SHAP TALK

August 2015 Issue No. 160

In this issue:

2 SHAPIRO'S 100TH ANNIVERSARY

Curious How It Was 100 Years Ago? The Old Call Room by American Shipper

3 TRADE NEWS

Generalized System of Preference

Will JCPOA Lift the Economic Sanctions Against Iran?

BIS Updates the Strategic Trade Authorization (STA) Compliance Tool

ACE Secure Data Portal Open to Exporters

5 TRANSPORTATION NEWS

Carriers Financial Woes Continue in 2015

Brazilian Imports Drive Fuel to Double-Digits in South America's East Coast Growth

US Exports Expected to Tumble in 2015

Peak Season Lacks Momentum in 2015

IMO Cracking Down on Container Weights

A Merger Buzz in China

Lower Demand, High Seasonal Capacity Drive Air Freight Stagnation

New TSA Administrator Onboard

American Airlines Cargo Expands in Atlanta

Long Turn Times at the Los Angeles-Long Beach Port Are Not Going Anywhere

11 SHAPIRO NEWS

Employee of the Month

11 WE WANT TO HEAR FROM YOU!

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SHAPIRO'S 100TH ANNIVERSARY

As Shapiro's 100th anniversary approaches, we would like to express our thanks and appreciation to customers, agents, vendors, employees, family and friends in supporting Shapiro over the last century. Shapiro, founded on August 15, 1915, has retained five pillars since its founding: integrity; honor; respect for its customers and our Shapiro "family"; the ability to and interest in embracing change; and the capacity to laugh, often. As we look to the next 100 years of success, we invite you to step back in time to see how our founder, Samuel Shapiro, remembered the business in an American Shipper archived article.

The Old Call Room

American Shipper | Chris Gillis

Samuel Shapiro, Sig Shapiro's late father, once recalled the time he spent at the Customs House Call Room in Baltimore. "I remember the old Call Room best in the days when duty was paid in gold and the man who collected it told stories of the Civil War," the elder Shapiro once wrote in a Baltimore newspaper. "In 1912, when I was 18, I went to work at my first job, as an errand boy and clerk for a firm of Customs House Brokers. These brokers pay duty for importers on incoming car goes through Customs and make sure that they are properly forwarded if the importer is located in another city."

Samuel Shapiro's job took him to the Call Room several times a day. As a rule, the first order of business was to make out Customs entries. He would then take the lists to the Call Room a few blocks away. "In those days the center of the room was bare except for a few tables, but around the four sides were clerks ' cages marble counters with brass grill work over them. The customs clerks wore business clothes rather than uniforms. There was no air conditioning then, of course, but coats stayed on through the worst of summer heat," he said.

One of the men would take Shapiro's list and begin the process of checking to make certain duty figures were correct. "That always took a few minutes, so I had time to pick up whatever money I'd need to pay the tariff costs,' he recalled.

"I was making $5 a week then, but every day I handled satchels of money worth $25,000 or more. The brokerage house would give me a check and I'd take it to the bank to be cashed."

There was no Federal Reserve System then, and Customs officials could not accept bank notes issued by local banks. All payments had to be made in gold and silver or gold and silver certificates. Shapiro went back to the Customs House each time with a hand bag stuffed with $10, $20, $50 and $100 gold pieces and certificates.

To the left of the Call Room door was a cage containing a set of scales accurate to a fraction of a gram? Customs officials insisted on weighing the gold coins to make sure the amount of gold was correct. After Shapiro gave the clerk the correct amount in dollars, the clerk stacked the coins and weighed them a stack at a time. If the weight was within one-twentieth of a percent of what it should be, there was no complaint.

If it was any less, the inaccurate coin had to be found and exchanged, or the difference had to be paid.

When such transactions had been completed, a permit could be sent to the inspector at the pier where the cargo had been unloaded. After the inspector had finished his work, the cargo was free to be picked up by the local importer or shipped to another city. In 1915, the elder Shapiro went on to create his own brokerage firm in Baltimore, and earned a reputation for handling large volumes of flour, cereals and other commodities for the Allied powers during World War I.

The business continued to expand after the war. Business slumped during the Depression, but after World War I it gradually expanded along the U.S. East Coast. Sig Shapiro worked for the family business as a teenager during summers, and joined the company full-time at 20, after graduating from Johns Hopkins University.

