SHAP TALK

July 2017 Issue No. 183

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WE WANT TO HEAR FROM YOU!

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TRADE NEWS:

Generalized System of Preference (GSP) Expires December 31, 2017

Are you eligible for Generalized System of Preference (GSP) benefits? If so, you may need to import your merchandise before GSP expires on December 31, 2017. The GSP periodically expires and must be renewed by Congress to remain in effect. During the GSP expiration period, importers are required to pay full duties on all subsequent transactions.

In the past, retroactive treatment has been granted when GSP was renewed and refunds were issued. We cannot say if this will be the case following this renewal, but entries will be flagged in the event GSP is reauthorized retroactively.

Stay tuned for more updates!

For general GSP information, please visit the CBP website.

Catch a Break with FDA's new Low Value Exceptions

The FDA is allowing certain product categories to be released without FDA notification if they are valued at or below the de minimus amount of $800. The categories include:

- *Cosmetics*
- *Dinnerware (Including eating/or cooking utensils)*
- *Radiation Emitting, Non-Medical Devices (e.g. microwaves, TVs, etc.)*
- *Biological Samples for Laboratory Testing*
- *Food, except ackees, puffer fish, raw clams, raw oysters, raw mussels, and food packed in airtight containers intended to be stored at room temperature*

This update follows the 1994 FDA statement that identified the categories be released by CBP without FDA notification when under the de minimis value, which was $200 at the time but later increased to $800. The most recent update is a result of confusion regarding FDA reporting requirements for de minimis shipments. Prior notice for all food and feed shipments will not change with this update.

Centers of Excellence and Expertise (CEE) Trade Process Document Updates

Customs and Border Protection (CBP) Centers of Excellence and Expertise (CEE) updated the CEE Trade Process Document that clarifies how CBP and the trade community may interact with respect to commercial trade activities.

The Centers of Excellence and Expertise apply CBP's trade expertise to a single industry using account-based principles and operational skills to authoritatively facilitate trade. The CEEs serve as resources to the broader trade community and to CBP's U.S. government partners. Center personnel are strategically located at ports of entry across the nation and answer questions, provide information and develop comprehensive trade facilitation strategies to address uniformity and compliance concerns. The CEEs are now permanent organizations with full regulatory authority to render post-entry decisions.

The CEE Trade Process Document contains procedures and information for importers, filers and brokers to interact and submit entry documentation and includes:

- *A directory of CEE supervisors and their contact information*
- *Importer and filer responsibilities*
- *Cargo release/entry process*
- *Entry summary processes*
- *Electronic document submission through the ACE portal using the Document Image System (DIS)*
- *Snow days*
- *Revenue collection*
- *Summary rejection or cancellation*
- *Census Warnings*
- *Center review of entry summaries*
- *Foreign-trade zones*
- *Post-summary processes*
- *Requests for information and notices of action (CBP Forms 28 & 29)*

Note: Until a fully automated method is developed, CEEs will send courtesy copies by mail or email of Requests for Information (CBP Form 28) and Notices of Action (CBP Form 29) to the broker contact listed in the importer's portal account

- *Post-summary adjustments*
- *Post-entry amendments*
- *Internal advice requests*
- *Liquidation*
- *Protests and petitions*
- *Enforcement processes*
- *Prior disclosures*

A listing of the 10 CEEs with Team designations, contact email and location is found below.

Center	Team Codes	Email Address	Managed From
Agriculture & Prepared Products	002, 012, 022, 032, 042, 052, 062, 072, 082, 092	CEE-Agriculture@cbp.dhs.gov	Miami
Apparel, Footwear & Textiles	004, 014, 024, 034, 044, 054, 064, 074, 084, 094	CEE-Apparel@cbp.dhs.gov	San Francisco
Automotive & Aerospace	003, 013, 023, 033, 043, 053, 063, 073, 083, 093	CEE-Automotive@cbp.dhs.gov CEE-Aerospace@cbp.dhs.gov	Detroit

