# SHAP TALK

September 2016 Issue No. 173

In this issue:



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

Phone
1-888-you-1915

www.shapiro.com

you@shapiro.com

# TRADE NEWS:

## *TSCA Issues Chemical Substance Import Certification Process Revisions*

In 1976, Congress enacted the Toxic Substances Control Act (TSCA) in order to, among other things, protect human health and the environment against unreasonable risks resulting from the manufacture, distribution in commerce, processing, use, or disposal of chemical substances or mixtures. The U.S. Environmental Protection Agency (EPA) is the agency primarily responsible for implementation of TSCA.

Amendments to the existing customs regulations are proposed on the definition of "chemical substances" to include language that makes clear that the regulation applies to the importation of chemicals regardless of whether they are "chemical substances" subject to TSCA.

These amendments would replace the existing definition of the term "chemical substances in bulk form" and add new definitions for the terms "TSCA chemical substances as part of a mixture" and non-TSCA chemical.

Import certification would require the submission of additional information relating to the certifying individual, including name, phone number and email address for TSCA certifications submitted electronically. U.S. Customs is proposing to eliminate the blanket certification process.

Comments will be accepted on or before September 28, 2016 to the proposed regulatory changes to 19CFR Parts 12 and 127.

## *Siluriformes Fish (Including Catfish) Now Under FSIS Inspection*

Just when you think you have it all straight what FDA regulates and what USDA regulates, a change is made by the government.

The Food Safety Inspection Service (FSIS) of the United States Department of Agriculture (USDA) is now inspecting Siluriformes and Siluriformes-containing products if used as a food fish. To see if your fish is subject to import FSIS inspection, please go to the Integrated Taxonomic Information System (ITIS) for a full list of Siluriformes Fish.

The chart on the next page shows many of the common names for fish that are imported for FSIS inspection.

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

Phone
1-888-you-1915
you@shapiro.com

## Food Safety and Inspection Service:
## Siluriformes Fish – Order and Families

| ORDER | FAMILY | ACCEPTABLE COMMON OR USUAL NAMES | GENUS SPECIES |
|---|---|---|---|
| SILURIFORMES* | Ictaluridae | Blue Catfish or Catfish | Ictalurus furcatus |
| | | Channel Catfish or Catfish | Ictalurus punctatus |
| | | White Catfish or Catfish | Ameiurus catus |
| | | Black Bullhead or Bullhead or Catfish | Ameiurus melas |
| | | Yellow Bullhead or Bullhead or Catfish | Ameiurus natalis |
| | | Brown Bullhead or Bullhead or Catfish | Ameiurus nebulosus |
| | | Flat Bullhead or Bullhead or Catfish | Ameiurus platycephalus |
| | Clariidae | Whitespotted fish or Chinese fish | Clarias fuscus |
| | | Sharptooth Clarias Fish | Clarias gariepinus |
| | | Broadhead Clarias Fish | Clarias macrocephalus |
| | | Walking Clarias Fish | Clarias batrachus |
| | Pangasius | Swai or Sutchi or Striped Pangasius or Tra | Pangasianodon hypophthalmus |
| | | Basa | Pangasius bocourti |
| | | Mekong Giant Pangasius | Pangasius gigas |
| | | Giant Pangasius | Pangasius sanitwongsei |

* This list is not all-inclusive. A complete list is available in the Integrated Taxonomic Information System (ITIS) at http://www.itis.gov.

For additional information, please refer to the USDA/FSIS website.

## *One Destination Control Statement for EAR and ITAR Items*

The final "bookend" rules from Commerce and State were published in the Federal Register on August 17, 2016 with a new harmonized Destination Control Statement (DCS) effective November 15, 2016.

The newly harmonized DCS for Commerce and State reads:

"These items are controlled by the U.S. Government and authorized for export only to the country of ultimate destination for use by the ultimate consignee or end-user(s) herein identified. They may not be resold, transferred, or otherwise disposed of, to any other country or to any person other than the authorized ultimate consignee or end-user(s), either in their original form or after being incorporated into other items, without first obtaining approval from the U.S. government or as otherwise authorized by U.S. law and regulations."