Since 1978, Shapiro & Co. has been headquartered on the 12th floor of the World Trade Center building overlooking Baltimore's Inner Harbor.

When the company moved into its new offices, Samuel Shapiro insisted that all his desk, pictures, and office furniture be arranged exactly as he had them in his old office.

The senior Shapiro worked at the company until two days before his death in 1987, at age 92.

TRADE NEWS

Generalized System of Preference

On June 29, 2015, President Obama signed into law a bill (H.R. 1295) reauthorizing the Generalized System of Preferences (GSP) that expired on July 31, 2013. Duty reductions under the GSP program will begin 30 days after the law is enacted. Accordingly, importers shall be entitled to file GSP-eligible entry summaries without the payment of duty for shipments entered or withdrawn from warehouse for consumption starting July 29, 2015.

US Customs and Border Protection (CBP) will begin processing refunds on entries filed with the Special Program Indicator (SPI) "A," "A+," or "A*" for duties deposited on GSP-eligible goods during the lapse period from August 1, 2013 through July 28, 2015. No further action is required by importers who claimed GSP at the time of entry to receive the refund.

All other requests for refunds in situations which the entry did not include the SPI indicator or mail entries must be made in writing by December 28, 2015. Any amounts owed by the United States pursuant to the liquidation or re-liquidation of an entry will be paid, without interest.

The Generalized System of Preferences (GSP) is now effective through December 31, 2017. Program renewal excludes goods that entered from Russia, which formally graduated from the GSP program on Oct. 4, 2014, and any other countries that are no longer eligible for GSP benefits, such as Bangladesh.

Will JCPOA Lift the Economic Sanctions Against Iran?

On July 14, 2015, Iran signed the Joint Comprehensive Plan of Action ("JCPOA") with China, France, Germany, the Russian Federation, the UK, and the US that could lift US, EU, and UN economic sanctions on Iran.

If Iran meets its obligations under the JCPOA, sanctions will most likely not be lifted until sometime next year (2016). While US sanctions will still apply to non-US subsidiaries of US persons, such subsidiaries will be able to engage in transactions involving Iran pursuant to licenses from the US government.

The US will not be required to lift sanctions until Iran meets its obligations under the JCPOA.

BIS Updates the Strategic Trade Authorization (STA) Compliance Tool

On July 15, 2015, the Bureau of Industry and Security (BIS) updated the Strategic Trade Authorization (STA) Interactive Compliance Tool with the addition of the "600 series" and 9x515 ECCNs to the EAR.

The "600 series" refers to items of defense articles that are no longer listed on the revised United States Munitions List (USML) categories. These items are listed under Export Control Classification Numbers (ECCNs) with a "6" as the third digit on the Commerce Control List (CCL).

The "500 series", as it is commonly called, refers to satellite and spacecraft items which are now listed on the CCL. Unlike the "600 series" items, these ECCNs do not include all ECCNs with the third digit as a "5". These ECCNs are designated as 9x515. The restrictions applicable to the "500 series" are similar to those that apply to the "600 series" of the CCL that was created to house items moving from the USML to the CCL.

The updated STA Tool includes questions specific to the "600 series" and 9x515 ECCNs to assist exporters in making a determination about whether a transaction may be authorized under License Exception STA.

The STA Tool, along with the Specially Designed Decision Tool and CCL Order of Review Decision Tool are part of BIS's efforts to leverage technology to develop new ways to assist the public in understanding the Export Administration Regulations (EAR).

To access the updated STA Tool, visit http://www.bis.doc.gov/index.php/statool.

ACE Secure Data Portal Open to Exporters

Beginning June 27, 2015, the Automated Commercial Environment (ACE) Secure Data Portal provides access to ACE Export Trade Reports detailing five years of Electronic Export Information (EEI) filings to exporters and authorized agents.

Exporters can establish an ACE portal account and access the ACE training material on the US Customs and Border website.

ACE's new AESDirect filing portal is scheduled to become available later this year. To avoid the last minute scramble, exports should consider signing up now for an ACE account for export.

For general questions on ACE Trade Export Reports, please visit the Census website, or contact the U.S. Census Bureau's International Trade Management Division at 800-549-0595, Option 5.

