreign status prior to June 5 preserves GSP benefits.

Source: Marshall Miller & Company P.C.

Turkish GSP Termination

On May 16, 2019, President Trump terminated, by Presidential Proclamation, Turkey's status as a beneficiary developing country under the Generalized System of Preferences (GSP) effective May 17, 2019. The termination of Turkey's GSP status has the following consequences:

- Goods of Turkish origin will no longer qualify for special tariff treatment under the Generalized System of Preferences and will instead be subject to normal tariff rates.
- Goods of Turkish origin are no longer exempted from Safeguard measures implemented on January 23, 2018, by Presidential Proclamations 9693 and 9694 concerning crystalline silicon photovoltaic (CPSV) cells and large residential washers effective May 17, 2019.
- While not outlined in the May 16, 2019, Proclamation, President Trump's May 31, 2019, Presidential Proclamation terminating India's GSP status provides at Paragraph (6) new specific FTZ guidance on the termination of Turkey's GSP status. Merchandise from Turkey subject to these Safeguard measures admitted into a foreign-trade zone after 12:01 am on June 5, 2019, must be admitted as privileged foreign status and will be subject upon entry for consumption to the Safeguard measures. The gap period of May 17 to June 5 is not explained.
- The Proclamation is silent on whether on-hand FTZ merchandise in privileged-foreign status prior to May 17 preserves GSP status.

Source: Marshall Miller & Company P.C.

China List 3 Entry Filing Extension

On May 31, 2019, the United States Trade Representative (USTR) indicated it intends to publish a notice in the Federal Register on China Section 301 List 3 duties exported on or before May 9. USTR will extend the amount of time exported China goods have to enter the United States from June 1, 2019, to June 15, 2019, before being subject to the increased 25% duty rate. CBP issued detailed instructions in CSMS #19-000274 (May 31, 2019) on potential filing issues that should be carefully considered. Clients are advised to enter such goods before June 15, 2019, to take advantage of the 10% duty rate. While the USTR notice and CSMS message are silent on FTZ merchandise, clients utilizing FTZs should continue to admit merchandise in privileged-foreign status to secure the 10% duty rate.

Source: Marshall Miller & Company P.C.

FedEx in the Firing Line of China's New Trade War Weapon

The Chinese government is introducing a new weapon in the trade war with the U.S. The State Council has released a white paper indicating the country will "never give in on major issues of principle."

The Ministry of Commerce is launching an "unreliable entities" list including those where activities "deviate from the spirit of" contracts. The government has also launched an investigation of FedEx's operations on behalf of Huawei.

While no formal sanctions are yet identified, it's possible FedEx may see its business in China, which represented 60.1% of its U.S.-inbound seaborne shipments in the 12 months to April 30, being limited. The biggest three China-based users of its services are technology hardware firms Quanta, Qisda and Foxconn. Among the other big U.S.-domiciled forwarders, UPS is the most exposed to China with 73.5% of its inbound seaborne shipments coming from China.

FEDEX HAS RECENTLY REBUILT ITS TECHNOLOGY CUSTOMER BASE

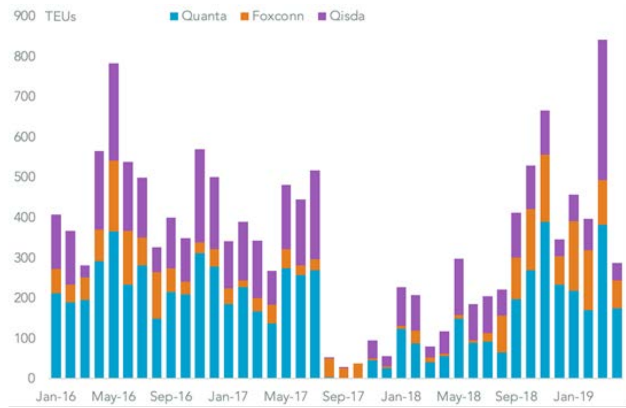

Chart segments U.S.-seaborne imports handled by FedEx by shipper or consignee including Quanta, Foxconn and Qisda.

Source: Panjiva

So Far, the U.S. is Coming Out on Top of China Trade War

The U.S.-China trade war has continued to take a toll on trade between the two countries. Bilateral trade in all tariff-afflicted products has fallen by 24.8% year over year in April. The U.S. can be said to have come out ahead in dollar terms. Its imports of Chinese products where tariffs were applied in July and August 2018 fell 28.4%, while those with tariffs applied in September at 10% fell 22.0%.

The biggest contributor to the absolute decline in trade of $4.55 billion were computer components and cars. China's imports of the July/August group fell by a more significant 47.6%, while the September round declined by 16.2%.

Yet, that was only equivalent to a $2.22 billion reduction compared to a year earlier. The apparent "success" in reducing China's net exports will likely embolden the Trump administration's attempts to both raise tariff rates and widen their coverage.

Sentiment of Chinese Business Worsens in May

Chinese business sentiment returned to negative territory in May with the CFLP's measure of export sentiment falling to 46.5% (below 50% indicates a drop in orders is expected) from 49.2% a month earlier. Import expectations also fell to 47.1% from 49.7%. Neither are a surprise given the lack of progress on trade negotiations between China and the U.S. and recent resurgence of tariff increases.