Both final rules are part of the President's Export Control Reform (ECR) Initiative. As part of the ECR efforts, the agencies have sought to harmonize regulatory provisions that are intended to achieve the same purpose. The DCS is an example of this effort and it should reduce the burden on exporters.

This final rule removes the requirement to place the Destination Control State on the bill of lading, air waybill, or other shipping documents and retains the requirement for the commercial invoice.

Effective November 15, 2016 Exporters:

- *Must include the DCS on the commercial invoice.*
- *Must include the DCS on the commercial invoice under the Export Administration Regulations (EAR) for all shipments of tangible items on the Commerce Control List (CCL), including exports authorized under No License Required (NLR).*
- *Must include in addition to the DCS on the commercial invoice, the Export Control Classification Number (ECCN) of each item on the commercial invoice for shipments of 9x515 or "600 series" items exported in tangible form.*
- *Do not need the DCS for shipments designated as EAR99 tangible items or shipments under License Exceptions BAG or GFT.*
- *Do not need the DCS on the air waybill, the bill of lading, or other export control documents.*
- *Must also specify the country of ultimate destination, the end-user, and the license or other approval or license exemption citation, along with the DCS on the commercial invoice for shipments of defense articles in tangible form under the ITAR.*
- *Must also provide the end-user and consignees with the appropriate ECCN or EAR99 classification of the items included in the shipment when exporting items subject to the EAR pursuant to a Department of State license or other approval.*

Note: Licenses issued prior to November 15, 2016, will still show the requirement to put the DCS on the Bill of Lading/Air Waybill or other shipping documents but the requirement for Commerce and State after 11/15/16 is to include the DCS on the commercial invoice only. The DCS should not appear on the transport documents.

Regulation citations affecting these rules: § 758.6 of the Export Administration Regulations (EAR) & § 123.9(b)(1) of the International Traffic in Arms Regulations (ITAR)

The final rules can be accessed here:

- *BIS final rule*
- *State final rule*

BIS expects to issue FAQ's on their website at a later date pertaining to the DCS.

## *CBP Establishes New Procedures to Investigate Trade Related Allegations of Evasion of AD/CVD*

On August 22, 2016, U.S. Customs and Border Protection (CBP) published an Interim Final Rule (IFR) in the Federal Register providing guidance for filing allegations of evasion of Antidumping and Countervailing Duty (AD/CVD) orders under the Trade Facilitation and Trade Enforcement Act of 2015 commonly referred to as EAPA. The IFR provides for a 60-day comment period to allow individuals to submit feedback, views or arguments on all aspects of the interim rule.

If you import goods subject to antidumping (AD) or countervailing duty (CVD) orders, be ready for possible increased investigations. On August 15, 2016, the Government Accountability Office (GAO) released a

CBP report finding that an estimated $2.3 billion in AD and CVD duties went uncollected between 2001 and 2014. With the new EAPA provisions to report allegations and the results of the GAO investigation, importers must be keenly aware of the products they import as it pertains to AD/CVD.

Currently, any EAPA-related allegations as described in the IFR may be submitted to CBP via the following email address: eapallegations@cbp.dhs.gov.

CBP is also developing a web-based portal through which individuals can submit EAPA-related allegations, hopefully by the end of the calendar year.

For questions, comments, or the submission of attachments regarding EAPA allegations, please email CBP at: eapallegations@cbp.dhs.gov. Please state in the subject line of your email that you are submitting an EAPA allegation.

## *Hanjin Services Freeze Worldwide as Carrier Goes Under*

The world's seventh-largest container line, Hanjin Shipping, sent shockwaves throughout the industry as it filed for and was placed under court protection on August 31, 2016. After a liquidity plan fell short and was rejected by the Korea Development Bank, Hanjin applied for receivership, which, once granted, will allow the company to 'wind down' under the direction of its main creditor.

Response from both the financial and shipping industries has been swift and sharp. Since the news broke, terminals and service operators around the world have refused to service Hanjin vessels or release cargo until payment has been received, creating a "hostage-like" scenario for shippers and importers trying to receive goods from a steamship line that is entering bankruptcy and liquidation.

