SHAP TALK

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In this issue:

Baltimore Headquarters
100 N. Charles St, Ste 1200
Baltimore, MD 21201
www.shapiro.com

Phone
1-888-you-1915
you@shapiro.com

TRADE NEWS

Advance Manifest Rules to Take Effect in Japan March 2014

As we mentioned in last month's issue of Shap Talk, Japan is instituting Advance Filing Rules which require a vessel operator or NVOCC to electronically submit to Japanese Customs information on maritime container cargo to be loaded on a vessel intended for entry into a port in Japan, no later than 24 hours before departure of the vessel from a port of loading. Failure to comply with the new rules can result in a cargo hold at the loading port or denial of permission to unload the cargo with the possibility of returning the cargo to the loading port. Additionally, the carriers and NVOCCs may be subject to fines up to JPY 500,000 (approximately USD 5100 as of this writing) or up to one year imprisonment.

Information on the new rules, including an FAQ, may be found here.

CBP's Expansion of C-TPAT Participation

U.S. Customs and Border Protection (CBP) and the Trusted Trader Subcommittee of the Advisory Committee on Commercial Operations of CBP (COAC) have advised that CBP plans to move forward in expanding Customs-Trade Partnership Against Terrorism (C-TPAT) participation.

CBP and the Trusted Trader Subcommittee outlined the following expansions:

- *The development of the next generation C-TPAT Portal (Portal 2.0). A pilot test is planned for implementation shortly and will include 40-50 current C-TPAT participants to test the software.*
- *The ability to verify via the portal C-TPAT participation by non-member supply chain providers.*
- *Tier III status for highway carriers/truckers in the near future.*
- *Participation in the C-TPAT program by Foreign Trade Zone operators, additional foreign manufacturers, and domestic transportation hubs.*
- *By the end of year 2014 Mutual Recognition Agreements (MRAs) between the US and China's and Mexico's AEO programs.*
- *By December of this year an MRA could also be added with Israel.*
- *CBP is currently providing assistance and oversight to allow India and Brazil to develop their own AEO programs with a goal of including these countries in MRAs.*

Customs is also developing parameters and criteria to establish requirements for exporters to become participants in the program. The Trusted Trader Subcommittee advised for export participants that since C-TPAT is a voluntary program the minimum security requirements should be limited to those not already mandated by regulations. The subcommittee also advised that export participation should be purposed to facilitate exports, and that certification requirements should be based on existing Authorized Economic Operator (AEO) programs. The export program must include current existing supply chain security practices and methodologies, which would not be deemed as high risk practices, and therefore recognized by foreign Customs or governing bodies, and therefore causing little trade disruption.

All of these efforts are continuing despite a report by a Congressional Research Service completed a month ago that concluded that C-TPAT participation was thought to have reached its peak, and industry representatives have publically advised that C-TPAT known benefits to importers are minimal at best.

CEEs Looking to Add Reconciliation and Drawback

U.S. Customs and Border Protection (CBP) has recently rolled out their Centers of Excellence and Expertise (CEE) which are grouped by commodity type. At this time, the CEEs process entry summaries including entry summary rejection notices and liquidations, handle Census rejects, issue Requests for Information and Notices of Action and handle responses, process Post Entry Amendments/Post Summary Corrections and protests, and accept internal advice requests and prior disclosure submissions.

Customs is now planning to add reconciliation entry processing to the list of CEE responsibilities, and is in the beginning stages of evaluating drawback processing at the CEEs. Both reconciliation and drawback are complex processes in need of overhauling and simplification. The transition to the CEEs will take some time.

More information on the CEEs and how to join may be found on the Customs website.

Customs Trade Symposium Rescheduled for March 2014

Due to the recent government shutdown, U.S. Customs and Border Protection had to postpone the Trade Symposium previously scheduled for October 24-25. The Trade Symposium has now been rescheduled for March 6-7, 2014 in Washington, DC. No further details have been provided by Customs. We will send out a Shap Flash once the location and agenda are published.

Automated Export System (AES) Adds 19 New ECCN's

On July 8, 2013, the Department of Commerce, Bureau of Industry and Security published a final rule revising USML Categories VII, VI, XX, and XIII (Military Vehicles; Vessels of War; Submersible Vessels, Oceanographic Equipment; Related Items; and Auxiliary and Miscellaneous Items) that the President determined no longer warrant control under the United States Munitions List. These changes are effective January 6, 2014.

