SHAP TALK

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In this issue:

WE WANT TO HEAR FROM YOU!

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TRADE NEWS:

Duty Paid Shipments Exported from the U.S. and Returned Within 3 Years

Exporters often ask the question- Can I export this shipment, which was previously imported and already paid duty on, and return it to the U.S. without paying additional duties? Often the answer to this is no, you must pay duties unless the goods are of U.S. origin. However, with the new legislation passed under the Trade Facilitation and Trade Enforcement Act of 2015, signed into law on February 24, 2016, "duty paid products exported from the U.S. and returned within 3 years after export and in the same condition can be imported back into the U.S. free of duty."

The new legislation (9801.00.10) reads as follows: Products of the United States when returned after having been exported, or any other products when returned within three years after having been exported, without having been advanced in value or improved in condition by any process of manufacture or other means while abroad…free of duty.

This provision is applicable to articles regardless of origin that were previously exported three years prior to the re-importation. We do caution exporters to maintain proof of the export from the U.S. in the event that Customs and Border Protection asks for proof of export documentation.

Priority Trade Issue: Antidumping and Countervailing Duties

The number one Priority Trade issue for U.S. Customs and Border Protection (CBP) is Antidumping and Countervailing Duties (AD/CVD). When the Department of Commerce finds that imported merchandise was sold in the United States at an unfairly low or subsidized price, Commerce instructs CBP to assess AD/CV duties against imports of the subject merchandise into the United States. CBP's goal is to detect and deter circumvention of the AD/CVD law, to liquidate final duties timely and accurately, while at the same time facilitating legitimate trade.

With AD/CVD cases on the rise, importers need to educate themselves on AD/CVD trade laws and determine if their goods are subject to AD/CVD duties prior to importation. It is important to note that antidumping and countervailing duties paid at the time of entry are estimated duties. The final amount of duties owed is not determined until Commerce conducts an administrative review to establish the final AD/CVD rates on past entries. As a result, AD/CVD duties may liquidate at much higher amounts than what was paid at time of entry.

Importers may seek additional guidance and clarification on AD/CVD matters by contacting the Customs Liaison Unit (CLU) at 202-482 0984. The CLU serves as the liaison between Commerce and CBP on issues involving the suspension of entries and the collection and assessment of antidumping and countervailing duties.

For information on the AD/CVD Priority Trade Issue, please visit https://www.cbp.gov/trade/priority-issues/adcvd or contact Shapiro's compliance team at consulting@shapiro.com.

Consumer Product Safety Commission Alpha Pilot

On February 22, 2016, the Consumer Product Safety Commission (CPSC) published an unofficial announcement outlining their plans for the eventual feeding of the CPSC eFiling Product Registry and Customs' Automated Customs Environment (ACE) system. While the initial Alpha Pilot is only intended for a sample study of 8 importers, the participants have yet to be chosen. The CPSC's eFiling initiative is intended to give International Trade Dada System/Risk Assessment Methodology (ITDS/ RAM) more information so they can make faster, more effective decisions on which cargo to allow into the country.

The purpose of the Alpha Pilot is to test kinks within the system before it is rolled out nationally. Once the program is in place, not only will the flow of information to Customs and Border Protection (CBP) and CPSC be infinitely more efficient, but it will be easier for importers and brokers to file more items that they bring into ports regularly. For example, when filling out the ACE form, an importer/ broker has the option of filling out partial reference information in the eFiling system if they are importing the same products as a previous shipment that has been approved by CPSC.

The goal for the e-filing and ACE systems is to create better collaboration between CPSC and CBP, while expediting the process of Customs inspections and increasing the productivity of America's ports.

Distribution of Continued Dumping and Subsidy Offset to Affected Domestic Producers

On May 31, 2016, U.S. Customs and Border Protection (CBP) announced the intent to distribute, to affected domestic producers, the assessed antidumping or countervailing duties that are available for distribution in Fiscal Year 2016.