Base Metals	005, 015, 025, 035, 045, 055, 065, 075, 085, 095	CEE-Basemetals@cbp.dhs.gov	Chicago
Consumer Products & Mass Merchandising	008, 018, 028, 038, 048, 058, 068, 078, 088, 098	CEE-Consumer@cbp.dhs.gov	Atlanta
Electronics	007, 017, 027, 037, 047, 057, 067, 077, 087, 097	CEE-Electronics@cbp.dhs.gov	Los Angeles
Industrial & Manufacturing Materials	009, 019, 029, 039, 049, 059, 069, 079, 089, 099	CEE-Industrialmaterials@cbp.dhs.gov	Buffalo
Machinery	010, 020, 030, 040, 050, 060, 070, 080, 090, 180	CEE-Machinery@cbp.dhs.gov	Laredo
Petroleum, Natural Gas & Minerals	006, 016, 026, 036, 046, 056, 066, 076, 086, 096	CEE-Petroleum@cbp.dhs.gov	Houston
Pharmaceutical, Health & Chemicals	001, 011, 021, 031, 041, 051, 061, 071, 081, 091	CEE-Pharmaceuticals@cbp.dhs.gov	New York

Ransomware Attack Cripples Maersk Lines

As the second quarter of the year drew to a close, the world's largest shipping provider, Maersk Lines, was paralyzed by a cyber-attack that has come to be known as the Petya Attack. IT systems across many of Maersk's global business units were compromised, resulting in major congestion at 76 international terminals owned by Maersk's parent company, A.P. Moller-Maersk (APM). Some of the ports, including The Port of New York & New Jersey were shut down completely. The attack also prevented Maersk from taking on new bookings as it struggled to revive its critical networks. The ransomware attack kept most of Maersk's client facing operations offline for five days.

The delays caused by this unprecedented event are still being aggregated; however, there are reports that major congestion is still occurring at the ports of Mumbai, Barcelona, Los Angeles and Rotterdam.

Effects of India's New GST Implementation

The Indian Government implemented an 18% Goods and Services Tax (GST) on July 1st and the effects were felt country-wide, with many local businesses closing their doors in protest.

The 18% GST has caused much confusion since it was announced in January. The new tax replaces multiple taxes levied by various states and the central government including Central Excise Duty, Service Tax, Commercial Tax, Value Added Tax (VAT), and Central Sales Tax (CST) in an attempt to bring some level of standardization to the marketplace in India.

The freight forwarding industry is being heavily affected by the new tax implementation due to the fact that freight charges on Indian exports were previously exempt from service taxes. The Indian government has stated that export freight charges will be exempt from the new GST tax plan, but it appears that the change will not take place until negotiations by the trade representatives are finalized.

Emerging Markets and Continued Growth Drive U.S. Infrastructure Development

The U.S. has been experiencing record import volume over the past few months, and continued growth in both the Northeast Asian markets and Southeast Asian markets, coupled with strong consumer demand, appear to be driving this growth.

Northeast Asia accounts for the largest share of containerized imports into the U.S. at 56.3%, while Southeast Asia accounts for the second largest share at 11.2%. The annual growth rate in the Northeast Asian market has consistently been around 2-3%, whereas the market in Southeast Asia has been increasing 6-10% per year. Although Northeast Asia continues to be the main market for U.S. imports, Ben Hackett of Hackett Associates points out that their growth rates are declining, whereas the growth rate out of Southeast Asia has been the inverse.

With the two major markets for U.S. imports experiencing continued uptick, steamship lines and the ports have made the necessary adjustments to account for and further foster this growth. Over the past several months, the market has seen the emergence of new and enhanced steamship line alliances and adjusted service networks in response to the demands of these two major markets. The new service networks aim to reduce the transit times for major port pairs and streamline their direct services. Additionally, with the expansion of the Panama Canal in 2016, upwards of five port pairs originating from the Southeast Asian market to the U.S. East Coast have seen a reduction of 1-2 days to their respective transit times.