For the U.S. market, Hanjin has the option to file for Chapter 15 bankruptcy which allows a foreign company access to the U.S. court system during insolvency. This protection would force ports, terminals, truckers, and other service providers to file their claims in Korean proceedings and forbid them from holding Hanjin property or cargo. Until a Chapter 15 filing occurs, conditions on the ground will likely continue to be more fluid and volatile as service providers scramble to gain access to cargoes.

Shapiro will be updating the following list of affected services as they are received:

- *Port of Prince Rupert, DP World, CN – All Hanjin containers currently in its system will be released for pickup from its origin terminals, with no storage charges for these boxes. CN will not accept additional Hanjin export loads, or bookings from other shipping lines destined for Hanjin vessels.*
- *Georgia Ports Authority – The GPA blocked Hanjin vessels from calling at the Garden City container complex. No official statement has been released.*
- *Port of Virginia – Effective immediately, the Port of Virginia will not be accepting any inbound Hanjin cargo (freight for export) at any of the port's marine or intermodal terminals. The port, however, will accept empty Hanjin containers at the PPCY. Further, the port is developing plans for how to handle Hanjin cargo that is already on-terminal. Those plans will be communicated to all port customers, users and stakeholders as soon as they have been finalized.*
- *Global Container Terminals – The terminals at the Port of Vancouver, B.C. will no longer receive Hanjin ships. No official statement has been released.*

- *Maher Terminals – Hanjin import deliveries must be pre-paid and exports will no longer be accepted. Empty container will also no longer be accepted in the off-dock depot. No official statement has been released.*

Hanjin is currently a member of the CKYH-E alliance (Cosco, K-Line, Yang Ming, and Evergreen) as well as several other vessel sharing agreements (VSA). Alliance members have announced that they will no longer move or book cargo on Hanjin vessels. For shipments that have not yet sailed, it is likely there will be delays in lining up alternate routings.

Hanjin Shipping has also announced that they will no longer accept any new bookings, causing shippers reliant on their service to flood the market. This substantial reduction in trans-Pacific capacity serves to strengthen the hefty GRI announced by carriers, set to take effect on September 1. With cargo volumes strong, this added strain on capacity will likely create challenges as BCOs and NVOCCs adjust routings and bookings.

As of September 7, a list of "safe haven ports" where Hanjin Shipping's container vessels can discharge without risk of arrest by creditors seeking outstanding payments has been announced and are listed below:

- *Singapore*
- *Hamburg*
- *Los Angeles*
- *Busan*
- *Gwangyang*

## *CBP Releases Information Regarding Inbound Hanjin Vessels to the U.S.*

### Scenario 1: Vessel Diverted to Foreign Port and Discharged

A Hanjin vessel does not arrive in the intended U.S. port and diverts to a foreign port to discharge freight.

- *The manifest and Importer Security Filing (ISF) must be deleted.*
- *All bills of lading need to be deleted (not cancelled).*
- *Entries and entry summaries need to be cancelled.*
- *For cargo subsequently entering the U.S. through land border or other means, a new entry should be filed at the appropriate port of entry.*
- *For shipments subject to Food and Drug Administration (FDA) requirements, filers must request deletion and a new Bio-Terrorism Act (STA) prior notice submission should be transmitted along with the new entry if the cargo subsequently enters the U.S.*

### Scenario 1a: Hanjin Vessel Diverted to Foreign Port Not Discharged

A vessel diverted to a foreign port of entry is not discharged but cargo is transferred to an alternative conveyance (i.e. barge) for arrival and discharge at the original intended U.S. port of entry.

- *This should be used only in limited situations.*
- *No change is needed to the manifest, bill of lading, ISF, or pre-filed entries.*

- *A new FDA prior notice is not required.*
- *The arrival date will reflect the date the conveyance arrives at the intended U.S. port to be offloaded.*

**Scenario 2: Hanjin Vessel Diverted to Another U.S. Port and Discharged**

This includes any scenario where shipments manifested for one U.S. port are discharged in a port other than the manifested port.

