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WE WANT TO HEAR FROM YOU!

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TRADE NEWS:

AD/CVD Petition Filed for Decorative Plastic Ribbon from China

On December 27, 2017, a domestic manufacturer of decorative plastic ribbon filed a petition with the Commerce Department alleging that Chinese manufacturers are selling at less than fair market value in the U.S. and are also receiving subsidies from the Chinese government.

In a statement issued by the United States International Trade Commission (USITC), they declare that "the merchandise covered by this investigation is certain plastic decorative ribbon having a width (mea¬sured at the narrowest span of the ribbon) of less than or equal to four (4) inches in actual measurement, includ¬ing but not limited to ribbon wound onto itself; a spool, a core or a tube (with or without flanges); attached to a card or strip; wound into a keg- or egg-shaped configuration; made into bows, bow-like items, or other shapes or configurations; and whether or not packaged or labeled for retail sale. The subject merchandise is typically made of substrates of polypropylene, but may be made in whole or in part of any type of plastic, including with¬out limitation, plastic derived from petroleum products and plastic derived from cellulose products. This includes 'pull-bows' and 'pre-notched' bows."

More details, including affected HTS numbers and certain exclusions, can be found in the following USITC notice: https://www.usitc.gov/secretary/fed_reg_notices/701_731/701_592_notice_12272017sgl.pdf

Janice McEachern
Classification Specialist

New Year, New Compliance Goals

The start of a brand-new year is a great opportunity to wipe your compliance slate clean and introduce positive actions to ensure a successful program. The main objective is to evaluate what's working and what's not, and the guide below should assist in keeping you on the straight and narrow.

Resolution # 1: Your Own ACE Portal Account

If you still don't have an ACE Portal Account, it's time to establish one! The portal provides account holders the ability to identify and evaluate compliance issues, monitor daily operations, review and respond to filings, access a reports tool, compile data, and perform national trend analysis.

Resolution # 2: Classification

Classification presents a challenging task. It is recommended that you establish a procedure or program to review and update your parts table with the correct HTSUS number and applicable duty rate. Also, ADD/CVD orders have increased lately and you should identify and flag a potential parts table that would fall within the scope of investigation.

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Resolution # 3: FTA Management

Free Trade Agreements (FTAs) can be a source of significant cost savings for importers. How do you manage and comply with FTAs? Are products fully compliant with certification rules? Do you have documents to support the claim?

Resolution # 4: Valuation

Are your products properly valued prior to entry? How do you ensure assists, commissions, rebates and royalties are reported correctly? Are you using the correct terms of sale? Understanding the terms of sale and any additions and subtractions is vital for customs valuation and can help you when it comes time for Customs to evaluate your entry.

Resolution # 5: Best Practices

Do you have a procedure to respond to any Customs requests for information and/or any other official correspondence from Customs? It is important that you update formal policies and procedures for your import management team so goals are established and achieved.

Resolution # 6: CTPAT

What about CTPAT? Reviewing CTPAT procedures to ensure a secure supply chain, or even becoming C-TPAT certified can play an important role in your new compliance resolution.

Resolution # 7: Training

Do you provide training programs for your team? Keeping your team up-to-date with the most current information will help them to understand regulations, compliance responsibilities and stay away from fines and penalties.

Whatever you decide, chose a few resolutions and adhere to them. By following these basic initiatives, you will set your business down a path of compliance success in 2018.

And if you ever need any assistance, or feel lost, then please contact the Shapiro Compliance Team to start building a strong compliance program.

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2018 Warehousing Market Tightens as Ecommerce Booms

The warehousing real estate market continues to trend upward as the demand for industrial space for expedited last mile delivery fulfillment increases. 2017 did not see a major addition of available warehouse space for cargo owners; 2018 forecasts indicate shippers looking to store freight will see not only decreased supply, but also rising warehousing fees.

Ecommerce distribution centers and warehouses galvanize the demand for industrial space at unprecedented levels. In densely populated cities, with consumers eager for two-day, two-hour, and one-hour delivery times, warehouse space availability becomes imperative to meeting consumer demands. Amazon and other distributors strategically place warehouse locations to leverage their position to best service buyers, often placing multiple warehouses within a single metropolitan area.

The Wall Street Journal reports the average price for prime warehouse real estate rose by 17% in Northern New Jersey, while in the LA area, industrial real estate skyrocketed by 35% year-over-year. Despite the uptick in costs, retailers value location and will opt for best location rather than price when purchasing new space. Cities like Chicago and Los Angeles, because of their sprawling layouts, are serviced by several fulfillment centers to maximize warehouse utility as a means of servicing as large a consumer base as possible.

Popular freight hubs, key to ecommerce infrastructure networks, struggle to keep up with the growing demand for space. The CBRE 2017 Q3 Industrial Availability Index reported only 4.2% available space in Los Angeles and 7.2% in the NY/NJ port area. Inland areas fared slightly better with 9.5% space availability in Chicago and 8.5% surplus space in Atlanta. As the ecommerce market continues to expand, so too does the strain on the logistics network needed to service the changing retail landscape. With finite supply and continually increasing demand, ecommerce retailers should expect to see their warehousing freight spend increase in 2018.