The focus on reducing transit times has not been exclusive to the U.S. East Coast, but rather to dozens of port pairs involved in the Southeast Asia import market. Furthermore, manufacturers are looking towards Southeast Asia to expand production, driving the already stimulated growth resulting from the increased service efficiencies and direct services. Together, Northeast and Southeast Asia dominate the U.S. import market, and it appears the new alliances and service networks will facilitate the continued growth in both markets.

U.S. Customs and Border Protection Needs an A.C.E. Up Their Sleeve

The U.S. Customs and Border Protection indefinitely delayed the latest update of their Automated Commercial Environment (ACE) after June's troubled rollout. The system designed to streamline filing, reduce redundancy, and centralize agency requirements bogs down to such an extent that shippers are risking document cutoff schedules. While logistics organizations are further delayed over system glitches, CBP's lack of transparency only exacerbates frustrations.

ACE users have reported slowdowns from 20 minutes to five hours with support desk wait lines exceeding half an hour. The system's online DashBoard shows the overall program has experienced delays during 22 of the last 28 days. In regard to operations, ACE's worst offenders are Entry Summery Interfaces, with delays experienced 16 out of 28 days, and Truck Manifest and Accounts, which experienced delays during 10 of the last 28 days. However, some aspects do seem to operate well. AESDirect, Export System, EDI Messaging, Cargo release, Ebonds, ISF, Records Processing and Protest systems are functioning at or near 100%.

The latest update should bring Liquidation, Reconciliation, Drawback, Duty Referral, Collections and Automated Surety Interface into the ACE fold. Unfortunately, CBP has not published a rescheduled rollout date, publicly announced specific system failures, or presented a plan of action to address the issues.

While ACE is quickly approaching its full rollout and implementation deadline of Q4 2017, one wonders if a program which is one billion dollars over budget and three years behind schedule risks losing their funding under an administration keen on cutting subsidies, especially for organizations created under a previous administration. ACE can provide a centralized and efficient interface for shippers and forwarders, but it must correct its course if it wants to stay afloat. With peak season bearing down on us, issues could put the system in the political limelight.

TRANSPORTATION & OCEAN FREIGHT NEWS

Industry News:

Steamship Lines Struggle to See Modest Rate Gains in Transpacific Market

As June is now upon us, our predications of a weaker transpacific trade have held true. By the end of June, East Coast rates had declined by 10% and West Coast by 20% since the beginning of the month.

The beginning of July saw a small but expected mitigated GRI (General Rate Increase), but we are already seeing signs of possible erosion that could bring rates back to the pre-June levels. However, there are signs surfacing in the trade that point toward the possibility of an uptick beginning this month, mainly due to demand forecasts by shippers looking stronger in Q3 and Q4 as compared to the same forecasts last year. This is positive news for the ocean carriers who have been desperately trying to restore rate levels despite a steady average 90% utilization rate over the past few months. Carriers still have a lot of ground to make up but long-term forecasts have them gaining traction. Shippers can still rest assured that any gains will be slow and steady.

U.S. Beef Shipments to China to Resume Soon

In recent years, China has become a major importer of beef. According to the USDA, China's imports have risen from $275 million in 2012 to $2.5 billion in 2016. Unfortunately, the United States has been banned since December, 2003 from this market due to a case of bovine spongiform encephalopathy, more commonly referred to as "mad cow disease."

On May 11th, the Trump administration released the initial results of the 100 Day Action Plan of the U.S.- China Comprehensive Economic Dialogue. As a result of this action plan, the U.S. Department of Agriculture's marketing service has released the requirements for its Export Verification program for U.S. packers to apply for exportation of beef to China. In addition, the USDA's Food Safety and Inspection Service (FSIS) has updated their online export library outlining China's requirements for U.S. beef to be certified for shipments to China.

While the market opening agreement includes requirements that will involve a period of adjustment for the U.S. industry, and meeting these requirements will add cost to U.S. beef when compared to other countries, the U.S. Meat Export Federation and its members are excited to resume exporting beef to China after more than a 13-year hiatus. If the U.S. can even obtain just a small fraction of China's import buying power, this will lead to a very positive uptick in beef exports.