- *Manifest and bill information should be updated to reflect the port code where the freight will actually be discharged.*
- *No change is needed to the ISF. However, ISF filers should monitor the ISF disposition codes to ensure that any changes to the manifest and bill information did not cause the original bill match to drop.*
- *Change pre-filed entries to reflect the actual port code of discharge. The filer may opt for any of the following:*
- *Use ACE Cargo Release corrections capability to change pre-filed entries to reflect the actual port code of discharge. As long as the shipment is not held or arrived/released, this process should be fully automated with minimal CBP intervention.*
- *Initiate an electronic in-bond movement or use a 7512 to allow for inter-modal transport of the goods to the original intended U.S. port for processing by CBP.*
- *Entries may be cancelled and refiled for the new port of entry.*

A new FDA prior notice is not required; filers can retransmit a corrected/updated prior notice.

In all cases under this scenario, manifest and bill information should be updated, but no change is needed to the ISF. Please note that without updating the bills of lading, the shipments cannot be arrived at the first port of arrival which will prevent entries from releasing.

Changes in entry process with ACE Cargo Release has linked the entry release to the manifest arrival to increase the number of fully paperless transactions. Without this, paper entries and other documents will be needed for shipments not requiring examination or further processing with ACE. In addition, since shipments being held for examination or document review will need to be amended in any scenario, this provides a standard process with most compliant transactions requiring minimal CBP intervention.

**Scenario 2a: Hanjin Vessel Diverted to Another U.S. Port Not Discharged**

When a vessel is diverted to another U.S. port of entry but not discharged, no change is needed to the bill of lading or entries. The arrival date for the vessel will reflect the date the ship returns to the intended U.S. port to be offloaded.

**Scenario 3: Hanjin Vessel Rests at Anchor and Not Diverted**

A vessel arrives in port but due to work stoppage rests at anchor until freight can be discharged.

- *The carrier must continue to provide advance notification to local CBP ports of their pending arrival (CBP Form 3171).*
- *When a vessel arrives at a U.S. port (within CBP territory) and comes to rest whether at anchor, dock, or harbor, carriers must notify local CBP vessel-processing personnel.*

- *After initial arrival, a change to the vessel's arrival status should be considered (vessel not arrived) to avoid automated cargo release and general order issues.*
- *The carrier and vessel agents should maintain close communication with local CBP port vessel-processing office to share information, updates, instructions, and port-specific guidance.*
- *CBP will work with the carrier on a case-by-case basis so the actual arrival date and time at the first U.S. port closely reflects the actual date/time the vessel begins to unlade the cargo.*
- *CBP will also take into consideration situations where cargo has been unladen but due to work stoppage cannot be moved from the dock.*

**Scenario 4: In-Bond (IT and T&E) Cargo Already in the U.S. Moving Under Hanjin's Bond to U.S. Port for Entry or Export**

This cargo must be arrived to process the entry and allow release. Customs brokers and others using ABI functions QP/WP can arrive and/or export any in-bond at destination. As an alternative, the in-bond document (or information as appropriate) can be delivered to CBP and in-bond destination in order to be manually arrived/exported.

## *China's Zika Virus Infected Countries Requirements Confuse Exporters*

As reported in a Shap Flash last month, on August 5th, the U.S. was added to the Chinese government's list of Zika-infected countries as a result of the localized outbreak in South Florida. The news of the inclusion of the U.S. on this list has been followed by a significant amount of confusion and vagueness concerning what effect this news would have on U.S. exporters.

Ocean containers destined for China have been subject to the following requirements, regardless of where in the U.S. the cargo originates:

- *A Mosquito Eradication Certificate will be required for all containers. This certificate can be issued in the U.S. and must contain information regarding how the containers were disinfected.*
- *The certificate does not require an official government stamp.*
- *Containers are not required to be fumigated in order to treat for mosquitoes, but standard insect removal procedures should be followed.*
- *Any containers arriving in China without this certificate will be held at the port for treatment. Fumigation in China typically costs $30 per 20' container and $60 per 40' container. The fumigation process would likely delay the release of the container from 1-3 days.*

Initially exporters feared that China was going to set up significant inspection and fumigation requirements; however, it seems they are taking a more judicious approach. The vague rules have created wide interpretations between ports. While some ports are requiring entire ships be fumigated before entering, others are making commodity-based decisions on fumigation standards, and a few are still accepting the shipment as long as it is not coming from Florida.