Deadline for U.S. Imports from China Extended

The deadline for imports to the U.S. from China to avoid the recent tariff increase to 25% from 10% has been extended to June 14 from June 1. This extension applies only to products that left China before May 10. China has already retaliated via increased tariffs and may take other measures, reducing the likelihood of a de-escalation in the trade war any time soon.

Short-Term Ban Versus Long-Term Plan for Rare Earth Trade

Chinese restrictions on rare earth exports to the U.S. have taken a step closer with the National Development and Reform Commission holding hearings. China accounted for 58.2% of U.S. imports of rare earths, with restrictions potentially disruptive to the automotive, renewable energy and technology hardware industries. The U.S. Commerce Department has committed to tackling lost imports by supporting domestic production, though those could take a significant amount of time to deliver.

U.S. Business Sentiment Ticks Upward

U.S. businesses' export expectations improved in May, according to the latest ISM survey, with a reading of 51.0% – over 50% indicates expansion – from 49.5% a month earlier. Yet, eight industries expect exports to decline versus five expanding. In addition, import expectations fell to their lowest since January 2017 at 49.3%, suggesting the impact of widening tariffs on Chinese exports is being felt.

The survey was also completed before the latest round of tariff threats against Mexico by the Trump administration. The worsening U.S. import outlook comes alongside declining export sentiment from China and Europe, suggesting the downturn in global trade seen in 2019 so far may continue.

New U.S.-U.K. Trade Deal Commitment

President Donald Trump's state visit to the U.K. this week included political meetings which brought a renewed commitment to negotiating an "ambitious new trade agreement." There are, however, several major political hurdles ranging from the need for a new Prime Minister through getting Parliament to approve a deal to Brexit before a U.S-U.K. deal could be signed.

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Nestle May Be Impacted by Mexico Tariff

Global coffee exports climbed 4.4% year over year in April, accelerating a 0.3% improvement seen in 1Q. That's been due to a 22.1% jump in exports from Brazil after better harvest conditions, which has offset a 48.0% slump in shipments from Mexico.

Exports from Mexico also face the imminent challenge of potential tariffs to be applied by the U.S. as part of the Trump administration's migration strategy. The U.S. represented 49.6% of the $719 million exported from Mexico in the 12 months to April 30.

The largest buyer of Mexican coffee was Nestle having shipped 54.4% of its exports to the U.S. Other major U.S. buyers include Neumann and JM Smucker.

President Obrador Calls for Mexico Energy Independence

President Andres Manuel Lopez Obrador has reiterated calls for improved energy independence for Mexico. The issue of energy supplies has become sensitive recently given the potential imposition of tariffs on crude oil exports from Mexico by the administration of President Donald Trump.

The U.S. accounted for 58.1% of Mexico's crude exports in the 12 months to April 30. Lower export earnings may support President Obrador's plans to instead use Mexican crude in six new oil refineries. Mexico's imports of refined oil outnumbered exports by 7.6:1 after an annualized growth of 17.6% in the past three years.

TESORO AND VALERO MEET MEXICO'S RAPIDLY EXPANDING FUEL NEEDS

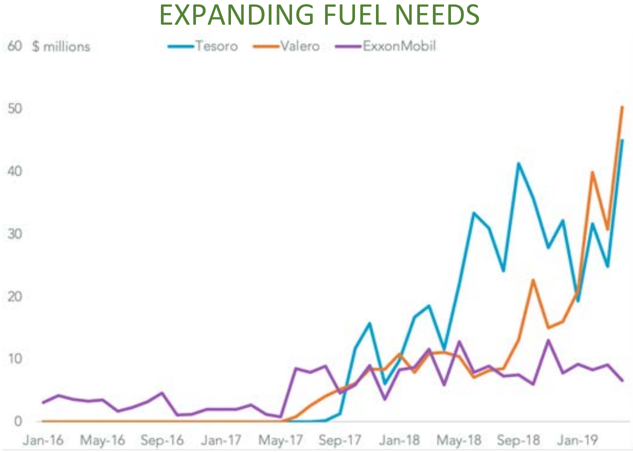

Chart segments Mexican imports of refined oil products by supplier for Tesoro, Valero and ExxonMobil.
Source: Panjiva

Leading U.S. suppliers of refined oil to Pemex, who may lose out to new plants, are Tesoro with $369 million shipped in the 12 months to April 30, followed by Valero and ExxonMobil.

LG Electronics Looks to Increase Localization Strategy as Tariffs Widen

LG Electronics has completed construction of a washing machine factory in the U.S. The plant is a strategic response to tariffs applied by the Trump administration in January 2018. While mitigating LG's U.S. tariff risks, the firm also has significant imports of other household appliances. Those include refrigerators, seaborne imports of which by LG climbed 22.9% year over year in the 12 months to April 30, as well as air conditioners and ovens. The widening of tariffs on imports from China may require LG to extend its localization.

Ovens are particularly exposed with China accounting for 73.9% of LG's imports in the 12 months to April 30. LG could, of course, use other low-cost Asian markets instead of the U.S., as was recently seen with its telecom division.