The assessed duties received pursuant to an Antidumping and Countervailing Duties (AD/CVD) order, or a finding under the Antidumping Act of 1921, will be distributed to affected domestic producers for certain qualifying expenditures that these producers incur after the issuance of an order or finding.

The domestic producer must provide a certification that enumerates qualifying expenditures incurred since the issuance of an order or finding and demonstrate that the producer is eligible to receive a distribution as an affected domestic producer.

The U.S. International Trade Commission (USITC) has supplied CBP with a list of the individual antidumping and countervailing duty cases, and the affected domestic producers associated with each case who are potentially eligible to receive an offset. This list is published in the Federal Register 81 FR 34624.

Water Resources Development Act to Take Harbor Maintenance Trust Fund Off-Budget

The Transportation and Infrastructure Committee unanimously approved a House version of the Water Resource and Development Act (WRDA) on May 25th that included a landmark proposal to move the Harbor Maintenance Trust Fund off-budget in 2027. The provision is a watered down version of the Senate proposal that was rejected by the White House in April, citing insufficient return on taxpayer investment.

The Harbor Maintenance Fee was introduced in 1986 to fund the cost of port/waterway maintenance by the Army Corps of Engineers. The tax, currently at .125% of the total value of goods in transport, was designated for improvement and maintenance of U.S. ports and harbors. However, over the years, the application of the funds has sometimes been diverted away from projects related to transportation infrastructure or, in some cases, the funds have remained in the trust, unused.

Because the Army Corp of Engineers is not currently allowed to access the fund, a majority of the $10 billion remains unused due to complicated budgetary restrictions. The funds are, however, desperately needed as U.S. port infrastructure continues to deteriorate. The American Society of Civil Engineers even gave U.S. ports and harbors a C-rating on its Infrastructure Report Card, a pitiful grade when considering waterborne commerce accounts for $5 trillion in economic activity annually. Additionally, when the Panama Canal expansion debuts in June, the surge of larger capacity and mega-vessels will present many difficulties for U.S. ports in their current condition.

"Finally taking the Harbor Maintenance Trust Fund off-budget guarantees that every year billions of dollars will go to keeping our nation's ports efficient and globally competitive," said Congresswoman Janice Hahn (D-CA), a champion of the initiative since coming to Congress. "This funding will go to the Ports of Los Angeles and Long Beach and ports across the country to create construction jobs and economic opportunity for decades to come. As I finish my time in Congress, I am proud of what I have been able to accomplish in ensuring that the money collected at our ports, for our ports, goes back to our ports."

For more information on this topic, check out our Shap Blog: Dredging the Confusion Surrounding the Harbor Maintenance Fee (HMF).

Quarterly Interest Rates on Customs Duties Increase

The quarterly Internal Revenue Service (IRS) interest rates, used to calculate interest on overdue accounts (underpayments) and refunds (overpayments) of Customs duties, will increase one percent (1%) from the previous quarter.

For the calendar quarter beginning April 1, 2016, the interest rates for overpayments will be 3 percent for corporations and 4 percent for non-corporations, while the interest rates for "underpayments" will be 4 percent for both corporations and non-corporations.

Published in Federal Register 81 FR 29879 on May 13, 2016.

De Minimis Value Increase to $800

The Trade Facilitation Act of 2015 raised the value of a shipment of merchandise imported on one conveyance by one consignee that may be imported free of duties and taxes from $200 to $800.

Importers are reminded that Customs has the right to require a formal entry on any shipment where additional information, bonding, or protection is required. In the case of low value shipments, it is important to note that this treatment can be denied if used for the purpose of avoiding compliance with any pertinent law or regulation.

Goods and Services Eligible for Importation from Cuba

In accordance with the Cuba policy changes announced by President Obama, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) and the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) have made five sets of amendments to their respective Cuba sanctions regulations.

OFAC introduced a provision in January 2015 authorizing the importation of certain goods and services produced by independent Cuban entrepreneurs as set forth in OFAC's Cuban Assets Control Regulations (CACR) at 31 C.F.R. § 515.582.