Based on the content and port of origin, some companies are attempting to find work arounds to save money on the costly fumigations and storage fees in China. Some exporters are not fumigating in the U.S. knowing they will be forced to pay for fumigations once arriving at the Chinese port.

## *Maersk Strategic and Structural Review Hints at Damco Sale*

Rate degradation has bruised many carriers as they shuffle and strategize between alliances to recover some footing in the 2016 container shipping market, including the world's largest container shipping company, Maersk Line. The Danish parent, Maersk Group, landed on S&P's negative credit watch list after announcing a strategic and structural review that could result in divestment from one or more of its core business units. On the chopping block are APM Terminals, Maersk's terminal operating arm, and Damco, their supply chain management unit.

As rates plummeted, so did Maersk Line's second quarter profits. Maersk Group earned an underlying profit of only $134 million; a major net loss of $151 million when compared to last year's second quarter profits that totaled $1.086 billion. The fraught container shipping market has caused Maersk Group to look at its total book of business and make strategic decisions to improve the company's financial standing. APM Terminals' second quarter profits dropped over 30 percent year-over-year despite handling 2.6% more TEUs during the same time frame. It is unlikely that Maersk would sell off a segment that lowers handling cost for its containerized cargo and still managed to post a $109 million second quarter profit.

Damco, which was acquired in 2005, has undergone strategic "cost saving initiatives, improved processes and operational efficiencies," according to the Netherlands-based group. The improvements caused the logistics arm to be Maersk's only business unit to boost the Group's earnings in the second quarter while other segments struggled. Both of Damco's air and ocean freight volumes increased by 5 and 10 percent, respectively, with margins remaining strategically controlled. Damco's financial stability is fueling speculation that Maersk will leverage the forwarder's recovery and sell, most likely to the Danish logistics company DSV that purchased UTi Worldwide Inc., a non-asset based supply chain management company, earlier this year.

While no decisions have been finalized, Maersk plans to announce the results of its strategic review by the end of September.

## *Retailers Taking More Control of Supply Chains*

Some of the largest retailers in the U.S. are playing it safe by tightening their supply chains and taking back control to increase efficiency, reduce costs, and increase overall profits. Evidence of this can be seen across the board. Amazon obtained a license from the Federal Maritime Commission to operate as a non-vessel operating common carrier, Wal-Mart acquired Jet.com, and Target has made major infrastructure changes to decrease stock-outs.

"An unacceptable number of vendor shipments were received by our DCs either too early or too late," explained John Mulligan, Target's chief operating officer.

Retailer behavior is not a reflection of NVOCCs, steamship lines, or air carriers servicing the market, but rather a reaction from market pressure to take more control. Retailers must accommodate new consumer delivery expectations. Having products available in the right place at the right time is the only sustainable model when competing against the boom of eCommerce and 2-day delivery expectations.

Amazon, Target, and Wal-Mart are prime examples of infrastructure changes being made at an exponential rate. As the trend for same and next day deliveries, instant consumer gratification, and issues with stock-outs continue to grow, it is increasingly evident that more and more retailers will follow suit in order to secure their supply chain operations.

## *Chinese Visit to Brazil Brings More than Olympic Glory*

Two Chinese delegations were amongst the millions of international travelers visiting Rio during the 2016 Olympics; however, their objective wasn't just to enjoy the competitions and festivities.

The delegations were following up on a promise made by the Chinese Premier the previous May to invest 50 billion real towards Brazilian infrastructure development.

The director of Shanghai Port Services, Hu Hong Rui, led one of the delegations and examined opportunities in Manaus, where a new port project that coincides with the nearby free trade zone (FTZ) is destined to be built. The Chinese also visited Sepetiba Tecon terminal in Rio, which is currently for sale with an asking price of 1.5 billion real. The high price tag buys investors all the right ingredients to become one of Brazil's primary ports. After the inspection of the Sepetiba, the Chinese delegation met with Multiterminals, a Brazilian freight management firm and the supposed top bidder on Sepetiba. Though not confirmed, it is believed Multiterminals is seeking joint funding with the Chinese to purchase the promising port.