Jillian Vaccaro
Senior eCommerce Account Specialist

What the New Federal Tax Cut Means for the Alcohol Industry

The passing of the federal alcohol tax reform bill on December 20, 2017 has the alcohol industry celebrating. With the passage of the new reform, beer, wine, and distilled spirits industries are all going to be saving, depending on the amount of alcohol they produce per year.

For smaller breweries and importers producing fewer than 60,000 barrels of product a year, the tax rate will drop from $7 a barrel to $3.50 a barrel. Larger breweries will be offered the same tax rate as breweries producing 60,000 barrels or less for their first 60,000 imported barrels. Once the 60,000-barrel threshold is surpassed, larger breweries will be subject to a tax of $16 per barrel, which is still a $2 savings from previous rates.

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Before the enactment of the bill, distilled spirits were taxed at a rate of $13.50 per proof gallon. Today, the first 100,000 proof gallons produced or imported will be taxed at $2.70, a total savings of $10.80 per gallon. The tax rate reduces to $13.35 for any proof gallons between 100,000 and about 22.1 million. Gallons beyond that will be taxed at the current rate of $13.50.

The wine and spirits industry will be receiving a tax break as well, but it differs slightly from the break received by breweries and distilled spirits. According to the Wine and Spirits Shippers Association, "Wineries will receive a $1 credit per gallon for their first 30,000 gallons made, $0.90 for the next 100,000, and $0.535 for the next 620,000. Wineries making more than 750,000 gallons will pay the full tax rate on everything over that amount." Currently, the tax for table wines is $1.07 per gallon, but domestically produced and imported wines that contain higher volumes of alcohol are at risk of facing higher taxes per gallon.

The cutting of the federal alcohol excise tax means savings for producers and importers across the alcohol industry and possibly cheaper booze for all, at least for a short time. The tax cuts last through 2019, but Congress could extend the reform. The hope is that this new tax bill will allow the alcohol industry to re-invest and grow their businesses.

McKenzie Dillon
Marketing Analyst

TRANSPORTATION NEWS

2018 Carrier Profits in Question as Capacity is Expected to Exceed Demand

The end of the 2017 shipping year saw a drop in ocean freight rates on the Asia to East Coast market of approximately 25% when compared to numbers from December 2016. If past performance is any indication of future results, we would expect to see the carriers cut capacity by introducing blank sailings or by cutting services in the Trans-Pacific and the Asia to Europe market to drive prices up as a means of combating shrinking revenue.

Surprisingly, the market is only scheduled to contract by 2 percent in the slack season between Christmas and Chinese New Year. This is a departure from the 6.4 percent to 15.2 percent drop in capacity that was seen in the 4th quarters of the previous two years.

We are seeing an almost complete lack of announced blank sailings for Q1 2018, which is a concern from the carrier perspective considering they have been grappling with a capacity glut in the Trans-Pacific trade for all of 2017. On top this, several carriers are expecting to see newer and larger ships coming into the market in 2018 at an increasing pace.

There will be a mini peak for the weeks of January 29 through February 11 wherein ships are expected to be completely full, which will likely account for a rate increase or two in January. Carriers have already

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announced a $1000 per 40' General Rate Increase (GRI) for January 1 and another $600 GRI for January 22. The full GRI is unlikely to stick, but rates are certain to increase in January through mid-February until Chinese New Year is over.

After Chinese New Year, the carriers will again grapple with the simple fact that they just have too much capacity in the market. To put this in perspective, without creating blank sailings in Q4 2017 and Q1 2018, 24% of average-sized ship capacity would have to be removed to come down to the capacity levels we saw in the two previous years.

It is too early to tell what the carriers will do to get rates back up as they begin to sign new contracts for the 2018 shipping year, which usually falls in April to mid-May for the Asia trade. If history repeats itself, then 2018 is looking more and more like 2017 all over again.

Constant GRIs in the market have worked for many of the carriers as they have seen their fortunes turn more profitable in 2017. The constant rise and fall of the rate levels seems to be the new formula for the market that we will all have to get used to.

Paul Yankelunas
Pricing Manager

The Port of NY-NJ Implements Ban on Trucks Older than 1996

Effective January 1, 2018, the Port of NY-NJ has levied a ban on trucks with engines that were manufactured prior to 1996 in an effort to reduce CO2 levels generated by port-related activities.

According to Bethann Rooney, a top official at the Port Authority of New York and New Jersey, "What it does for us, is to continue to make incremental progress in helping clean up the environment."

However, neither truckers nor environmentalists are pleased with the new ban. Many in the trucking community question the rationale of not allowing good working equipment to be used at the port, while environmentalists feel the ban does not go far enough to adequately decrease pollution levels.

