Shap Talk

March 2019
Issue No. 203

In this issue:

Baltimore Headquarters
1215 E. Fort Ave, Suite 201
Baltimore, MD 21201
www.shapiro.com

Phone
410.539.0540
web@shapiro.com

TRADE NEWS:

Coming Soon – TSCA Title VI Flags for 450 HTS Codes on Composite Wood Products!

There are approximately 450 additional Harmonized Tariff Schedule (HTS) codes for composite wood products that will be flagged for TSCA Title VI requirements beginning **March 22,2019**.

While a full list has yet to be published, here are the HTS chapters that are going to be affected:

HTS Code	Product Description
Chapter 44	Wood and articles of wood; wood charcoal
Chapter 85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
Chapter 87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
Chapter 92	Musical instruments; parts and accessories of such articles
Chapter 94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated sign illuminated nameplates and the like; prefabricated buildings
Chapter 95	Toys, games and sports requisites; parts and accessories thereof

Note: The written description of the TSCA Title VI formaldehyde emissions standards is dispositive over the HTS flags. Those who sell, supply, offer for sale, manufacture, or import products that contain regulated composite wood, whether in the form of a panel, component parts or finished goods, still need to comply with all the regulations (regardless if the HTS is flagged or not).

How do I know if the composite wood products, or finished goods comprised of composite wood, that I am purchasing comply with the regulation?

The regulations require composite wood products (in the panel form) to be tested and certified by an EPA-recognized Third-Party Certifier (TPC) and labeled accordingly.

Panel producers and fabricators are responsible for the labeling process, regardless of whether the products are separated or bundled, as they are the party who buys the panel or component in order to create finished products.

Though importers, distributors and retailers are not required to label products, they must keep the labels intact on individually-labeled panels or finished goods purchased for further resale. If you purchase panels or finished goods that have been labeled by bundle (or by box in case of finished goods), you must retain a copy, be prepared to identify the products associated with it, and make the information on the label available upon request.

Therefore, make sure you are on the lookout for proper labeling and only purchase compliant composite wood products.

If you are buying composite wood panels, the label should contain:

- Panel producer name (or number)
- Lot number
- Identification number of the EPA third-party certifier (TPC)
- Statement that the products are TSCA Title VI certified

If you are buying component parts or finished goods, the label must contain:

- Fabricator's name (company who produced the finished goods)
- Date of production (month/year format)
- Statement that the good is compliant with TSCA Title VI

For questions on how the regulations may apply to you, please e-mail: compliance@shapiro.com.

Juliana Tumulty
Compliance Analyst

New FDA Strategy Document for Imported Food

The Food and Drug Administration (FDA) is adopting a new strategy aimed at improving compliance of imported food, which will include the following initiatives:

- Prevention of food safety problems in the foreign supply chain.
- Detection and refusal of unsafe foods at the border.
- Rapid response and progress measurement on efficiency improvements.

FSVP Enforcements

One large component of the new strategy is enforcing FSVP requirements on importers. The strategy document says the FDA will prevent noncompliance through strategic enforcement of the FSVP program and supply chain control requirements. Import screening will be used to prevent entry of food shipments by importers with inadequate FSVP programs.

A recently retired FDA import official has informed us that the FDA may begin issuing importer alerts and warning letters for FSVP violations as early as this year.

Efficiency Improvements

Another component of the strategy document revolves around the FDA striving to improve the efficiency of its import sampling and testing, so as to target higher risk products. Sampling and testing are labor-intensive and costly to the industry, as well as the FDA. Focusing efforts on higher risk products allows for the regular monitoring of import products, enables the collection of data that informs oversight activities and aids with the verification of other related programs.

Performance Measures

To check its progress, the FDA will refine its measure of import safety and compliance. The FDA will assess their performance of imported food safety activities and take added steps to improve their performance. The development of performance measures and outcome indicators for imported food safety are already in the works.

The FDA intends to publish these measures and non-confidential data about imported food, foreign suppliers and other importers when it becomes available.

Please reach out to us at compliance@shapiro.com if you are a food importer in need of additional FSVP guidance.

Billie Graves
Import Ambassador

President Trump Announces End of GSP for India, Turkey

On Monday, March 4th, 2019, President Trump announced that India and Turkey's Generalized System of Preferences (GSP) status would be revoked.

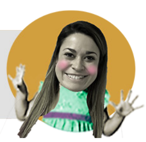
The decision threatens the GSP duty-free entry status of nearly $5.6 billion Indian goods. In a letter addressed to Congress, Trump explained that he is "taking this step because, after intensive engagement between the United States and the Government of India, I have determined that India has not assured the United States that it will provide equitable and reasonable access to the markets of India."