The State Department's Section § 515.582 authorizes the importation of all goods produced by independent Cuban entrepreneurs, as demonstrated by documentary evidence, except for goods in certain listed sections and chapters of the Harmonized Tariff Schedule (HTS) of the United States, and subject to compliance with all other relevant requirements under state and federal law and regulations. The list and associated documents can be found on the U.S. Department of State website.

On April 22, 2016, the State Department updated the list and made the following categories of goods eligible for import through their removal from the exclusionary list: coffee (HTS 0901) and additional textiles and textile articles (Section XI, Chapters 51 and 52). Additionally, imports of these items no longer need to be made directly from Cuba.

It is important to note that those importing goods or services authorized by § 515.582 must obtain documentary evidence that demonstrates the entrepreneur's independent status, such as a copy of a license to be self-employed, issued by the Cuban government or, in the case of an entity, evidence that demonstrates that the entrepreneur is a private entity that is not owned or controlled in whole or in part by the Cuban government.

For further information on this list, please consult the webpage of the Bureau of Economic and Business Affairs' Office of Economic Sanctions Policy and Implementation, or contact the State Department at 202-647-7489.

For regulatory questions, please consult the Office of Foreign Assets Control's Cuba sanctions webpage.

Unknown Effects of High Inventory Levels on Peak Season

It is no surprise that inventory levels have been at an all-time high for U.S. importers. Environmental factors in 2015 such as port congestions issues, a multi-year volatile ocean market, and labor complications at ports across the U.S. simultaneously contributed in confusing many purchasing departments and caused importers to order more goods as a safeguard to ensure stock capacity. In combination with a slow first quarter, these 2015 trends have sent current rates plummeting with plenty of capacity and not enough demand.

It is not yet clear how these factors will affect rates for ocean transportation as we approach the industry's peak busy season. According to the JOC, shippers have been spotted moving production back to the U.S. or near-sourcing to Mexico and Latin America. A recent survey found that 47 percent of shippers expect to increase insourcing to the U.S. or near-sourcing to Mexico, which is substantially more than the 20 percent of shippers who expect further outsourcing. The survey data suggest that outsourcing to China in particular will continue to slow in the years ahead.

Regardless of the current high levels of inventory carried by importers and the waning consumer spending, the peak season rates aren't set in stone and could fluctuate depending on purchasing activity and manufacturing strategy.

Automation at the Port of Long Beach

While robots begin to replace workers at fast food restaurants and grocery kiosks around the country, the port of Long Beach is seeing striking results from the automation of one of its facilities. Due to recent improvements, the average truck visit time has been cut in half comparatively to the Los Angeles and Long Beach port as a whole.

It's no secret that automation is being implemented in many different business sectors such as manufacturing, customer service, and transportation, but cutting the wait time for truckers from 85 minutes to 40 minutes will pave the way for port productivity and hopefully reduce the stifling congestion the country has faced over the past few years. In order to increase efficiency, the automated terminal operating system mixes different types of containers in a particular stack allowing a driver to drop off an export load and pick up an import load from the same stack.

While this newly implemented automated system seems to be working wonders at the middle harbor terminal, it will be interesting to see which terminals and ports follow the design that has produced such increased efficiency in as little as two months.

Ships Idly Sitting Around

As of May 26th, the level of idled vessels off-shore has dropped to its lowest number since November of 2015. Of the unemployed ships, approximately 269 were over 500 TEU's, an astonishing 1.13 million in total, which translates to about 5% of global freightliners. This is roughly a 28% decrease from March's 1.57 million TEU capacity.

Unfortunately, the drop in fleet capacity is not purely a result of an increase in industry demand. For example, in May alone 19 ships (65,000 TEU's) were sold to be dismantled - five Panamax and four over-Panamax vessels.

Interestingly, even though scores of ships have been sold for dismantling, they are not necessarily being replaced. This is reflected by the fact that the global fleet is expanding at its slowest rate since 2009, a direct result of a weakened economy with minimal growth leading to a stagnant industry. While the total TEU's for the fleet top out at 20.14 million, representing a 6.2% increase in size, those metrics do not exclude idle vessels. The figures for active-only ships drop to 19.1 million TEU's, a stagnant number, holding at the same levels as in July 2015.