COSCO Likely to Acquire OOCL for $6.3 Billion

COSCO Shipping has paired with Shanghai International Port Group (SIPG) in a consolidated effort to purchase Orient Overseas International Ltd. (OOIL), the holding company overseeing Orient Overseas Container Line (OOCL). The proposed deal would pay OOIL $10.07 per share, which equates to roughly $6.3 billion. If OOIL accepts the offer then COSCO would assume a 90.1 percent ownership stake, while SIPG would acquire the remaining 9.9 percent.

OOIL's purchase still requires approval from both shareholders and pertinent regulatory bodies before it can be approved. However, the Tung family, the founding members of OOCL and current majority shareholders, have issued an official statement condoning the deal. The offer would be a financial windfall for the Tung's, but current OOIL staff won't be left out in the cold either as COSCO/SIPG plan to preserve the existing benefits and structure of OOIL for a minimum of 24 months following completion of the deal. With OOIL's acceptance of the offer, COSCO's fleet will grow to more than 400 vessels with the capability to handle roughly 2.9 million TEU's, which would rank COSCO third among carriers in terms of capacity.

The potential acquisition of COSCO comes amid a flurry of carrier mergers and buy-outs that have left the majority of East and West Coast trade controlled by 11 carriers within three alliances. The JOC has provided the following breakdown of alliances: "COSCO and OOCL both belong to the OCEAN Alliance, which commenced operations officially on April 1, along with CMA CGM/APL and Evergreen Line; the 2M Alliance consists of Maersk Line and Mediterranean Shipping Co. (MSC), with South Korea's Hyundai Merchant Marine (HMM) purchasing slots though not a full member; and THE Alliance counts Hapag-Lloyd/UASC, Yang Ming, and the three Japanese carriers as members." The impending acquisition of OOIL is yet another sign that smaller carriers lack the critical mass to cut costs enough to remain viable.

Update on Brazilian Export Environment

In Brazil, currency fluctuations continue to affect prospective investors and traders in different ways; one of the most impacted sectors is exports. Current depreciation of the national currency, the Real, has made Brazilian products, such as lumber and food, cost-competitive in comparison with their global competitors. While American companies that import products from Brazil often look solely at the value of the dollar as a good profit opportunity, the other by-products of the economic slowdown facing Brazil can be cause for concern.

A large part of this challenge is due to insufficient infrastructure development to keep pace with a nearly 20 year period of economic growth. According to stats from the World Economic Forum, Brazil's annual trade growth exceeded 10% over the past two decades; however, they rank 107th out of 144 countries in the level of infrastructure development. Now that their economy has slowed down it seems even more unlikely that any meaningful investment will be made to improve this ranking. Itajai, the second largest port for container traffic in Brazil, was recently closed for three weeks after heavy rain caused issues with the river current, a situation which underscores the serious consequences of insufficient infrastructure.

Another hurdle in exporting goods is Brazil's complicated and complex Customs procedures. While pressure has been put on the Brazilian government to streamline their administrative border procedures, the current process to move goods can be time consuming. U.S. importers should plan ahead and place orders well in advance to allow their suppliers plenty of time to meet Customs deadlines.

To help combat the economic scandals that brought down the government of President Dilma Rousseff in 2016, Brazil is developing a comprehensive commitment to fight corruption. Starting in 2014, according to the U.S. Department of Commerce, the criminal investigation, "Operation Carwash" has pursued a large web of public sector corruption, contract fraud, money laundering, and tax evasion stemming from systematic overcharging for government contracts. The focus on fighting corruption should ultimately improve the business climate, benefiting local and international companies alike.

AIRFREIGHT NEWS:

Cargo Service Made Possible to Isolated Island

Many have heard of Saint Helena Island as the place of Napoleon's exile and death; however, the remote island, a British territory located far off the western coast of Namibia in the South Atlantic, has recently regained exposure following the announcement of regularly scheduled air service.