Trump's statements come on the heels of a 2018 USTR investigation into the trade and fairness practices of several GSP eligible governments, following various complaints from the U.S. dairy and medical sectors which claimed that the program yielded unfavorable and unfair market barriers in India.

A separate letter to Congress revealed an end to Turkey's GSP status as well. Turkey's GSP status is being revoked as it no longer meets the criteria to be considered a developing country.

The GSP program was founded in 1976, and has experienced several expirations throughout its lifecycle. Neither India nor Turkey will lose their GSP status until 60 days after the White House issues an official notice to Congress and the Indian and Turkish governments.

Maura Perry
Marketing Strategy Specialist



NMFS SIM Program Update for Shrimp and Abalone

The National Marine Fisheries Service (NMFS) has extended the "Informed Compliance" period until April 1, 2019. The rule previously ordered the addition of shrimp and abalone to the SIM Program as of December 31, 2018. Entry filings for shrimp and abalone will be required to submit Seafood Import Monitoring (SIM) data on April 1, 2019.

NMFS determined the extension was warranted due to their inability to conduct outreach in early 2019. The extension will provide them with a much-needed opportunity to engage with brokers and importers.

Billie Graves
Import Ambassador

IMO 2020 Low Sulfur Mandate: Sul-fur, So Good?

As of late, many of us have been plagued with the details of the environmental and public health benefits expected to accompany the IMO's low sulfur fuel mandate, set to begin next year. We've also heard the various complaints filed by carriers and shippers as they anticipate higher costs and slower transits. What many have yet to consider is how the new regulation will affect other industries on a greater scale.

The focus is shifting from a singular perspective (i.e. "how will this affect me?") to one of plurality – "how will this affect us?"

Rise in diesel, gasoline, jet fuel & home heating oil

The race to acquire low sulfur fuel will surely shift capacity loads at oil refineries, as they move away from storing other types of fuel commonly used to heat homes during winter months. States like Pennsylvania, that have historically been conservative and require heat during the winter months, will feel the impact on their wallets come next winter's heating bills. Shifting production could also result in higher fuel prices for truckers, creating yet another vulnerability in supply chain related price hikes.

Despite attempts from the U.S. and other IMO members to delay commencement, the IMO is deadest on its January 1, 2020 regulation deadline. The new regulation could heavily influence the outcome of the 2020 Presidential Election as fuel prices fluctuate due to the necessary rebalance in production.

Though the Trump administration remains relatively mum about any plans to curtail oil price hikes, their tactics are likely to change as we edge closer to the 2020 calendar year. Regardless, the effects of the new IMO low sulfur cap extend well beyond the playing field of international shipping and logistics, though shippers are likely to be the first to feel the effects.

Maria Bettini
Domestic Pricing Supervisor

TRANSPORTATION NEWS

Union Pacific Downsizes Employees in Preparation for PSR

Union Pacific (UP) railroad recently unveiled its impending downsizing strategy, joining industry competitors CSX, Norfolk Southern, and other railroads in their pursuit of precision scheduled railroading (PSR).

UP employees based at the company's Omaha, NE headquarters received an internal e-mail detailing its upcoming plan to terminate 250 employees and furlough an additional 450, primarily in the mechanical department. UP management defends its decision to cut human resource expenses and its corporate operating ratio as it pursues precision scheduled railroading (PSR) implementation.

Staff reductions are not unique to UP alone; other railroads, including CSX and Norfolk Southern, have recently announced similar cuts in their attempts to streamline operations.

Increasing Asset Utilization and Streamlining Point-to-Point Routings

The race to adopt PSR techniques is fraught with big-name competitors from coast-to-coast, due in large part to its promise of railroad network rationalization through the operation of fewer trains on select ramps.

Similar to the philosophy driving the implementation of mega vessels by the ocean carriers, the PSR initiative seeks to increase asset utilization and streamline point-to-point routings to increase train and railcar turns and minimize operational costs.

Good News, Bad News

The upside to employee downsizing translates into good news for investors, and potentially good news for shippers that require large rail ramps, as they could benefit from more reliable rail transits.

However, shippers will also need to maintain strict control over destination discharge operations, or incur increased costs from railroads that are incentivized to rising equipment utilization.

Decisions from major intermodal providers, like Union Pacific's employee downsizing program, serve as a precursor towards those waiting to see and feel the full effects of a PSR roll out.

Worried your shipments might be derailed in the near future?

Contact our marketing experts today to learn more about how Shapiro can assist you in reevaluating your intermodal moves.

