SHAP TALK

April 2015 Issue No. 156

In this issue:

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TRADE NEWS

ISF Enforcement Update

U.S. Customs and Border Protection (CBP) began full enforcement of Importer Security Filings (ISF or 10+2) on July 9, 2013. From that time until May 13, 2015, any liquidated damages enforcement action instituted at the port level is to be reviewed by CBP headquarters. As of this writing, we have not heard of any intention by Customs to extend this period. This means that enforcement action for violative ISFs will soon be issued from the ports directly to importers.

Also going away this May will be ISF warning notices from CBP. During this current ISF enforcement period, importers would receive three ISF violation warnings before the port could recommend a liquidated damages claim to headquarters. The local port will contact the importer via email, phone, or letter after each violation to help the importer comply to prevent further violations. The violations are tracked nationally by Customs, so importers will not be able to rack up three warnings per port.

ISF enforcement will focus on the truly severe violations such as "significantly" late ISF's, failure to file an ISF, and repeated ISF violations that continue to impact CBP's ability to target cargo prior to arrival in the U.S. How Customs determines whether an ISF is significantly late will depend on the length of the voyage. Cargo that arrives without an ISF filed will be considered significantly late and will likely be subject to a hold or exam.

Liquidated damages claims for ISF violations should be issued within six months of the violation. Customs still retains the statutory right to issue claims up to 6 years after the violation, but this would be unlikely except in the event of fraud or criminal intent.

Customs intends to use a "measured and common sense" approach to ISF enforcement. CBP's goal is to ensure the violation and subsequent liquidated damages align with the intent of the enforcement strategy.

CBP Publishes Guidance on Seal Procedures

On March 16th, U.S. Customs and Border Protection (CBP) published a guidance document on its website covering seal procedures for supply chain partners including importers, exporters, manufacturers, foreign and domestic carriers, and consolidators. CBP stated that many of the procedures have previously been identified as best practices and many go beyond the minimum required security criteria.

The practices include (note this listing is not all inclusive):

- *Seals must be high security in compliance with ISO 17712 standards.*
- *A seal inventory must be maintained via a log book or comparable record, and the inventory must be reviewed at least yearly via internal audit.*
- *A designated employee or department must be assigned to maintain and record the seals.*
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- *The seals must be maintained in a secure container.*

- *Compliance standard documentation must be maintained.*
- *A seal security trained designated employee must affix seals properly to loaded containers as witnessed by another party.*
- *On inbound shipments prior to cutting seals they must be examined for correct seal numbers and proper attachments in the presence of a witness.*
- *Cut seals must be destroyed on site or disposed of in an inaccessible separate container which must be picked up regularly by a recycler.*
- *Compromised seals must be reported to CBP or the appropriate foreign authority.*
- *Importers who don't physically handle seals must ensure that supply chain partners who do have written seal procedure policies in place.*

For Consolidators:

- *On inbound shipments prior to cutting seals they must be examined for correct seal numbers and proper attachments in the presence of a witness.*
- *Cut seals must be destroyed on site or disposed of in an inaccessible separate container which must be picked up regularly by a recycler.*
- *Compromised seals must be reported to CBP or the appropriate foreign authority.*

For Cross Border and Domestic Highway Carriers:

- *Seal numbers and locations must be verified against shipping documents.*
- *The seals must be verified as intact. If evidence of tampering is noted at any time a report must be made documenting the compromise to supply chain partners and proper authorities.*
- *Any second seal numbers must be properly documented.*

The guidance document in its entirety can be viewed here.

Executive Order Blocking Property for Cyber-Enabled Activities

On April 1, 2015, President Obama issued an Executive Order blocking the property of persons engaging in significant malicious cyber-enabled activities. This Executive Order authorizes the Secretary of the Treasury, in consultation with the Attorney General and the Secretary of State, to impose sanctions on individuals or entities that engage in malicious cyber-enabled activities that create a significant threat to the national security, foreign policy, or economic health or financial stability of the United States.