The JOC states that, "Aside from removing older trucks from the port, the Port of New York and New Jersey's efforts include trying to increase the use of intermodal rail, promoting the uses of barges to move across the harbor, and offer incentive to carriers that use the port to make voluntary engine, fuel, and technology enhancements to reduce vehicle emissions."

Rooney predicts the recently implemented ban will "curb pollution and not significantly hurt the drayage fleet needed to serve the port." Only time will tell.

Colin Chapman
Director, Commercial Development

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The Fate of Carriers in 2018

As we and others have said over and over (and over), the key for the steamship lines in 2018 is to consider the positive potential for coming demand in the spirit of cautious rationalism. Too many times in the past, the lines have become intoxicated by their market share aspirations and the average vessel size of their fleet. Yes, cost cutting is of paramount significance, but it will also be crucial for the industry to control supply.

Without a doubt, the broad fundamentals are in place for continued demand development, but there are many "wild cards" in that equation. Even a small demand slump will be very difficult for the carriers to overcome without dumping prices. However, 2018 opened with a $400-$500 GRI largely holding for the US East Coast. Despite their infrequent use of void sailings, the carriers rode a cargo surge to their first successful GRI implementation in months

Robert Burdette
Vice President, Strategy

2017 Airfreight Overview

In looking back at the last New Year round-up and predictions, we saw a stronger peak and cautious optimism for slow and steady growth in the New Year. In that light, 2017 didn't wait to deliver on its predicted growth, and peak airfreight started earlier than anticipated.

Though all yearly reviews are not in yet, they will show that 2017 had strong air freight growth worldwide. The Asia Pacific Airlines Association reported a 9.2% increase in freight tonne kilometers from last November, which is traditionally the peak month of the year. Airfreight rates climbed as available space diminished despite fuel and rate increases.

Rates from India and Europe to North America spiked in November and December as weather delays in Europe, a major Indian connection lane, caused backlogs right at the peak of yearly high traffic volumes. We have seen the rates come down after the holiday; however, expect increases leading up to Chinese New Year (CNY) which starts Feb 16th. CNY will have many Chinese businesses starting the shutdown process as early as 10 days prior to the start of the holiday, with inland trucking likely to cease about a week prior to CNY.

Strong economies and fast paced ecommerce growth again show a promising 2018 outlook for airfreight.

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The New ELD Mandate is Likely to Create New Challenges for Shippers across the U.S.

Many of the largest trucking companies had Electronic Logging Devices (ELDs) installed in their fleets several months ago and they are ready for the new challenges that ELDs will bring. Unfortunately, the same cannot be said for many smaller or medium-sized trucking companies.

Since December 18, 2017, truck drivers not adhering to ELD stipulations who were stopped by police or at weight stations may have received citations for ELD non-compliance. However, beginning April 1st, federal officials will start putting non-compliant drivers out-of-service.

The ELD mandate will affect more than just the trucking companies. The ELD mandate presents challenges beyond the actual truck move. In the highly intermodal supply chains of today, a loss of productivity in one link can intensify inefficiencies in other areas. Hence, an elongated loading or unloading time can create problems for truckers trying to comply with the new Hours of Operations (HOS) allowed under ELD reform.

Shippers will be affected not only by higher trucking rates, but also by longer transit times. Moves that would normally take 1 day are now likely to take 2 days. According to the JOC, truckers expect to lose between 2 to 8 percent of their productivity.

Another area of concern for truckers and shippers alike is congestion at the terminals and on the highways. Per the American Transportation Research Institute, "truckers experience 996 million hours of delays on U.S. highways because of congestion."

According to a recent survey conducted by the JOC, many small to mid-size shippers are not prepared for the changes presented by the ELD mandate. The survey results indicate some shippers are slow to be mindful of the rate hikes, or expect the overall price increase not to be that dramatic. They also show that one-fifth of the companies surveyed have done nothing to prepare for the mandate.

Properly managing time at the port, truck terminals and shipper docks will be the biggest challenge in 2018 for both shippers and truckers.

Maria Bettini
Domestic Pricing Supervisor

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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 Renata Stoffan, Import Analyst in Dulles for her outstanding performance and contributions.

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

Shapiro Freight Report

This high-level, monthly review of the U.S. import freight market to provides key insights into the tumultuous world of international shipping. From carrier alliances to labor strikes, Shapiro covers the pertinent information logistics managers need to know. Check back monthly to ensure you don't miss key industry insights!

Though demand numbers are expected to be quite robust, the carriers will likely struggle to control capacity enough to hold onto their rate gains far beyond February.

This should lead to a buyers' market for spot rates in March though the carriers do have a history of attempting to push up rates just before the annual contract negotiations occur in April-May.

Many industry pundits are keeping a close eye on contract season 2018 as NVOCCs now control above 43% of transpacific volumes. It seems likely that some ocean carriers will adjust their allocation strategy and thus their negotiation strategy to best fill their increasingly enormous vessels.

Click here to read more!

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