Verified Gross Mass Update

As the July 1 implementation date for mandatory Verified Gross Mandate (VGM) reporting draws near, some U.S. ports are still considering their position on service offerings for container weighing as shippers seek methods for compliance. The port of Charleston has withdrawn their container weighing fee, while the ports of LA/Long Beach have said they will weigh trucks entering the terminal and pass that information on to the carriers as needed. Terminals at the ports of NY/NJ have also come around to the idea of weighing containers (for a fee) after initially adopting a "no VGM, no load" policy. The Virginia Port Authority has revised its policy as well in an effort to keep shippers utilizing VA terminals competitive. The ports of Houston and New Orleans are maintaining their "no VGM, no load" policies until it can be determined if top-lifters' weight readings are approved for VGM use.

It seems that ports and terminal operators want to be able to support shippers but the biggest concern is, of course, liability. The risk of an incident due to a misdeclared container weight still has many parties feeling uneasy.

With regard to intermodal moves, railroads have indicated that this is a maritime issue; they will not adjust current operating practices based on this new requirement. It appears that absence of the VGM will have no bearing on the railroads' acceptance of cargo.

Importers have recognized the potential for disruption to their supply chains, remaining in especially close contact with suppliers. With international enforcement varying from carrier to carrier and country to country, monitoring potential risk seems like quite a challenge. Stay tuned for further updates!

Want more information on VGM? Check out Shapiro's Verified Gross Mass Confusion Infographic.

Japan has High Hopes for Vietnam Port Business

There are many factories and facilities in Vietnam, especially on the northeastern coastal area that are financially backed by Japanese and international investors. This region of the country has seen an increase in container demand and Japan wants to ensure Vietnam has the infrastructure in place to aid in this rapidly growing economy. In April, the Japan International Cooperation Agency (JICA), which facilities development assistance on behalf of the Japanese government, signed an agreement with the Vietnam government for ODA loans totaling more than 85 billion yen ($781 million). The funding will be used for engineering, procurement of materials, equipment and consulting services needed for the development of a deep sea port and road infrastructure.

The port will be built at Lach Huyen which is to the east of Haiphong; Vietnam's third largest city and is expected to be completed in May 2018. This is the third wave of funds towards this initiative; 21 billion yen in 2011 and 38 billion yen in 2013. There are skeptics saying this initiative may be too aggressive based on the industry trend towards mega-vessels and the inherent need to service such ships. Many large vessels will not call the port due to its location and the relatively small market it provides. However, others say this project will support the fast growing need in the region and help to reinforce Vietnam's international competiveness. In addition, the JICA has approximately 114 ongoing projects throughout Vietnam, including a major expressway that will connect the north, south, east and west of the Mekong region and allow for better access and distribution.

The timing of these development projects is in perfect alignment with the Trans-Pacific Partnership (TPP) free trade agreement, which has shown good momentum. Many trade analysts are saying Vietnam is likely to be the biggest benefactor of the 12 countries entering into the agreement. At the end of May, U.S. President Barack Obama held an open forum with young entrepreneurs in Vietnam on the many economic benefits the free trade agreement brings. For U.S. exporters, TPP will provide reductions and/or elimination of tariff barriers, binding commitments for e-commerce, support for smaller sized businesses, increased market access for agricultural products, stricter controls for state owned companies, strong trade enforcement, good governance standards, promotion of regulatory transparency, and streamlined processes for cross-border shipments.

The U.S. has seen a considerable increase in trade volumes with Vietnam since formal normalization of diplomatic relations in 1995. Annual volumes rose from $450 million in 1995 to $45 billion in 2015. Recently the U.S. International Trade Commission issued a report estimating U.S. export volumes would increase to $57.2 billion by 2032 if U.S. Congress passes the TPP free trade agreement. It would seem Japan is investing wisely since American consumers buy a wide range of products produced in Vietnam, with the trend likely to further increase as a result of the implementation of TPP.