The malicious cyber-enabled activity must have the purpose or effect of:

- *Significantly harming or compromising critical infrastructure*
- *Misappropriating funds or economic resources, trade secrets, personal identifiers, or financial information for commercial or competitive advantage or private financial gain*
- *Knowingly receiving or using trade secrets that were stolen by cyber-enabled means for commercial or competitive advantage or private financial gain*

- *Disrupting the availability of a computer or network of computers (for example, through a denial of service attack)*
- *Attempting, assisting or providing material support for any of the above activities*

This Order is tailored to address and respond to the harms caused by significant malicious cyber-enabled activities. These activities include:

- *Harming or significantly compromising the provision of services by entities in a critical infrastructure sector*
- *Significantly disrupting the availability of a computer or network of computers, including through a distributed denial-of-service attack*
- *Misappropriating funds or economic resources, trade secrets, personal identifiers, or financial information for commercial or competitive advantage or private financial gain*
- *Knowingly receiving or using trade secrets that were stolen by cyber-enabled means for commercial or competitive advantage or private financial gain*
- *Attempting, assisting, or providing material support for any of the harms listed above*

Many of these cyber-attacks originate from outside U.S. borders. The President is taking action to give America a new way to confront the growing threat posed by significant malicious cyber actors that may be beyond the reach of our existing capabilities. This order will give the U.S. the ability to impose sanctions on those individuals and entities determined to be responsible for or complicit in malicious cyber-enabled activities that are reasonably likely to result in, or have materially contributed to, a significant threat to the national security, foreign policy, economic health, or financial stability of the United States. Many of our citizens and companies have been affected by these cyber-attacks and hopefully this action taken by the President will deter some of the attacks moving forward.

View the entire Executive order and FAQ's on the Office of Foreign Assets Control (OFAC) website.

TRANSPORTATION NEWS

April 2015 Update

INDUSTRY NEWS:

Los Angeles and Long Beach Ports Making Progress on Cargo Backlog

Terminal operators in the nation's largest port complex have reported that they believe the backlog of cargo created by the delayed longshore labor negotiations will be back to normal well before the original expected date of mid-to-late May.

The ports are working to reduce the backlog to get things back to normal levels which means that they are working towards getting vessels worked before the weekend when the new round of ships come in for the next week as most ships into LA-Long Beach arrive Friday to Monday. The total number of longshoremen ordered for work each day has been increasing every day to clear the backlog.

NY-NJ and Virginia Ports Remain Mired in Congestion

As New York and New Jersey ports are seeing capacity strained as a result of both bigger ships and by shippers seeking alternatives to shipping their cargo into the congested West Coast ports, the volumes have strained capacity at the terminals.

The biggest impact is seen by the port truckers who are enduring several hours of wait time in lines at one or two of the ports five terminals each day. With larger vessels and higher volumes, the drivers are struggling to keep up with the volumes resulting in truck lines three or more miles long. The terminals are now planning to open their gates on Saturdays to catch up on back logs but many private drivers do not want to waste their time in the long lines so they are pulling out of the market by refusing to service the terminals.

The Port of Virginia is also struggling with similar congestion and they have reached crisis levels at times such as the four-day shutdown caused by a February snowstorm.

New carrier alliances, such as the 2M alliance of Maersk and MSC have caused a huge increase of volume into NY-NJ and Virginia terminals; the January volumes have increased nearly 8 percent over last year at the NY-NJ piers. The terminals now have limited space for storage of equipment and marine terminals are having to place empty containers at off-dock depots so the drivers are forced to make an extra stop and endure additional lines because they are not picking up full containers and dropping off empties at the same location. As a result, truckers' costs are going up and they are forced to pass along the higher costs to their customers to cover their delays and to cover for the fact that they cannot turn as many moves per day on a regular basis.

Compounding all of this are terminals struggling to keep up with the demand and space for chassis while the leasing companies that make the chassis available at the port are struggling to keep up with demand as many chassis have to be refurbished and repaired.

NY-NJ terminals and truckers claim there is no relief in sight as the traditional slack season for import freight doesn't seem to exist any longer.