TRANSPORTATION NEWS

August 2015 Update

INDUSTRY NEWS:

Carriers Financial Woes Continue in 2015

Weak demand paired with overcapacity and high commercial pricing have spelled trouble for carriers profitability...again. Earlier this year, Drewry forecasted that container shipping lines would collectively see profits of up to $8 billion in 2015. They are now revising their forecast to "break even" as a best case scenario.

In 2015, freight rates have declined at their fastest pace since 2011, and the outlook remains bleak for the carriers for the remainder of the year.

The emphasis on bigger ships has begun to negatively impact profitability for many carriers. Load factors of 80-85% are becoming the norm in many trades, where previously the levels were 90 percent or greater. Carriers are hoping that the overcapacity will be quickly absorbed; but in 2015, it appears that they will be saddled with decreasing revenues.

Brazilian Imports Drive Fuel to Double-Digits in South America's East Coast Growth

As previously reported in our February Shap Talk, the tides of trade have been shifting in the East Coast South America (ECSA) – US trade lane with import volumes overtaking exports; this has been fueled by a continually declining exchange rate between the Brazilian Real (BRL) and the US Dollar (USD).

This economic indicator has been the major driving force behind surplus trade in the region. As the BRL continues to decline, it is expected that US importers will seek out low-cost Brazilian goods. With an improved US economy and the increased value of the US dollar, exporters in Brazil are seeking opportunities in the US market. US imports from the ECSA have already realized a 25.2% increase year-over-year in the month of May and 10.8% increase year-to-date. Conversely, exports to the ECSA have declined by 14.7% year-over-year in April and were down 5.6 percent through April. The Brazil Ministry of Development, Industry, and Foreign Trade (MDIC) just announced a surplus of US $2.22 billion for the first half of 2015. This trend will likely be further catalyzed by a stronger US economy, deeper cuts to the Real, and favorable policy changes in Brazil.

Ocean carriers have already noticed this recent shift in trade balance and are taking steps to offset additional costs associated with it. Hapag Lloyd and MSC have already tried to implement GRIs for northbound trade while other carriers are bound to follow suit as demand for granite, lumber and paper/paperboard increases with strengthening US housing markets.

The Brazilian Real is currently trading at a 12-year low, with a 5% decrease just last week. Traders and analysts are beginning to speculate the nation will be facing a ratings cut in the near future. Moody's, an economic analysis firm, has forecasted a negative outlook citing the government's failure to continually meet fiscal targets; expectations that the Brazilian economy is going to continually contract; and the acceleration of the inflation rate, which is expected to be 9.23% this year. Further, the recent Real tumble comes on the heels of the announcement of a large scale currency manipulation scandal by international banks that has embroiled the Brazilian FOREX market. This seems to foreshadow that the bottom for this exchange rate has yet to come.

With the Real weakened, the government is looking to take advantage of favorable foreign exchanges. The Brazilian government announced a National Export Plan to seize this opportunity to help the country's economy by focusing on increasing export volumes. As part of this plan, the government is adopting commercial and diplomatic measures to expand its access to foreign markets and guarantee financing to its exporters. The government has also announced that it would adopt new tariff accords and seek out negotiations for the withdrawal of trade barriers. The Brazilian Central Bank has raised lending targets and Brazilian diplomats have already been pushing for greater trade collaboration with the US.

As a direct result of this new plan, President Obama and Brazilian President Dilma Rousseff recently participated in diplomatic talks at the White House with great emphasis on business and trade relations. They covered a wide range of business and trade issues such as beef trade access for both countries, reduction of regulations, unified employment practices, supporting entrepreneurship, reduction in restrictions for international travel, commitment to renewable energy and the reduction of emissions. One of the most important issues discussed for US importers and exporters was the implementation of single window systems for international trade with a promise to work more closely together to help streamline trade/customs processes. This should not only help US exporters by eliminating notorious non-tariff barriers in Brazil, but should also help to streamline Brazilian imports in the US. With a stronger US economy, these initiatives, along with the sustained decline of the Brazilian Real, will continue to fuel US imports trade from East Coast South America.

US Exports Expected to Tumble in 2015

Work slowdowns and labor shortages caused by the conflict at US West Coast ports has resulted in a first-quarter decline in US export volumes. In addition, emerging markets in Latin America and the Caribbean have been hampered by sharp declines in oil prices and metals commodities, causing more of a long-term decline in US exports to those regions. Economies that were particularly hit hard are Mexico, Colombia, Ecuador, and Brazil.

