"SHAP" TALK
July 2011 Issue No. 111

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SHAPIRO SEMINARS

Registration is Now Open for Our August 11th Drawback Seminar

Samuel Shapiro & Company, Inc.'s popular summer seminar will be held August 11th in Baltimore. Our customers and industry professionals are invited to join us for this sought-after event. At this half-day seminar, you will learn about drawback and how this program can give importers and exporters the competitive edge by recovering up to 99% of duties paid on imported goods which are subsequently exported or destroyed. We will cover the various types of drawback and the timeframes involved to take advantage of refunds of duties. Our guest speaker will be from C.J. Holt & Co., Inc., the nation's oldest drawback provider and recognized expert in drawback law.

Registration is now open at www.shapiro.com.

TRADE NEWS

Major Changes for 2012 Harmonized Tariff Schedule

The Harmonized Tariff Schedule of the United States (HTSUS) is administered by the U.S. International Trade Commission (ITC). The ITC is required by law to keep the HTSUS under continuous review and to recommend to the President modifications in order to reflect amendments to the Harmonized Commodity Description and Coding System that are periodically recommended by the World Customs Organization (WCO). The ITC must take into account any changes by the WCO to ensure goods subject to HTS modifications continue to receive existing duty treatment, that is, changes should be revenue neutral. Customs and Border Protection (CBP) must also advise the ITC of any changes that would create separate tariff categories in order to continue existing duty treatment.

Changes to the HTS are necessary to keep up with technological developments and changing patterns in international trade. Changes to the HTS are also initiated due to classification questions or disputes that have arisen. Any modification to the HTS must be consistent with the Harmonized System Convention, be consistent with sound nomenclature principles, and ensure substantial rate neutrality. Moreover, any modification must not alter existing conditions of competition for the affected U.S. industry, labor, or trade.

The recommended HTS modifications must be proclaimed by the President to be implemented into U.S. law. The expected effective date will be January 1, 2012.

There are 204 HTS amendments with changes to 54 chapters and 108 headings. The largest volume of changes is in the food chapters 1-21.

Importers and exporters are encouraged to review their product databases against these new changes. Please contact us at compliance@shapiro.com if you would like Shapiro to evaluate your product classifications.

The complete ITC report on the changes to the 2012 HTS may be found at:
http://www.usitc.gov/tariff_affairs/hts_documents/1205-7FinalReport.pdf

FDA Announces Strategy to Ensure Safety of Food and Drug Products

On June 20, 2011, the Food and Drug Administration (FDA) released a report entitled "Pathway to Global Product Safety and Quality" to address the issues and challenges associated with monitoring imports of food, drug, and medical device products.

The challenges have been daunting as two thirds of all fruits and vegetables, three quarters of all seafood consumed in the US, eighty percent of all active ingredients for drugs, and fifty percent of medical devices are imported from foreign countries. That's as increase to twenty four million shipments this year as compared to 6 million annually ten years ago.

Currently, most foreign manufacturing plants are rarely inspected by FDA officials as FDA has only a few hundred inspectors, which isn't even enough to police domestic ports. Lacking manpower and financial resources, FDA has proposed to create a global coalition of regulators around the world who will utilize an international data information system in which participants can share information.

The report states the following four key elements to promote change:

- FDA will partner with like agencies worldwide to create global coalitions focused on improving and ensuring safety and quality.
- The regulators will develop data information systems that can be shared on an international level.
- FDA will add analyses capabilities and information gathering processes within the data information systems.
- FDA will better allocate their resources based on risk levels and will leverage third party and industry efforts in ensuring safety.

The report also mentions strategies for addressing current expected trends for the future. These include:

- More imports as western economies increase their productivity to compete with emerging markets and foreign economies.
- A more difficult operating environment for companies due to negative impacts of globalization, which will call for more government involvement to mitigate negative outcomes.
- Resources including monies, data, and goods will be able to cross borders more quickly.

- Manufacturers will need to develop new processes and technologies due to increased demand, regulations, and constrained or short supplies worldwide.

The FDA has already taken some steps to increase safety through globalization measures. For example:

- Between 2007 and 2009 the number of foreign drug manufacturing facility inspections increased by twenty seven percent.
- FDA has recently opened several international offices.
- FDA has worked with like agencies in Europe and Australia on drug inspections, and has joined the Pharmaceutical Inspection Cooperation/ Scheme (PIC/S), which is an organization of manufacturing inspectors from thirty nine countries.
- Under the Food Safety Modernization Act, the FDA will be required to inspect nineteen thousand foreign food facilities in 2016.

In short, FDA recognizes that it must change the way it currently conducts business to a more global oriented approach, which will protect the health of U.S. consumers. The processes will be introduced over the next several years and will require the help of the US Congress to provide resources and tools for globalization.