OCEAN FREIGHT

Trans-Pacific Market Faces General Rate Increases Again

The carriers in the Trans-Pacific import Market are pushing for a General Rate Increase (GRI) of $480/20', $600/40', $675/40'HC, and $760/45' as of April 9. Also, on May 1, the carriers are planning to impose a GRI of $800/20', $1000/40', $1125/40'HC, $1266/45. Both GRIs certainly won't stick at the full levels, but the carriers do want to make a statement prior to May 1 to all involved in the industry that they need to get their rates up to remain profitable and viable businesses.

The export market is also experiencing rate increases to Asia but they differ greatly by carriers. Some are at $100/40', while others are raising rates to Asia by as much as $300/40' container. Please check with your

Shapiro representative to see how the rates will affect your trade.

West Coast Ports Keep a Wary Eye on East Coast Ports Taking On New Business

Earlier this month, carrier alliances announced that beginning in late March three new all water services from Asia to the east coast through the Panama Canal will be available. The new services are in response to the demand generated due to the west coast labor negotiations. Each of the services will be on vessels with capacities of less than 5,000 TEUs and will remain in operation at least through the 2015 peak season shipping season this fall. The services will add six percent capacity to the Asia to east coast trade lane.

Industry observers see the cargo diversions that have occurred over the past 9 months developing into permanent trade lanes. John Wheeler, Vice President of Carrier Sales at South Carolina State Sports Authority, thinks that about 10 percent of the cargo diversion that took place in 2002 ended up being permanent. He estimates that 15 percent of this year's loss of cargo at west coast ports will be permanent. It is estimated that by diverting cargo to the east coast and then having it delivered to destinations inland, larger BCOs are adding $2 million to their transportation costs.

Maersk CEO Soren Skou says that without the labor issues on the west coast, carriers would not have considered offering all water services via the Panama Canal. Carriers are having trouble making a profit utilizing Panamax vessels on routes in the Panama Canal. According to Alphaliner, an 8,000-TEU vessel, compared to a Panamax ship, has a 47 percent lower slot cost, and a 13,000-TEU vessel has a 60 lower slot cost than a 4,800-TEU Panamax vessel. Presently, there is such a demand for vessel space to the east coast that carriers can now make a profit on the Panama Canal services using these larger ships. John Wheeler has stated that there have been at least 27 extra loaders servicing the east coast since the west coast labor issues started. West coast port operations expect to return to normal in May assuming the ILWU membership votes in April approve the tentative agreement.

Port reliability is a major factor in determining cargo routings. Many BCOs are entering service contract negotiations for the 2015-2016 season that runs from May 1 to April 30. If BCOs commit large cargo volumes to the all-water services then these services will continue into next year. When making these decisions about routings, carriers and BCOs will look at the economics of their operations such as unit costs, fuel, transit times, and freight rates. Another factor about the west coast are the chassis. The ports and the chassis providers will start a gray chassis pool on May 2 which is expected to increase chassis availability. The port of Los Angeles has also initiated a free-flow program for delivering containers to high volume importers which has improved efficiencies. West coast port operations have been improving each week with the goal to earn back the trust that was lost due to the labor issues.

AIR FREIGHT

Drones Delivering Your Cargo?

Who knew that the toy helicopters buzzing your head at the mall for so many Christmas seasons would one day develop into an international dilemma? Technology is developing faster than regulations and the International Civil Aviation Organization (ICAO) is considering helping to draft rules for what is predicted to be a billion dollar market within 10 years according to Air Cargo World.

The FAA currently prohibits the use of unmanned aircraft for commercial use.

Amazon is said to be testing drone delivery under many restrictions from FAA that have hindered advancement. The Guardian has recently report that Amazon has now moved testing to a secret site in Canada because of the slow approach to regulations from the U.S. government.