U.S. Low-Value Commodities Get Attention

Low-value commodities are getting some long overdue attention from intermodal rail carriers.

For the first time in years, the railroads are leveraging the low cost of fuel, driving more and more ocean commerce. The gluttony of ships visiting West Coast ports must eventually to return to Asia, to take on more cargo, and rather than sending empty ships back, the steamship lines have been filling them with low-cost commodities that would have otherwise been ignored. Commodities such as soy beans and scrap paper are now receiving premium rates on intermodal and trans-pacific shipping.

But it's not all sunshine for this group of commodities. Unfortunately, they are facing a strong U.S. dollar, making it fiscally less attractive to ship their products overseas. However, a few producers have risen like the cream of the crop. Specialty agriculture products are doing very well since their two major international competitors from Brazil and Argentina are facing major weather and logistical issues, forcing the buyers to purchase from the U.S. despite the strong dollar.

TRANSPORTATION NEWS:

Industry News:

U.S. Infrastructure Funding Plan to Tax Shippers

Backers of beltway infrastructure and policy experts think the answer to the woes of the U.S. freight network could partially lie in a 0.3 percent national tax on the transportation cost of goods.

The proposal released by the Eno Center for Transportation comes amid gridlock as the federal government looks for new ways it can increase spending to better maintain and expand infrastructure. The Eno Center is a Washington DC-based non-profit, non-partisan think tank, who are dedicated to shaping policy, fostering innovation and developing tomorrow's transportation leaders in both the public and private sectors.

As part of the Fixing America's Surface Transportation Act (FAST), enacted in 2015, billions of dollars will be spent to support one mode of freight transportation: trucking. A tax hike on fuel has been ruled out by most of the political establishment and hopes have been pinned on long-delayed corporate tax reform.

The Eno Center group said the plan would generate as much as $2 billion annually. A 0.3 percent fee would be imposed on the cost of shipping for all surface transportation in the U.S., excluding air and international cargo. That fee would be charged to cargo owners at an even rate across modes and 100 percent of the revenue would be deposited into the federal freight discretionary grant program, which the U.S. Department of Transportation would be required to spend every year.

Similar plans have been proposed over the past couple of years without being passed into national law. The Eno Center is confident that this is the best step forward in accomplishing goals outlined in the FAST Act.

Warming U.S.-Cuba Relations, Trade Flow Remains Limited

The 2015 announcement of relaxed U.S. trade relations with Cuba was predicted to be the catalyst of increased commerce between the two countries, but in reality, a year later, trade continues to be somewhat muted.

Cuban-U.S. trade actually peaked back in 2012 when U.S. exports to Cuba topped at $464.4 million. Since then, exports from the U.S. have steadily declined because of strategic scale back by the Cuban government and the avian flu scare, which dramatically dropped U.S. agricultural exports to the region. 2016 trade numbers increased year-over-year, with February U.S. exports at $19.6 million from $14.6 million, but are much lower than February 2014 levels of $44.5 million. Meanwhile, Cuban exports to the U.S. have been non-existent since 2012.

These tepid trade figures provide empirical support for experts like Jay Brickman, Vice President of Crowley's Liner Services, who has suggested that the lessened restrictions brought about by the lifting of the U.S. trade embargo with Cuba certainly are a step in the right direction for increasing trade flows between the two countries, there are still significant regulatory hurdles in Cuba that must be addressed in order to discover full trade cooperation.

While U.S. exporters have increased access to the Cuban market, trade and business restrictions of the Cuban government still exist. The Cuban government has yet to decide to what degree it will adjust its economy to make way for increased market dynamics. Many non-tariff measures and regulatory restrictions remain in place, which continue to make the country an unattractive destination for many U.S. exports.