A copy of the published report in its entirety can be viewed by visiting the FDA website at www.fda.org.

Strategic Trade Authorization License Exception

The U.S. Commerce Department announced the next step in President Obama's export control reform (ECR) initiative aimed at strengthening U.S. national security and ensuring the competitiveness of American companies abroad. The Department added a new license exception, Strategic Trade Authorization (STA), to facilitate exports between the United States and partner countries while enhancing the competitiveness of key industrial base sectors.

"This is an important first step towards creating a system that addresses the serious threats we face in today's changing economic and technological landscape. This new license exception will eliminate the need for U.S. exporters to seek licenses in nearly 3,000 types of transactions annually, affecting an estimated $1.4 billion in goods and technology," Commerce Secretary Gary Locke said. "The new license exception will allow us to focus our resources on items that pose a significant national security risk and help facilitate U.S. exports."

"This is a significant step in President Obama's Export Control Reform Initiative which enhances our national security and makes U.S. exporters more competitive by easing their licensing burden for exports to partners and allies," said Under Secretary of Commerce for Industry and Security Eric L. Hirschhorn.

Items such as electronic components for use on the International Space Station, cameras for search and rescue efforts for fire departments, components for civil aviation navigation systems for commercial aircraft, airport scanners, and toxins for vaccine research will be eligible for the new license exception.

At the same time, the license exception establishes new safeguards designed to ensure Department of Commerce approval is obtained before controlled items exported under the exception are re-exported outside of authorized destinations.

To see a copy of the regulation published in the Federal Register Notice dated June 16, 2011, go to http://www.gpo.gov/fdsys/pkg/FR-2011-06-16/pdf/2011-14705.pdf.

Proposed Changes for Lacey Act Declaration

The Animal and Plant Health Inspection Service (APHIS) of the U.S. Department of Agriculture (USDA) is proposing to establish certain exceptions to the Lacey Act declaration and to modify the declaration form to simplify the collection of information.

1. Whether to establish a de minimis exception to the declaration for products containing minimal amounts of plant material. USDA is inviting comments on what the threshold should be – for example, what percent, and based on what characteristic – volume, weight, or value, or a combination.
2. How to comply with the declaration requirement when importing composite plant products whose genus, species, and country of harvest of some or all of the plant material may be extremely difficult or prohibitively expensive to determine.
3. How to accommodate products made of re-used plant materials, or plant materials harvested or manufactured prior to the 2008 Lacey Act amendments, and for which identifying country of harvest, and possibly species, would be difficult if not impossible. Currently an importer may declare if an item was manufactured prior to May 22, 2008 and that genus, species and country of harvest are unknown.
4. Whether shorthand designations for groups of species commonly used could be used for the declaration, such as SPF for spruce, pine, and fir. APHIS is inviting proposals for additional groupings to be considered.
5. AHPIS is contemplating whether to change the term "country of harvest" to "harvest location (by country)" to more clearly distinguish this from the Customs country of origin.

The Federal Register notice and information on submitting comments on the above may be found at:
http://www.gpo.gov/fdsys/pkg/FR-2011-06-30/pdf/2011-16406.pdf

DDTC Now Posting the Status of Commodity Jurisdiction cases

The Directorate of Defense Trade Controls (DDTC) is now posting on a weekly basis the status of Commodity Jurisdiction cases in process.

The purpose of a commodity jurisdiction (CJ) request is to determine whether an item or service is covered by the U.S. Munitions List (USML), and therefore is subject to export controls administered by the U.S. Department of State pursuant to the Arms Export Control Act and the International Traffic in Arms Regulations (ITAR). If after reviewing the USML and other relevant parts of the ITAR, in particular ITAR §120.3 and §120.4, you are unsure of the export jurisdiction of an item or service, you should request a CJ determination from the Department of State.

For details on how to apply for a commodity jurisdiction request, please refer to The U.S. Department of State, Directorate of Defense Trade Controls website at: http://www.pmddtc.state.gov/commodity_jurisdiction/index.html.

To query the status of your CJ application request, refer to this link: http://www.pmddtc.state.gov/commodity_jurisdiction/documents/CJ_Status.xls.

Information on Purchasing Reconciliation Reports

Entry Reconciliation permits importers to identify unresolved issues at time of entry and then reconcile them up to 21 months later. Issues may involve value, NAFTA, classification (on a limited basis), but not admissibility. The tracking and timely reconciliation of flagged entry summaries is the responsibility of the importer. To assist the importer in this regard, Customs and Border Protection (CBP) can provide reports of flagged entries upon request.