In Asia, the economy of Japan had near-zero growth in 2014, but they saw a modest increase of 0.6% in the first quarter of 2015. China's expansion has slowed in 2015 along with the economies of Indonesia, Malaysia, Philippines, Thailand, and Vietnam. India has been the bright light in Asia, with growth expectations of 7.5% in the coming year.

The Eurozone has started to grow very modestly as a result of lower fuel prices, but the growth rate for the first quarter of 2015 was a modest 0.4%. 2015 growth expectations are currently hovering around 1.5%.

US exporters have been faced with an increasingly unfavorable exchange rate. The dollar is strong this

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year, having increased 5% during the first quarter of 2015. This has been the fastest growth rate since 2008. The increase of the dollar has forced many US exporters to raise the price of goods, which further slows the pace of exports. As a result, exports are expected to decline by 5.8% this year.

OCEAN FREIGHT

Peak Season Lacks Momentum in 2015

In 2015, there have been no signs of traditional peak season demand. Trans Pacific rates are at the lowest point we have seen in quite some time (less than half of February rates), and are 36% lower than rates at this time in 2014. Asia to US East Coast rates continue to drop as well.

In February, when the West Coast congestion was at its height, US East Coast all water service rates were just over $5000 per 40' container. At this time, Trans Pacific carriers have not yet indicated any plans to remove the extra capacity to either the US East Coast or West Coast.

Asia to Europe and Asia to Mediterranean rates have also decreased. Asia to Europe spot rates are around $518 per 20' container. Asia to Mediterranean spot rates are around $529 per 20' container. Both markets are drastically less than where they were a year ago at this time.

There is an announced GRI effective August 1st for Asia to USA, with levels set at $480/$600/$675/$760 per 20'/40'/40'HC/45' container. There is also an announced PSS effective August 15th, with levels set at $320/$400/$450/$506 per 20'/40'/40'HC/45' container. We are optimistic that these amounts will be mitigated.

Please contact your Shapiro Representative for further details.

IMO Cracking Down on Container Weights

Incorrectly declared container weight has been a safety issue since the introduction of the container in the late 1950's. When container weight is inaccurate, it puts the crew, the ship, and other shippers' cargo at risk. In 2007, the MSC Napoli's hull collapsed in the English Channel when a large percentage of containers on board were grossly over their declared weight. Incidents such as this have triggered the International Maritime Organization to take action.

Effective July 1, 2016, the IMO is literally putting the weight of the container on the shipper. While it has always been the onus of the shipper to provide a weight on the bill of lading, this responsibility will be heightened. New stipulations will require an authorized individual of the shipper to certify that the contents have been weighed prior to loading of the container or that the loaded container has been weighed.

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A panel will be scheduled during the Trans Pacific Maritime Annual Conference in Long Beach March 2016.

This panel will allow industry stakeholders to discuss more details of the new rule and issues that may follow such as the no-load effect of containers arriving at the port with no signature on the paperwork; the ports' ability to weigh the containers; and which parties will be responsible for the additional charges resulting from this change.

Expect more details to come out later in the year regarding this issue.

AIR FREIGHT

A Merger Buzz in China

According to a senior official at the Civil Aviation Administration of China, the three biggest state owned airline cargo carriers may have plans to merge. The three companies currently in talks are Air China Cargo, China Cargo Airlines and China Southern Cargo. If this merger goes through, they will form Asia's largest freight transport company.

China offers the world's second largest air transport system, but its cargo flights grew just 7.8 percent last year to 135.6 million tons. "The value of China's international air freight only accounted for 17% of its total trade turnover in 2014," says CAAC chief Li Jiaxiang. The merger could improve their resource use in a down market with a lot of obsolete capacity, while giving the Chinese cargo operator a stronger international competitive advantage.

However, this merger is not likely to be completed any time before 2016. Actually, it won't be easy to structure the new cargo entity at all. Air China's cargo business, for instance, has more than three times the registered capital of China Eastern. It is also a joint venture with Hong Kong-based Cathay Pacific, so there is the question of buying out a foreign stake of the corporation.