With these changes, 19 new "600 series" Export Control Classification Numbers (ECCNs) were created by this rule. ECCNs 0A606, 0A617, 0B606, 0B617, 0C606, 0C617, 0D606, 0D617, 0E606, 0E617, 8A609, 8A620, 8B609, 8B620, 8C609, 8D609, 8D620, 8E609, and 8E620 will be added to the AES ECCN reference table.

AES has issued the following instructions to determine which "600 series" ECCNs are eligible for certain license types. By using any of the License Exceptions or a Special Comprehensive License, you are certifying that the terms, provisions, and conditions described in the Export Administration Regulations (EAR) have been met.

CBP Adapts Lab Testing For Footwear Sole Durability

In the November 13th Customs Bulletin U.S. Customs and Border Protection (CBP) adopted a testing method for determining the classification of footwear with textile outsoles in an attempt to ensure that said footwear isn't merely composed of rubber or plastic outsoles with added textile fabric, which in previous years has allowed importers to apply reduced duty rates.

In 2011 CBP added Additional Note 5 to Chapter 64 of the Harmonized Tariff Schedule (HTS) which requires textile sole materials that don't include normal use characteristics such as durability and strength to be discounted in determining the constituent material or component of the outsole.

CBP has stated that it will require the International Organization for Standardization (ISO) 20871 for abrasion testing via an abrasion machine. The test requires three samples to be taken from the outsole for testing. Presence of textile material after the testing procedure will determine the correct classification. Importers will be responsible for providing CBP independent lab results applying ISO 20871.

Under the 20871 protocol CBP has determined:

- *That the samples taken within the meaning of Note 4(b) of Chapter 64 must be taken from parts of the outsole which come in contact with the ground; although CBP hasn't determined at what depth materials would be considered not in contact with the ground and therefore disregarded. Those determinations will be made on a case by case basis.*
- *Based on clarification requests concerning the presence of textile materials on the samples CBP has advised that only one of the three samples is required to possess textile after testing to result in a designation of a textile material outsole.*
- *Indoor footwear such as house slippers will be determined on a case by case basis as to whether they will require testing.*
- *That CBP reserves the right to test footwear in its own labs regardless of whether an independent lab report was provided, to request that importers complete testing, or request samples to be taken to test in their own labs.*
- *Independent lab analysis should be provided in response to a CBP Form 28 Request for Information, as part of a binding ruling request, or as entry documentation to satisfy classification under heading 6405.*

Footwear meeting the ISO testing requirement will be classified in HTS heading 6405 as footwear with textile outer soles. If the testing requirement is not met, the footwear will be classified under the appropriate heading for footwear with rubber/plastic outer soles.

Footwear of entirely textile outsoles would not be subject to the testing requirements, nor would testing be required to meet reasonable care standards on footwear an importer determines not to meet the Note 5 requirements.

In summary, footwear trade groups have advised that the footwear industry is pleased to have a resolution to a much discussed argument that has been ongoing without clear guidance or direction since 2011, and that the completion of the administrative process should add regulatory certainty to the classification process.

September 2013 Trade in Goods and Services Report

On November 14, 2013, the Bureau of Economic Analysis (BEA) in conjunction with the U.S. Census Bureau issued the September 2013 U.S. International Trade in Goods and Services Report. At this link, you can access the full report, as well as links to data tables, personnel contact details, and supplementary materials.

Goods and services highlights:

- *Total September exports of $188.9 billion and imports of $230.7 billion resulted in a goods and services deficit of $41.8 billion, up from $38.7 billion in August, revised.*
- *September exports were $0.4 billion less than August exports of $189.3 billion.*
- *September imports were $2.7 billion more than August imports of $228.0 billion.*
- *The goods and services deficit increased $0.2 billion from September 2012 to September 2013.*
- *Exports were up $2.1 billion, or 1.1 percent, and imports were up $2.3 billion, or 1.0 percent.*
- *For the three months ending in September, exports of goods and services averaged $189.2 billion, while imports of goods and services averaged $228.9 billion, resulting in an average trade deficit of $39.7 billion.*
- *For the three months ending in August, the average trade deficit was $37.3 billion, reflecting average exports of $189.7 billion and average imports of $227.0 billion.*

The full report and all tables can be accessed on the Bureau of Economic Analysis website.