Devin Turner
Implementation Manager

Sizeable Hikes in 2019 Trans-Pacific Contracts

As contract negotiations commence at the 2019 Trans-Pacific Maritime (TPM) conference, a 20-25% increase in contract freight rates on U.S. imports from Asia is expected on 2019-2020 carrier contracts. More specifically, the SeaIntel model currently predicts a 20% increase in rates from 2018-2019 contracts. The 2018 rates were $1,200 per FEU to the West Coast and $2,200 per FEU to the East Coast.

Historically, low sulfur fuel costs have been difficult to project. Cost projections from across the industry have fluctuated since last year, as carriers and analysts struggle to predict the price of fuel months before contract negotiations begin.

The 2019-2020 rate estimates do not currently reflect the additional bunker-fuel surcharges that will kick in mid-contract on January 1, 2020. Carriers and other NVOs have forecasted additional costs ranging from $100 to $300 per TEU. As of February 15, spot rates were speculated at $1,834 per FEU to the West Coast and $2,968 per FEU to the East Coast.

At present, low-sulfur oil is trading at a 50% higher cost than it's high-sulfur counterpart. Each carrier must create a bunker adjustment factor (BAF), which will take cost and other factors into account when predicting the low-sulfur prices. For example, if high-sulfur fuel is $400 per metric ton, Maersk's BAF would be $195 per TEU, while Mediterranean Shipping Co.'s would be $200 per TEU.

Though current projections remain closer to 50%, some pundits expect an increase closer to 10-15%. Utilizing the price of fuel in the China Emissions Control Area (ECA), an area that already requires use of 0.5% fuel within its bounds, this model prediction would put costs nearer to $20-50 per TEU.

2019-2020 Expected Contract Rate Increase Projections

% Increase	<5%	5-10%	>10%
% Respondents	19.6%	35.7%	19.6%

2019-2020 Bunker Fuel Surcharge Contract Rate Increase Projections

% Increase	>10%	10-30%	30-50%
% Respondents	25%	57.1%	14.2%

Baltimore Headquarters
1215 E. Fort Ave, Suite 201
Baltimore, MD 21201
www.shapiro.com

Phone
410.539.0540
web@shapiro.com

Declining consumer confidence, lower than expected 2018 holiday sales and the massive front-loading of shipments in preparation of U.S.-China tariff hikes makes the 2019-2020 contract negotiations more precarious than in previous years. Given President Trump's recent postponement of the Section 301 List 3 tariffs, a lot of uncertainty still remains among carriers.

U.S. import growth is only estimated at 2.5%. Positive growth in year over year comparisons for early 2019 will help curtail the unprecedented increase in import shipments seen in the latter half of 2018 to both coasts. Beneficial cargo owners (BCO) need to remain cautious when pushing carriers for lower rates during contract negotiations. Last year's decrease in demand caused carriers to abruptly implement blank sailings and vessel strings, disrupting the supply chain greatly.

As the TPM conference and contract negotiations begin, carriers and BCOs will need to find a way to manage low-sulfur rate hikes, and develop plans to avoid capacity competition and overbooking issues.

Need help calculating the cost of your future shipment using low-sulfur rates? Contact our pricing experts to learn how Shapiro can help you remain Nestle when it's 'crunch' time!

Tammy Sandridge
Global Logistics Manager

Maersk Secures U.S. East Coast Low-Sulphur Fuel Supply Ahead of IMO Deadline

Danish steamship line Maersk finalized a low sulfur fuel contract with New-Jersey based fuel refiner PBF Logistics to supply its vessels on the U.S. East Coast.

The announcement comes as the January 1, 2020 deadline from the International Maritime Organization's (IMO) for carriers to cap sulfur fuel oil at 0.5% looms on the horizon. The acquisition will account for roughly 10% of the steamship line's annual demand.

Maersk's bold and proactive announcement pushes them lightyears ahead of the competition. The Swedish Club, a marine insurer, has expressed concern that the majority of the industry is unprepared for the upcoming deadline. A recently published white paper from the organization starkly noted that the "requirement will place considerable strain on the worldwide infrastructure of marine fuel supply and, consequentially, result in an unexpected rise in fuel prices of compliant fuel."

The group estimates that come January, nearly 4 million barrels of low sulfur fuel oil (LSFO) will be necessary to satisfy demand from vessels not fitted with emission scrubbers.

Given such uncertainty, the IMO is considering the possibility of utilizing Fuel Oil Non Availability Reports (FONAR), that would allow vessels to avoid prosecution by submitting the details of cases in which compliant fuel was unable to be procured.