Lower Demand, High Seasonal Capacity Drive Air Freight Stagnation

After a strong showing in the first quarter of 2015, airfreight load factors are stagnating and, in some cases, dropping as reduced demand and increased capacity have created change in the air freight market.

Airfreight load factors have dropped precipitously, reaching levels not seen since 2009. This drop has

been driven by a decrease in demand for airfreight services, due in part to the drop in ocean rates on major Trans Pacific Eastbound lanes, as well as a reduction in post-peak season cargo volumes. Mirroring the ocean market, the airfreight market has also been impacted by a glut of cargo belly capacity; this was driven by the summer spike in holiday passenger loads (which has already hit 80%) and has created a conundrum for airlines that operate both passenger and freighter aircraft.

Hong Kong-based airline Cathay Pacific has experienced this issue firsthand, facing nearly flat year-on-year tonnage growth in June, coupled with a continued increase in capacity that has outpaced demand. These factors have compelled the airline to trim capacity in weaker lanes, including Asia-Europe, and to focus more on passenger aircraft instead of freighter services.

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Even in stronger lanes such as China-US, the capacity issues coupled with the peak season have depressed loads and, in turn, airfreight rates; there is little sign of adjustment in the short-term. As for the glut of capacity, it is anticipated to remain for the next few weeks as the northern hemisphere's summer holiday season continues.

New TSA Administrator Onboard

Vice Admiral Peter Neffenger has been confirmed as new head of the Transportation Security Administration (TSA). He'll lead over 50,000 security employees overlooking airports, cargo, and the Federal Air Marshall program. Neffinger, nominated in April, was popularly confirmed by the Senate on June 23rd and comes from a highly respected leadership career with the U.S. Coast Guard. Notably, he was head of the BP Oil spill cleanup in the Gulf and comes on board amidst the challenging allegations of failed screening detections and security vetting issues plaguing the Administration.

American Airlines Cargo Expands in Atlanta

In a press release issued by American Airlines Cargo, a new 12,000 square foot cargo facility was opened July 14th at Atlanta's Hartsfield-Jackson International Airport (ATL). The space will be dedicated to American Airlines' cargo. The press release stated "the new, dedicated space will help reduce customer loading and unloading processing times."

From Atlanta, American Airlines trucks the cargo to its biggest hubs Charlotte, Chicago, Dallas, Miami, Philadelphia, and Raleigh for international connections. Many of you will recognize some of these as old US Air hubs which merged with American in 2014.

DOMESTIC NEWS

Long Turn Times at the Los Angeles-Long Beach Port Are Not Going Anywhere

Truckers in Los Angeles-Long Beach are learning to accept longer turn times at the port thanks to higher drayage rates and congestion surcharges paid by the customers. Is this the new normal? Is over two hours the new, standard turn time? Per the trucking association, the average turn time for all the 13 terminals for June was 93 minutes, with the median visit time being 76 minutes. About 37.6% of the visits took less than one hour; 36.4% between one and two hours; and 26.1% of visits lasted more than two hours. That is a sizeable increase compared to the 60-70 minute average run time recorded from October 2013 through March 2014.

But how did we get here? Why, after a tentative agreement was reached by the ILWU and PMA in late May, do the truck turn times appear to be stuck at 90 minutes? A lot of events have occurred since March 2014. Chassis shortages, reduced availability of skilled yard crane operators, and labor negotiations are some events being credited for this drastic increase.

While this is not an ideal situation, Weston La Bar, executive director of the Harbor Trucking Association of Southern California believes the trucking community will accept this situation as long as the higher freight rates negotiated during the period of high congestion do not drop, and as long as customers continue to pay for excess waiting time.

The improved financial conditions of the industry are helping to reduce truckers' high turnover rate. According to La Bar, the driver-training program HTA runs with Long Beach City College has been doing very well. Classes are full, and most graduates are finding immediate employment in the harbor. "Programs such as these are critical to the future of the industry because the average age of drivers is getting dangerously close to the "age cliff" where there won't be enough young drivers available to replace those that are retiring," La Bar stated.

Despite these pieces of good news, industry stakeholder groups need to find solutions to the long turn times before the new bigger vessels start calling the Los Angeles-Long Beach port.

SHAPIRO NEWS:

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 Mindy Orme, Global Logistics Specialist in Baltimore for her outstanding performance and contributions.

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.