The BEA also announced that on December 4, the U.S. Census Bureau will publish the "Preliminary Profile of U.S. Exporting Companies, 2012." This release will feature national level aggregate data on U.S. exports by company type and size. An example of the layout of this release is available on the U.S. Census Bureau website. All data in this release will be revised with the release of "U.S. Profile of Importing and Exporting Companies, 2011-2012" on April 3, 2014.

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www.shapiro.com
you@shapiro.com

TRANSPORTATION NEWS

December 2013 Update

INDUSTRY NEWS:

U.S. Ports Develop New Ideas to Attract Services

The proposal by Maersk Line, CMA CGM and Mediterranean Shipping Company to create the world's largest vessel-sharing alliance is a great opportunity for ports in the United States. The so-called P3 Network would control about 25 percent of the container volume in the trans-Pacific trade lanes. Ports are now scrambling to develop incentives to lure the P3 vessels. The Port of Los Angeles, for example, has approved an incentive program that will pay carriers for every container they ship through the port in 2014. This incentive will exceed that of last year.

Port directors around the country have determined that "influence" is the critical strategy when dealing with the carriers. Ports are presented with opportunity as the carriers adjust their services, which will range from increased volume to attracting regular service loops.

A port's incentive package includes tiered payments direct to the carriers based on container volume. While the incentives don't sound like much - $5 per 20-foot-equivalent unit up to 99,999, and $15 per TEU if the total shipped is 100,000 TEUs or more above the previous year - volume is the key to making the program work for the port and the carriers. As the nation's largest container port with 8 million TEUs a year, Los Angeles thinks in terms of large volumes. For example, if a carrier ships an additional 150,000 TEUs through Los Angeles, that volume will generate $6 million in gross revenue for the port. The carrier would receive a check for $2,250,000, and the port would retain $3,750,000 from the gross revenue amount.

Incentives like this are typically designed for the port's current carrier service, such as Maersk, but this could change in the P3 environment due to other alliance members calling on Long Beach. There is a great deal of risk at play due to the P3 alliance. Los Angeles could potentially lose volume to Long Beach should the other alliance members shift Maersk volumes on CMA CGM vessels.

Port incentives are designed specifically for conditions in a particular region. Oakland, for example, is home to all of the major container lines that call in the San Francisco Bay Area. The normal rotation in Pacific Southwest services, however, has most carriers calling inbound in Los Angeles-Long Beach to drop off large volumes of imports. The ships then call at Oakland, with fewer imports but more export loads. In an attempt to encourage carriers to ship more imports, Oakland offers a first-call inbound incentive program, said Isaac Kos-Read, Director of External Affairs for the Port of Oakland.

East Coast ports likewise offer incentives tailor-made to their operating environment. Charleston is an entity of the state, so the port offers a tax credit incentive targeting carriers and their third-party logistics providers. A rebate is earned against withholding and income tax paid in South Carolina, and it can amount to $100 per TEU on proper application.

P3 Alliance Speeds Up Service Schedules

The service schedule for the launch of the P3 Network in May 2014 indicates that its three member carriers intend to maintain or even accelerate vessel speeds. The schedule announced in mid-October by Maersk Line, Mediterranean Shipping Co. and CMA CGM could force other carriers to speed up their vessels.

The P3 schedule shows that the three carriers plan to increase average eastbound vessel speed on the trans-Pacific from 19.6 knots to 19.9 knots as of the second quarter of 2014. This is almost one knot faster than the current trans-Pacific route average of 19 knots and suggests that the P3 carriers may be looking to compete against air freight.

For westbound vessels, the P3 carriers plan to reduce the average from 13.3 knots to an even slower 12.4 knots. This compares with the current industry standard of 14.5 knots. P3's argument is that most westbound traffic is low value, so does not require express services.

What this means to other carriers is that they will be compelled to follow suit at a time when they are not economically able to perform at these speeds. P3 competitors do not have the same economies of scale as the P3 alliance.

ILA Asks FMC to Block P3 Network

The International Longshoremen's Association asked the Federal Maritime Commission to block implementation of the P3 vessel-sharing agreement on grounds it would present "an unprecedented risk of anticompetitive practices."