Air Cargo Impact on International Trade Remains Vital For Shippers in Declining Market Segment

Air cargo represents a relatively small percentage by volume of world trade (less than 10%) - but it accounts for more than 30% of international trade by value. In other words, air cargo is oriented towards high value or time sensitive products. Transporting such time and temperature sensitive cargo requires a complex supply chain that is reliable and can be monitored in real time throughout.

Ericsson head of distribution logistics, Robert Mellin, said he was "not happy." The telecommunications giant spends $250 million on air freight every year and Mellin complained that he is not getting the kind of service he expects. Jason Frerich, director of global logistics infrastructure and sustainability for Nike Inc. also said the air cargo business needs to improve.

In fact, it seems like the air cargo industry is in a difficult transformation period as it struggles to adapt to a changing cargo mix and rising demands from customers for better shipment visibility and a more reliable service. A recurring complaint is the lack of real time information that enables shippers to react quickly to problems in the supply chain. Once an air cargo shipment is dispatched, the shipper often will only know it has not arrived when the destination customer calls to ask what happened.

"Pharma logistics is a $60 billion market that has been a boon for air freight, compensating for the decline in other goods that had previously been shipped by air," said Tony Tyler, director general of IATA at the World Cargo Symposium. "If these challenges are not overcome, air cargo risks losing the opportunity presented by this huge market. For let's be in no doubt, our modal competitors are working hard to win this business."

On the other hand, airlines also levelled a series of complaints against shippers. Leif Rasmussen, president and CEO of SAS Cargo, said the movement of goods from shipper to consignee was impacted by incorrect weight declarations, incorrect pallet size, missing shipment details, missing documents, and invoicing errors.

Not everything is in the hands of airlines or their customers. For instance, China's air space is controlled by the military that grants commercial airliners narrow corridors in which to operate. This chronically congests the air space and with Shanghai being the mainland's busiest airport, it ensures that nothing arrives or leaves the airport on time.

Domestic News:

Port of Virginia Officials Work on Reducing Truck Wait Times

The port of Virginia officials have implemented several measures to improve conditions for truckers that have to wait in line for up to seven hours to drop off and pick up containers.

- *Effective March 23rd, the port no longer accepts empty containers arriving at VIG by rail. This new measure looks to reduce 22,000 empty containers at the port.*
- *Effective March 23rd, the port reduced from 9 days to 7days the window for delivery of exports at Norfolk International Terminal (NIT) and Portsmouth Marine Terminal (PMT). This measure is focused on reducing container density at the terminals.*
- *On March 19th, the port announced that it would extend from 3 to 5 days of free time to shipping lines for all containers at PMT.*
- *The port will move three cranes to PMT from NIT to increase lift capacity and throughput at PMT.*

Driver Wage Hikes Could Raise Truckload Pricing 12-18 Percent

Transportation analysts warn that substantial increases in truck driver salaries could potentially drive truckload rates higher in 2015 and beyond, pushing up by double digits. Truckload carriers need to increase driver pay in order to attract qualified candidates to haul freight. Truckload rates may need to rise by as much as 12 to 18 percent to pay for higher driver wages.

Truckload driver wages increased significantly last summer, led by pay hikes by several industry giants. For-hire trucking companies doubled their hiring rate last year, expanding payroll by 46,000 jobs, according to the U.S. Bureau of Labor Statistics data. The annualized growth rate in trucking employment rose from 1.5 percent in January 2014 to 3.5 percent this January, BLS data show. But carriers still struggle to find truck drivers and keep them.

Employee of the Month

As previously featured in Shap Talk, Shapiro has been sharing with you the names of employees who have been recognized for their exceptional efforts and contributions to our Company. At Shapiro, we continually work to develop, challenge, and inspire all of our employees to grow individually and with the Company. This month, we would like to recognize Melinda King, Import Supervisor in Baltimore, for her outstanding performance and contributions. We encourage you to provide us with employee feedback!

Please email us at hr@shapiro.com.

WE WANT TO HEAR FROM YOU!

Do you have suggestions for an article? Is there a topic you'd like us to cover in a future issue? Please let us know! Send your feedback to shaptalk@shapiro.com.

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