The island has been served by a mixed passenger and cargo vessel in an effort to boost tourism and self-sufficiency. Additionally, the British government built an airport in 2015. Unfortunately, scheduled service has had difficulty getting off the ground due to reported wind shear on approach to the airport's longest runway. The island has limited resources for trade, producing coffee and Tungi Spirit, and a tourist trade due primarily to the island's link to Napoleon. The vessel was scheduled to be decommissioned in 2010, but this has been extended to July 2017.

Since completion, the airport has hosted small aircraft landings for medical emergencies and refueling stops, and in May a passenger charter flight was completed from Cape Town via Namibia. SA Airlink is in talks to be the primary carrier to service Saint Helena airport, as reported by the airport's site in June 2017. We'll keep airport code HLE on our watch list for future cargo needs.

Asia Airfreight Market Tightens

Airfreight demand has grown in the double digits in Q2, following a 15% increase in March and extremely strong growth in May that carried over into June. Major contributors fueling this increase were the ocean alliance shift in April, which created a shortage of ocean capacity, thus increasing air freight volumes, as well as the continuous growth of online spending, a.k.a. the e-commerce business. We also saw project shipments from tech companies that limited space capacity on aircrafts from China. Hence, tighter air freight capacity resulting in higher air freight rates. What is even more troublesome is that some carriers are beginning to implement separate fuel surcharges, which is a change from all-in rates, to account for fluctuations in fuel costs.

At this point, there are no indications the market will ease up anytime soon. We expect rates to remain high going into July. Specifically, we see airlines reducing capacity due to bad weather in Shanghai and Hong Kong. To top it all off, a series of volcanic eruptions on Alaska's Bogoslof Island triggered an ash cloud on June 25th which caused several airlines flying between Asia and North America to adjust their transpacific operations, creating "very tight" space. The volcano observatory said that the "volcano remains at a heightened state of unrest and in an unpredictable condition. Additional explosions producing high-altitude volcanic clouds could occur at any time."

All in all, the air freight market is very strong, and there is no guarantee that cargo will be moved unless customers have blocked space agreements (BSA) with airlines. Booking ad hoc and subject to availability have become very common.

DOMESTIC NEWS:

PierPass and WCMTOA Implement August 1 TMF Increase

PierPass, a non-profit company that seeks to create greater port efficiency and sustainability, and the West Coast Marine Terminal Operator Agreement (WCMTOA) have announced an increase to the Traffic Mitigation Fee (TMF) at the Ports of Los Angeles and Long Beach. The modified TMF will go into effect on August 1, 2017 and will reflect a 2.3 percent increase, the same percentage increase that was awarded to longshoremen wages earlier this month.

Once implemented on August 1, the new TMF will be $144.18 per FEU or $72.09 per TEU. Per existing port policy, the TMF will continue to be charged only during peak hours – weekdays between 3:00 AM and 6:00 PM. Non-peak hours, 6:00 PM to 3:00 AM on weekdays or 8:00 AM to 5:00 PM on Saturdays, will still not be subject to TMF.

The NAS recommends changes to the U.S. Truck Safety Program

The National Academy of Sciences, Engineering, and Medicine (NAS) has advised that the current program designed to identify unsafe U.S. trucking companies and rate carriers by safety is "conceptually sound" but requires substantial changes. Because of this evaluation, the carrier "scores" in several safety categories are likely to remain inaccessible to the public.

Truckers, shippers and freight forwarders all argued that the percentile rankings did not accurately reflect carrier safety and were misused by the public before being removed from public view by the 2015 Fixing America's Surface Transportation (FAST) Act.

The Federal Motor Carrier Administration (FMCSA) rolled out the Compliance, Safety, Accountability (CSA) program nationwide in 2010. The program and its Safety Measurement System (SMS) was designed to increase the number of truckers the FMCSA could investigate and assign safety ratings. The agency used inspection data and the scoring system to determine if a trucker was "unfit" to operate. Per the FMCSA, under the current safety fitness system, they are able to investigate and audit about 15,000 trucking companies per year, and only half of them receive a safety fitness rating of satisfactory, conditional, or unsatisfactory.