According to ILA President Harold Daggett, the proposed global alliance of Maersk, Mediterranean Shipping Co. and CMA CGM would result in "drastic consolidation" that "presents a clear danger to workers and their families." Daggett further stated, "Unlike vessel-sharing agreements between smaller carriers that are designed to enable those carriers to compete in the marketplace, the P3 Agreement represents an attempt by three of the largest carriers in the industry to dictate the marketplace."

The FMC is not alone in scrutinizing the P3 Network. Regulators in the European Union and China have also raised concerns. Shapiro will keep you informed of any developments.

Drivers protest at Port of Oakland

Drayage truckers were protesting at the Port of Oakland before Thanksgiving over the cost of complying with clean air regulations and congestion. A group called the Port of Oakland Truckers Association said it is concerned that as many as 800 drivers may not be able to work at the port after January 1st because of California clean air regulations that will require them to have trucks with 2008 or newer engines. There were similar protests in August and October by truck drivers at the port.

OCEAN FREIGHT

Container Volume Soars at Georgia Ports

The Georgia Ports Authority recorded moving 274,362 TEU (20-foot-equivalent units) during October. This figure is a 19 percent increase year-over-year and 5 percent month-over-month.

In the first four months of fiscal 2014, the Georgia Ports Authority moved 1.1 million TEUs, representing a 5 percent increase compared with the same period last year. GPA moved a record 2.54 million tons of general cargo in October, a 22 percent jump from October 2012, driven by record movements of automobiles and heavy machinery at Colonel's Island Terminal at the Port of Brunswick and Ocean Terminal at Port of Savannah. For the fiscal year to date, total tonnage increased 9.2 percent over the same period in fiscal 2013, to 9.6 million.

The rise in the number of TEUs handled by the port is attributed to new and large volume accounts which have established nearby distribution centers.

Volumes are projected to continue to rise due to the Savanah Harbor Expansion Project which will deepen the channel to permit larger vessels to call on the Port of Savannah. Other infrastructure improvements include the Port of Savannah's acquisition of four new super-post-Panamax ship-to-shore cranes which became operational in October.

Export Container Delays to Asia

Ocean export shippers should be aware of long delays at time of booking to destinations in Asia. Some carriers are warning of as much as a three week delay.

Causes for the delays include post-holiday "slack season" as carrier vessels are taken out of rotation which lessens capacity in the market. Another cause of lowered capacity is the end of the year push by the U.S. agriculture industry. Agricultural exports at end of year are shipped in containers which tend to be very heavy. Heavy containers affect the draft of vessels which prevent the vessels from being loaded to berth capacity, thus valuable berth space cannot be utilized.

MSC, Other Carriers, Announce GRI

Mediterranean Shipping Co. has announced a three step GRI and PSS for all Asia/Far East origins to USA/ Canada destinations. MSC's GRI schedule is as follows:

GRI Quantum: USA/Canada: USD 160/200/225 per 20'DV/40'GP/40'HC.

Effective Date: 20th December 2013

PSS Quantum: USA/Canada: USD 320/400/450 per 20'DV/40'GP/40'HC

Effective Date: 1st January 2014

GRI Quantum: USA/Canada: USD 240/300/338 per 20'DV/40'GP/40'HC

Effective Date: 15th January 2014

Other carriers are expected to follow with their respective GRIs. Please contact your Shapiro representative for the most up to date GRI information.

Congestion Closes Export Gates at Nhava Sheva's Gateway Terminals

Slowdowns by container truck drivers at the Gateway Terminals operated by APM Terminals threaten to worsen congestion in Nhava Sheva Port (Jawaharlal Nehru), India's largest container gateway. Because of increased congestion at the port, the terminal operator has temporarily shut the export gates for all services until further notice. Gateway Terminals, also known as APMT Mumbai, handles nearly 50 percent of Nhava Sheva's total container volume. Cargo has continued to pile up and the slowdown, initiated by the truckers, remains in effect.

Please contact your Shapiro account representative to inquire about port alternatives.

West Coast Volumes Growing Fastest This Year

West Coast container volume grew three times faster than those at East Coast ports in the first eight months of the year. Last year's labor negotiations and computer problems at the New Jersey Maher Terminals are to blame poor overall performance on the East Coast. Other East Coast ports benefited from New York's problems. The Mid-Atlantic ports of Philadelphia, Baltimore and Norfolk saw the highest growth rates over the same period in 2012, with total throughput up 10.9 percent. Despite growth in these ports, East Coast volumes collectively weakened.