Luckily, there is hope for improvement in the long-term. The U.S. International Trade Administration has started reporting on market conditions and restrictions in order to make U.S. exporters more aware of the hurdles and opportunities associated with doing business in Cuba. Moreover, confidence building between the two governments will continue to evolve as government regulators and businesses seek to address the new trade questions that have arisen since the start of this process.

India Invests In Iranian Port to Avoid Delays in Pakistan

On May 23, Iran and India entered into a formal investment agreement to develop Chabahar Port in Iran. The agreement has been on the drawing board since 2003 and is the first involving an Iranian port and international backers since the lifting of the sanctions related to Iran's nuclear program.

Under the agreement, India will spend $500 million on the project and invest an additional $16 billion in the Chabahar Free Trade Zone (FTZ). The money that India is investing will go towards refurbishing a 2,100 ft. container-handling facility, 4 rail-mounted gantry cranes, 2 reach stackers, 2 empty handlers, and 16 rubber, tire gantry cranes. India will also upgrade a 600-meter multipurpose berth with 6 mobile harbor cranes, 10 forklifts, and 10 trailers for breakbulk and other cargoes. The port is being developed to facilitate trade between India and Iran.

The port's goal is to provide India a reliable route into Afghanistan and Central Asia that avoids Pakistan. "It (Pakistan) deliberately delays transit of our goods through Karachi, which is not a reliable or efficient port of transit," explained G. Parthasarathy, a former diplomat who served as the Indian high commissioner to Pakistan. "This is more so when it comes to sensitive items like defense supplies. We, therefore, have to transit through the Iranian port of Bandar Abbas, which is some distance away, making exports more expensive and slow."

OCEAN FREIGHT NEWS:

Containerized Exports on the Rise

After declining for six consecutive quarters, year-over-year containerized exports finally grew in the first quarter of 2016. While export growth is an encouraging sign for U.S. manufacturers and shippers, the 3.2 percent increase is tempered when compared to the very weak base in the first quarter of last year. Economists with the Journal of Commerce (JOC) are now forecasting moderate export growth for the full-year at 1.3 percent, compared with a previous forecast of a 1.5 percent decline.

Looking ahead to the rest of 2016, trade will continue to experience headwinds through the rest of the year as global demand continues to be very weak and the U.S. dollar remains strong relative to other major global currencies. The effect of the latter has been weakening, however, U.S. goods remain more expensive than similar items sourced from other regions.

In breaking down the drivers for the first quarter's export growth, northeast Asia contributed the most to the metric, adding approximately 2.06 percentage points, according to the JOC's Container Shipping Outlook. Specifically, shipments from China have now trended upwards for four consecutive quarters, year-over-year. Growth in exports to India also contributed almost 1.5% to the export growth, which reflects their highest contribution since 2009.

Overcapacity in Transpacific Spoils Megaship Hype

Less than five months past the excitement and buzz created by its debut, the largest containership to ever drop anchor in the United States, the 18,000 TEU behemoth, CMA-CGM Benjamin Franklin, has quietly been re-deployed to a busier Asia-Europe service. The main reason for relocation is the lack of capacity demand in the Trans-Pacific import market. At the peak of excitement and confidence as 2015 came to a close, CMA confidently planned to launch six more vessels of the same size to be used in the Trans-Pacific trade on CMA's famed "Pearl River Express" route.

Soon after the first of the year, it became evident that the megavessels were not going to be needed just yet. The Trans-Pacific market saw a glut of shipping capacity eat away at the freight rates until they reached record lows. The decision to re-deploy the Ben Franklin to the Asia-Europe trade market was announced at the same time that CMA solidified its alliance with other large carriers to better manage capacity. Other carriers were not interested in a partnership to include megaships for the time being to protect their interests, keeping capacity tight so rates could eventually rise.

The current vessel size used for the Pearl River Express service is 11,400 TEUs instead of the 18,000 TEUs that were planned in December. For now, the megaship market for the United States seems to be shelved until capacity demand changes and some of the largest key ports on the East Coast, such as New York and Savannah, develop the infrastructure to service them, even if the Panama Canal can handle the routing.