In their study, the NAS recommends the FMCSA spend two years developing a methodology that relies on current observed data rather than "expert opinion or dated empirical information." The NAS also said regulators should collect data on specific carrier characteristics such as driver turnover rates, type of cargo and level of truck driver compensation, which go beyond the initial CSA mission.

'Space based' charges becoming normal with LTL trucking

Less-Than-Truckload (LTL) carriers are beginning to implement more dimensional volume-based pricing in addition to the traditional product classification-based tariffs or weight-based pricing. Dimensional pricing is based on the cubic size (LxWXH) of a shipment, or how much physical space the cargo will occupy.

Parcel carriers like UPS and Fedex have been using this method for some time now in the form of 'flat rate' box sizes for their ground service. This type of pricing structure is also largely used for palletized freight shipments, as the dimensional 'measure' the shipment occupies is greater than its subsequent weight calculation.

The push for LTL truckers to add dimensional-based pricing is due, in large part, to the E-commerce boom. The requests made to LTL carriers are changing - freight is more frequently a mixed variety of objects, placing strain on the tariff classification system. The style of delivery is more diverse in the length of the haul and the requirements upon the delivery. E-commerce destinations include everything from residences to fulfillment centers to anything in between, which is different than the standard 'business to business' route that the LTL system is accustomed to. E-commerce shippers are selling cargo that is light in weight but bulky in size, and LTL carriers are losing money on the lost space that their system metrics are not able to capture.

Several large trucking companies such as ABF Freight, XPO Logistics, and Estes Express are increasing their use of dimensional pricing, and others are beginning to implement this strategy as it becomes more prevalent in the industry. Depending on the shipment size, some carriers will re-price a freight quote after receiving the cargo at their terminal in order to recoup additional dimensional-based costs. Using a dimensional pricing system will allow carriers to create a cubic minimum charge (CBC) that can be implemented to take these metrics into account.

What does this mean for shippers? Make smarter packing choices to make your shipment as space efficient as possible (without risking the safety of your product). Utilizing different box sizes, packaging material, and loading styles can all play a part in creating an effective packaging program that can save you money down the road.

SHAPIRO NEWS:

Shapiro's Annual Supply Chain Summer Seminar

Shapiro is excited to host its Annual Supply Chain Summer Seminar in Baltimore, MD on Thursday, August 10, 2017.

Our panels of leading industry experts will cover the hottest topics facing the logistics & Customs brokerage world today. Join us as we incite stimulating conversation concerning freight rates, infrastructure issues and more. Then, take a deep dive into compliant shipping regulations and the costs of ignoring them!

Here's what we plan to cover:

The International Logistics Market

- *Freight Rates*
- *VSA*
- *Capacity/ Supply & Demand Imbalance*

Infrastructure

- *Terminal Operations*
- *U.S. Infrastructure*
- *Chassis Challenges*

Regulatory Compliance

- *Mitigating Risk*
- *Agency Viewpoints*

Location: Royal Sonesta Harbor Court | 550 Light Street | Baltimore, MD | 21202, USA

Overnight accommodations are available at the Royal Sonesta Harbor Court under Shapiro's reduced corporate rate of $169/night. To utilize this discount, use the code SHAPIRO when registering.

Date & Time: Thursday, August 10, 2017 | 8:30 AM – 12:00 PM

After the seminar, Shapiro invites you to get the party started at the annual Propeller Club of Baltimore Crab Feast!

Tickets are available for purchase at $75 each when registering for the seminar and will be available for pick up at the panel event, just be sure to RSVP by July 20th to reserve your spot.

The Crab Feast is held on Thursday, August 10, from 1:00 to 5:00 PM, at Conrad's Ruth Villa, 3301 Edwards Lane, Middle River MD.

Reserve your spot now!

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 Julie McKee, Corporate Receptionist in Baltimore for her outstanding performance and contributions.

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