Southeastern ports, which include those from Charleston south to Miami, grew more slowly, with total throughput in the eight-month period up 0.6 percent, imports up 1.8 percent, and exports down 0.5 percent. The decline in exports from both Northeast ports and Southeast ports combined to cause an overall 0.4 percent decline in East Coast exports for the period, the only category on either coast that saw a decline.

On the West Coast, the fastest throughout growth in the eight-month period was in Oakland, where total imports and exports climbed 4.8 percent, compared to the 2.3 percent increase in throughput at Los Angeles-Long Beach.

In the Pacific Northwest ports of Seattle, Tacoma and Portland, total throughput declined 1.5 percent year-over-year, largely because carriers are using their big ships to transport Asian imports into Southern California first and then picking up exports back to Asia out of Oakland.

Asia-U.S. shipping lines plan to proceed with phased Dec-Jan rate increase

Container carriers engaged in the eastbound Asia-U.S. trade lanes want to take advantage of the demand for late holiday shipments in December as well as the pre-Chinese Lunar New Year period in January with the intention to implement a two-stage freight rate increase, according to a statement from the Transpacific Stabilization Agreement (TSA) forum.

TSA container lines recommend two across-the-board increases - a $200 per FEU hike on December 20, 2013, and another $300 per FEU jump to be effective January 15, 2014.

With freight rates still well below sustainable levels on the trade route after the successful November 15 increase, TSA shipping lines say they must take full advantage of any periods of strong demand in order to build a healthier baseline for 2014 contract negotiations.

DOMESTIC FREIGHT

LTL Rates Expected to Rise

According to industry executives, less than truckload (LTL) prices are expected to rise. Shippers need to prepare for rate increases in the 3 percent to 5 percent range.

Rates are rising in the $35 billion LTL industry mostly due to new regulatory red tape, labor issues and equipment which have collectively raised LTL industry costs. While the current LTL environment is considered stable, for shippers, this newfound stability is translating into higher freight rates.

LTL carriers are faced with relentless cost pressures. Equipment is more expensive. For example, a new Class 8 tractor used by LTL carriers costs upwards of $125,000. Another reason is the lack of truck drivers. Drivers are in high demand and are increasingly getting higher pay. Insurance costs more. and because of environmental regulations, the cost of building a terminal has become exorbitant. Costs are skyrocketing according to carriers. These cost increases will be likely passed on to the shippers in order for the LTL carriers to maintain their margins. Shippers must be aware of the need for carriers to take rate increases and need to prepare for these increases within their budgets.

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SAMUEL SHAPIRO & COMPANY, INC. NEWS

Shapiro Congratulates Importer of the Year Kysela Père et Fils, Ltd.

Shapiro congratulates one of its long-term customers, Kysela Père et Fils, Ltd., the recipient of Wine Enthusiast Magazine's 2013 Importer of the Year award. Since 2000, the magazine has presented its Wine Star awards to individuals and companies whose groundbreaking vision has impacted the wine and spirits industry.

Kysela Père et Fils, Ltd., a leading fine wine and craft beer wholesaler, was founded in 1994 by sole owner and proprietor Fran Kysela. Since then, the company has expanded its original focus from French country wines and a select number of German, Italian and Spanish wines to a global portfolio including products from 194 producers in 13 countries. Today the company averages $28 million in annual sales and distributes to 49 states, the District of Columbia, Canada and the islands of Turks and Caicos.

Shapiro has partnered with Kysela since 1996, developing creative supply chain solutions to meet its growing demand. "We are proud to support an importer with such an obvious passion for his business," says George Galestro, Shapiro's New York Branch Manager. "Through our long term relationship with Kysela, we have been lucky to see the company's expansion into new markets and congratulate them on this prestigious award."

Fran Kysela travels six to nine months out of the year in search of new brands that meet his high standards of quality. Shapiro supports Kysela's expanding network of suppliers, providing flexible logistical solutions wherever his tastes have taken him. "We have worked with Samuel Shapiro for 17 years, and their logistical skills and professionalism have greatly contributed to our success," says Kysela. "I can't recommend them enough."

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 Colleen Boate, Air Logistics Specialist in Philadelphia, 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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