This "spoiled" hype certainly comes as welcome news for those ports that were not ready to handle the influx of volume and carriers that were grappling with service performance issues due to port congestion, shortage of labor and drivers. The larger problems such as where to stack containers ready for rail loading and the timeliness of rail loading efficiencies has diminished marginally but continues to be an area of concern.

Carriers Feeling Defeated by This Contract Season

By this time, most beneficial cargo owners (BCO) are about a month into their shiny new contracts with their ocean carriers and you may have heard the rumor mill of where some of those contracts may have settled at. It's believed that the top tier largest retailers ended up with long-term contract rates around $750 per 40' to the U.S. West Coast while traditional averages have been roughly $1,900 for a BCO. With spot rates even lower right now, most analysts will concur, this is the bottom.

If you've been tracking the Trans Pacific Eastbound rate trends from month-to-month, you may be feeling a little bit of 'déjà vu.' The last couple months saw pretty much the same scenario repeated; carrier announces a large general rate increase (GRI) for the beginning of the month, only a portion actually sticks, and then rates gradually fall back down to their original levels wiping out any gains the carrier had hoped would stick.

To the chagrin of the carriers, there is plenty of capacity and very weak demand, so expect that déjà vu feeling to hang around a little while longer. Currently, the June 1 GRI that carriers banked on is diminishing so next on the horizon is a peak season surcharge (PSS) of $400-$500 per 40' announced for the middle of June. But without demand, it's hard to justify a peak season, so expect this to get postponed as well. Carriers have already begun announcing their July GRI's at around $600 per 40' but if demand and capacity stay the same, this GRI will slowly sink back into the darkness.

AIRFREIGHT NEWS:

The Benefits of Joint Ventures for the Air Carriers

The airline industry is very competitive and easily affected by external factors such as oil prices, governmental policies, and world conflicts. One way to face these obstacles for airlines is successfully establishing partnerships and alliances.

A joint venture is when two or several airlines bring together their services, share resources, and agree to share the revenue and risks involved. The goal is to optimize profitability for the airlines, which then benefits the customers through a more efficient operation of the entire industry and lower rates.

The concept of 'metal neutrality' is an important feature of a joint venture. It identifies the revenue each member receives on a defined route is independent of which air carrier actually flies the cargo and total profits or losses received are split equally amongst the carriers.

Airline Updates on New Stakes and Ventures

While American Airlines and LAN Airlines already offer 'code share,' allowing each to book on the others key lanes outlined in the code share agreement, a newly proposed "metal neutral" alliance will essentially allow both carriers to now share revenue on selected routes.

Qatar, a Middle East based carrier, has twice increased its stake in IAG, which is comprised of British Airways, Aer Lingus, Iberia, and Vueling. The extended routes, partnership, and increased capacity benefit all involved here.

Lufthansa and Cathay also signed a partnership, starting early next year, sharing flights between Hong Kong and thirteen European destinations. In a Cathay press release, the joint network will offer customers "more direct connections, greater flexibility, and time savings." The proposed network affecting 140 direct flights will start in early 2017 with Hong Kong to Europe and the eastbound flight following later in the year.

Fed Ex and TNT are nearing the final stage of the year-long acquisition. This month, the Chinese Ministry of Commerce, the last in a long list of countries, approved the deal. While the acquisition is expected to be finalized by June 2016, Fed Ex advised no immediate impact on TNT service and employees. This move increases Fed Ex's market share in Europe with the addition of TNT's extensive road network linking 40 countries, not to mention, putting them closer than ever to UPS rival in terms of global workforce and revenue.

Air Cargo Industry Sees Growth in April

April numbers for air cargo show a 3.2% growth over last year according to a May 30th press release issues by the International Air Transport Association (IATA). While almost all markets showed improvement, Latin America is still down due to economic troubles.

Europe and Middle East markets saw demand increase favorably and Africa, while flat growth was reported for April, shows capacity as largely increasing. Summer months bring increased passenger capacity worldwide, and with low fuel prices, that will continue to put downward pressure on cargo prices.