With or without FONAR, Maersk's LSFO network supply will complicate arguments from other steamship lines that seek an avoidance or reduction of penalties in light of limited fuel accessibility. Ultimately, the final decision to prosecute will fall within each individual country.

For suppliers, the IMO 2020 mandate represents both a potential cost driver in 2019 and beyond, as steamship lines look to offset their costs through increased bunker fuel surcharges. The threat of vessel detention in certain jurisdictions from non-compliance may also result in a disruption of the supply chain.

Contact our marketing experts today for the latest news on the IMO rollout and to learn how Shapiro's network of agents and steamship line contracts can be leveraged to mitigate risk for your supply chain.

Devin Turner
Implementation Manager

Miami – Brazil Air Trade Market Lands Correios Partnership

Miami Dade County and the Brazilian Post Office, also known as Correios, created a program called Compra Fora, or Buy Outside, that facilitates E-commerce packages bound for Brazil via Miami International Airport.

The cargo looks to eliminate the costly red tape and other delays experienced at entry in Brazil by preclearing imports with Correios, as well as advancing preparation efforts to better ready products to hit the domestic delivery system upon arrival.

Registered users can purchase goods via E-commerce from anywhere in the world and have it sent to a Correios approved bonded warehouse in Miami to be inspected, stored (if needed), and/or shipped to Brazil ready to be distributed.

Miami was chosen for its location and capacity, as it handles the highest passenger and cargo volumes of any U.S. airport to Brazil.

The agreement arrives just in time for Latin America's largest economy, as it begins to tackle the projected doubling of annual E-commerce sales in 2019. The agreement will also boost Miami's growing cargo sector, which is poised to welcome four new international carriers this year.

Norwegian will start London Gatwick service in March.

Royal Air Maroc starts Casablanca service in April.

LOT is starting Warsaw and Corsair to Paris-Orly service starts in June.

Cindy Freitas
Air Pricing Supervisor

SHAPIRO NEWS:

Employee of the Month

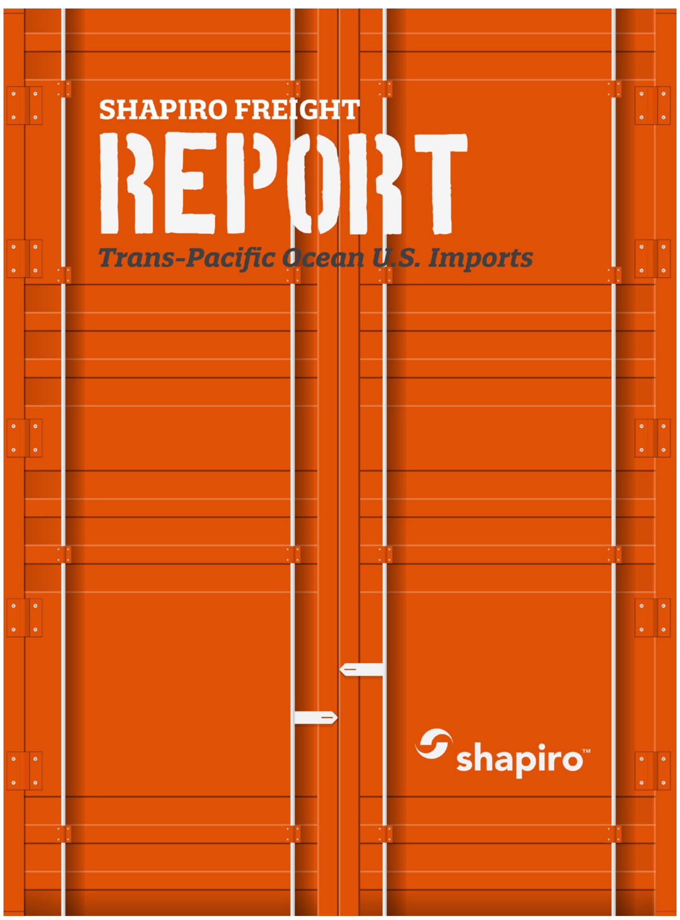
As previously featured in Shap Talk, Shapiro has been sharing with you the names of employees who have been recognized for their exceptional efforts and contributions to our Company. At Shapiro, we continually work to develop, challenge, and inspire all of our employees to grow individually and with the Company.

This month, we would like to recognize **Ashley Nasti, Import Analyst**, 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 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!



PUTTING THE PADLOCK ON LOCKED RATES

As we march into April and contract season, let's lock-down our thoughts on ocean carrier knowns and unknowns...

Click here to read more...

Baltimore Headquarters
1215 E. Fort Ave, Suite 201
Baltimore, MD 21201
www.shapiro.com

Phone
410.539.0540
web@shapiro.com