The Masterfile Extract reports all open bills and unliquidated formal entries. The Liquidation Extract reports all liquidated entries during a given fiscal year. Under the test, both reports will provide, among other things, dates of entry and entry summary; total duties, taxes, and fees paid on a given entry; whether the entry was flagged for reconciliation; and the particular issue or issues for which the entry was flagged (Value, Classification, 9802, NAFTA or a combination of these). Listed entries which do not reflect any flag data either were never flagged or the flags were already closed out on a previously submitted Reconciliation. Since flagged underlying entry summaries for a certain period may be liquidated or unliquidated, importers are encouraged to request both reports to maintain complete records.

Requests for the reports must be in writing on company letterhead and include payment for processing fees. They also must specify the Importer of Record Number (the IRS number). The fees for Master File Extracts are $150 for the first importer number, $50 for the second importer number, and $25 for each additional importer number. The pricing for the Liquidation Extract is $200 for the first importer number for a given fiscal year, plus $50 for each additional fiscal year requested for that importer number; $100 for the second importer number for a given fiscal year, plus $50 for each additional fiscal year requested for that importer number; and $75 for each additional importer number for a given fiscal year, plus $50 for each additional fiscal year requested relative to those importer numbers.

In addition to requesting reports in letter form, importers can request that CBP furnish a report via computer diskette. If the importer requests that CBP furnish the report on both computer diskette and paper, an additional fee of $50 will be charged. Each request requires approximately one week from receipt to process.

The Customs notice is available at:
http://www.cbp.gov/xp/cgov/trade/trade_programs/reconciliation/flagged_entry.xml

TRANSPORTATION UPDATE

July 2011 Update

MARKET NEWS:

U.S. Exports Continue to Thrive
Containerized export volumes rose 12.5% in April, the 19th consecutive monthly volume increase. The increase stands at 12.3% for the year and has been strengthened by the weaker dollar abroad. The fastest growing destinations for U.S. exports are China, Brazil, Taiwan, and Japan. It seems likely that the increase for Japan is a temporary effect of relief goods exports. The export boom has been led by paper products, vehicles, cotton, and lumber.

China- Europe Rail Link Established
Xinhua news reported the completion of a rail link between Chongqing, China and Antwerp, Belgium. The new service takes 16 days, is safer than maritime transport, and is considerably less expensive than ocean freight. Chongqing is an industrial hub known for the production of vehicles (especially motorcycles), and it is difficult to calculate the economic consequences of this rail link. However, it seems clear that steamship lines can expect more of this kind of competition in the future. It is equally clear that China will continue to improve its infrastructure to improve the competitiveness of regions west of the traditional manufacturing belt along the sea coast.

Labor Costs in China Rise Faster than Expected
In the first five months of 2011, the average cost of goods has risen 15% in China when compared to 2010. This increase is considerably higher than the 5-8% which was predicted for the cost of labor. When this news is combined with surging commodity costs and similar wage increases (in percentage terms) for alternative sourcing options like Viet Nam and India, American companies are often left feeling helpless to control costs. We can expect consumer prices in the U.S. to rise, and most analysts are predicting a decrease in shipping volumes as U.S. retailers are loathe to

fill their warehouses with goods which are increasingly likely to move more slowly off their shelves.

Indonesia Aims to Attract More Manufacturing

With a population of 240M, Indonesia is the 4th most populous country in the world. As the largest economy in Southeast Asia, many analysts have commented that Indonesia is a logical choice to inherit some of the manufacturing that will leave China due to increased costs there. The main problems for Indonesia are as follows: a badly outdated transportation infrastructure including old and inefficient airports and ocean ports, rampant governmental corruption, and a heavy reliance on commodity exports (rather than manufactured goods). To begin the complicated process of addressing these shortcomings, Indonesia has done a fantastic job of attracting more foreign investment. The real key to their strategy is using that foreign investment to improve transportation infrastructure and manufacturing capabilities. The country saw a 52% boost in foreign investment in 2010, and Indonesia is likely to see an even larger increase this year (when measured in total investment rather than percentage terms). Impressively, 81% of the $16.2B in foreign investment in 2010 went to the manufacturing and transportation sectors. While Indonesia's emergence as "the next China" is not a foregone conclusion, there are promising indicators that future low-cost production of finished goods will expand there to help meet global demand.

OCEAN FREIGHT:

Ocean Carriers are Adding Fees for No-Show Cargo into Contracts

Many carriers are adding clauses to their contract offers to impose fees on both shippers and the carriers themselves if either side fails to meet the commitments spelled out in the agreements. This is a fundamental change in the relationships between shippers, freight forwarders, and ocean carriers.

"There are a number of contracts this year where we wrote service guarantees into the contract, where we have a certain on-time performance guarantee and a certain space allotment by customers," said Bob Sappio, APL's vice president of Pan-American Trades.

"If a customer fails to meet that space allotment within a window of tolerance, it will pay a penalty, and likewise if we fail to meet the service guarantee or the space allotment, we would be required to pay the customer a penalty," he said. "The penalty is several hundred dollars per dry container."