DOMESTIC NEWS:

New Hour-of-Service Rule on the Horizon

In the last couple of weeks, the U.S. House and Senate advanced separate transportation bills that would make changes to the current hours-of-service (HOS) restart rule for truckers. The new bill proposed to restore the 2011 regulations pertaining to trucker's use of a 34-hour restart. According to the 2011 rule, a 34-hour restart would not be required to include the two 1 a.m. to 5 a.m. periods on consecutive days and its use would not be limited to once a week. The new bill also proposed a 73-hour limit on the amount of hours truckers can spend on duty in a rolling seven-day period.

If the Federal Motor Carrier Safety Administration (FMCSA) fatigue studies conclude that the two restart periods are better for driver fatigue, they would go back into effect and the 73-hour cap would be forgone.

In addition to the HOS, the House bill includes two other provisions; the new bill would prevent California and other states from passing laws that require companies to schedule meal and rest breaks for truckers and would also stop the FMCSA from passing new safety fitness determination rules until its Compliance, Safety, Accountability scoring program is finalized.

U.S. Shippers Experience Capacity Tightening in Warehousing, Not Trucking

May 2016 marked the 24th consecutive quarter of industrial real estate growth in the U.S. Available space has declined as higher utilization of existing space outpaces new construction. This phenomenon, known as "net absorption," is on par with the tightest conditions ever recorded in this sector of U.S. real estate development. The crisis now facing American shippers is not truck availability, but rather in where to put all their goods. Shippers are running out of the space needed to maintain the supersized inventories they have been amassing.

Capacity tightening in the warehouse sector is driving down costs in other transportation sectors such as land, sea and air. The demand for warehousing and distribution space is fueling a boom in construction, but the developers cannot seem to build fast enough. Shippers are now forced to pay more to store their goods, which effectively negates any cost savings they might find elsewhere in their supply chain. As an example, the JOC reports that Amazon's warehouses were packed over the holiday season. Amazon's CFO, Brian Olsavsky, stated "it was a high-class problem to have." In the first quarter, Amazon's total fulfillment costs increased by 33.6% from the past year.

These tight conditions are driving up distribution and logistics rents by double digits in some locations. Commercial real estate broker, CRBE Group, have reported a nearly 30% increase in prime rents in Oakland, CA. Prime rents are considered to be the highest achievable rents for a high-quality or prime logistics facility. While there are still many older warehouses situated throughout the country, CRBE has removed these from the prime rents segment. This is largely due to the new demands and requirements created by online sales and their accompanying e-commerce fulfillment centers. These more modern facilities are generally larger in size, 100,000 sq. ft. at minimum, have higher ceilings to stack goods higher and use more automated picking and sorting equipment.

As cited in the Journal of Commerce, the U.S. Bureau of Labor Statistics shows that warehousing and storage businesses have added 129,500 jobs since January 2014. Warehousing itself accounts for around 18% of transportation and warehousing employment overall. This consistent growth in warehousing payrolls mirrors the tightening vacancy rate, with increasing utilization of space and new construction.

Estes Rolling Out 'Final Mile' Delivery Service

At this year's ALK Transportation Technology Summit Estes Express Line's Chief Operating Officer and Executive Vice President, William T. Hupp, announced that the largest privately owned, less-than-truckload carrier will be rolling out a last-mile delivery service. With stagnant growth in the LTL market, and as eCommerce demand grows, they hope to capture more of this market with this new service. The eCommerce segment's demand to compete with Amazon's same-day delivery service expectations exploded to the shipping scene, setting the precedent and pressure for quick, (usually 2-day) deliveries.

The launch of the new specialized division, called 'Estes Final Mile' will be separate from its traditional LTL product and will launch on an entirely new "technology based" platform as a supplement to its LTL division. Although scant on the details of who, what and how, Hupp did announce the new service would be up and running by 2016.

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 Amy Miranda, Import Supervisor in Dulles for her outstanding performance and contributions.

We encourage you to provide us with employee feedback! Please email us at hr@shapiro.com.