The industry is watching this development closely as each carrier rolls out changes to the construction of their contracts and agreements somewhat differently and at their own pace (often trade lane by trade lane).

Ocean Carriers Delay Peak Season Surcharge

Due to solid capacity and weaker-than-expected volumes, the TSA has chosen to delay the eastbound PSS from Asia to the U.S. West Coast until July 15. The announced increase is $300/20' and $400/40', but few analysts believe the increase will be that high. The PSS environment for the East Coast is more favorable for the ocean carriers, and many have already implemented the surcharge or plan to on July 1.

CSAV Suspends One of Its Trans-Pacific Services

CSAV has announced the suspension of the Asiam service linking India, S.E. Asia, China, and Long Beach. The service is often called the "Trans-Pacific Loop Service." CSAV cited poor financial performance and the broader economic climate for Trans-Pacific shipping as the primary reasons for the change. CSAV will continue its Indus service in the trade lane.

MSC Announces GRI for West Med to U.S. Service

Effective July 7, 2011, MSC will implement a GRI of $200/20' and $300/40' for all cargo departing/exporting from Italy, Southern France, Spain, Portugal, Croatia, Bosnia, Serbia, Montenegro, and Albania.

MSC Announces GRI for All U.S. Imports from India, Pakistan, Bangladesh, and Sri Lanka Service

Effective July 15, 2011, MSC will implement a GRI as follows:

<u>Cargo from BANGLADESH to USA</u>:
USD 320.00 per 20' DV, Reefer, Open Top & Flat Rack
USD 400.00 per 40' DV, Reefer, Open Top & Flat Rack
USD 450.00 per 40' HC, Reefer HC

<u>Cargo from India, Pakistan, Sri Lanka to USA</u>:

USD 300.00 per 20'
USD 350.00 per 40' DV
USD 350.00 per 40' HC

AIFREIGHT:

Delta Launches Direct 777 Service Linking Shanghai and Atlanta

Delta will manage a twice-weekly cargo service connecting two of the world's busiest airports, Shanghai and Atlanta.

U.S. Air Announces Cargo Service from Philadelphia to Athens, Greece

U.S. Air will offer daily 767 service from Philadelphia to Athens beginning on July 1.

SAMUEL SHAPIRO & COMPANY, INC. NEWS

University of Baltimore Awards Shapiro at National Export Conference

On May 19, 2011, Samuel Shapiro & Company, Inc. was presented with a prestigious award at the National Export Conference in Baltimore. The conference was hosted by the Maryland Small Business Development Center (SBDC) - Central Region, a division managed by the University of Baltimore. The conference focused on removing the mystery of doing business overseas, in addition to providing access to current business opportunities that export-ready companies could immediately pursue.

The conference was divided into two parts to address the different stages of the international commerce cycle. Part one consisted of several panels, including Compliance & Logistics, comprised of members of Customs and Border Protection, Maryland Port Administration, and many others. Shapiro's Corporate Pricing Manager, Paul Yankelunas, sat on the panel and discussed the freight forwarder's perspective on logistics and compliance best practices. "Exporting can be adventure full of unforeseen hazards that start out as bumps in the road and can quickly turn into a meteor shower if an exporter is not prepared. This is where an experienced freight forwarder can be most useful to help you navigate through these obstacles," noted Yankelunas. "A good freight forwarder will steer you in the right direction while keeping its export clients compliant within the legal limits of each destination."

At the event, Dr. Darlene Smith, Dean of the Merrick School of Business at the University of Baltimore, presented Shapiro with an award for its support and role in helping to design new logistics course offerings for its international and global leadership programs. "The Merrick School was proud to recognize Samuel Shapiro & Company for their leadership in global trade and in higher education," noted Dr. Smith. "While it is widely recognized that Shapiro is a leader in freight forwarding, we wanted to acknowledge their vision in developing the next generation of global leaders. Through their generous financial support and collaborative efforts, they are helping our students gain a strategic advantage by gaining insight into the import and export dimensions of international trade."

As part of this joint effort, many of Shapiro's senior professionals will contribute to course content and lectures in a variety of logistics-related subjects likely to include import/export law, business management, international economics and finance, among others. "We are pleased that they chose to celebrate their 95th anniversary by investing in Baltimore and the Merrick School of Business," added Dr. Smith. "The company will be teaming up with University in many ways, including providing professionals to serve as guest lecturers throughout the school year."

The National Export Conference drew over one hundred attendees this year and the SBDC - Central Region already has plans to host another conference in 2012. Their next event, the Export Training Assistance Partnership (ETAP) seminar series, will be held in Baltimore this August. For more information, please visit their website at www.centralmdsbdc.org.

Employee of the Month

As previously featured in "Shap" Talk, Samuel Shapiro & Company, Inc. 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 Melissa Sanders, Account Coordinator in Atlanta, 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.