The second Chinese delegation was comprised of directors from state-operated China Railway Construction Corporation. This group met with leading Brazilian politicians to discuss the funding of the Bi-Oceanic railway that will run across Brazil and Peru. The project seeks to connect the Pacific and Atlantic oceans, linking freight moving across the continent between the ports of Callao and Santos. Construction of the Bi-Oceanic railway will require 560 miles worth of track to connect existing lines and form a whopping 2,800 mile rail corridor.

## *Cost of Shipping Containers Continues to Drop*

Ever wanted to build a bunker or tiny house out of shipping containers? Maybe you just need some extra storage in your warehouse parking lot. Now could be the time to make your dreams come true.

Sagging container demand from steamship lines and the plummeting cost of raw materials has eroded the price on steel boxes, drastically. Drewry, an independent maritime advisor, estimates that there has been a 15% price drop per TEU year-over-year since 2014. While the tumultuous global economy has played a part in this decline, the significant reduction of steel production in China also contributed to the trend. According to Li Xinchuang, a vice chairman at the China Iron & Steel Association, steel production in China will continue to contract and shrink further into 2017. Last year saw a small increase for equipment demand; however, even that was fleeting.

The combination of decaying demand, a weakening economy, and the falling price of raw materials have created the perfect storm for DIYers and anyone else in the market for storage. Now getting a chassis, that's a whole different story.

## Walmart Acquires E-Commerce Retailer Jet.com

Mega-retailer Walmart announced its acquisition of e-commerce bulk retailer Jet.com earlier this month in a $3.3 billion dollar deal which has been hailed as the largest purchase in the history of the e-commerce industry. The purchase is the clearest sign that the once dominant retailer has concerns about remaining competitive in an environment where consumer habits are changing. While Walmart remains the overall retail leader, Amazon is nipping at its heels, opening its first brick and mortar location earlier this year.

For Walmart, the acquisition allows the company to pair its lean supply chain principles that emphasize cutting costs for consumers with Jet's cost-conscious consumer base who buys into a bulk purchasing system. Walmart also plans to leverage Jet's e-commerce experience to overhaul Walmart.com and build its brand with Jet's customer base of younger, more urban consumers.

For Jet, a start-up that is barely a year old, the acquisition will provide the firm with additional name recognition as well as access to Walmart's world-class supply chain and global scale. Moreover, Jet will be able to leverage Walmart's 10,000 stores as distribution centers, allowing the two firms to utilize brick and mortar locations as an asset even as consumers move to online purchasing.

Nevertheless, the merger does not directly answer substantial questions for both firms when it comes to long-term growth. The young e-commerce retailer has still not achieved profitability, with its founder Marc Lore suggesting that without outside support, the firm would not achieve profitability for at least another five years. Meanwhile, the two firms are outmatched by Amazon when it comes to the number of items on offer to consumers. While Amazon offers 365 million items to its customers, Walmart and Jet only offer 10 million and 12 million products, respectively. Whether Jet and Walmart's cost-cutting approach will win out against Amazon's volume of items remains to be seen.

## Brazil Contemplating U.S. Corn Amidst Low Seasonal Yield

Brazil's second annual corn crop, the safrinha, appears to be failing as it has yet to yield anything close to its typical output. If conditions do not improve, some analysts feel that Brazil will be completely devoid of corn by 2017. The Brazilian livestock industry, which is completely reliant upon corn as feed, is in dire need of new sources and this has resulted in the Brazilian Ministry of Agriculture pleading with the National Biosafety Technical Commission (CTNBio) to temporarily allow corn imports from the U.S.

The Agricultural Ministry has requested that sanctions on U.S. corn imports be lifted from September through November. U.S. corn was first restricted in Brazil due to its GMO status; however, between a countrywide drought, a declining currency, and lessened supply due to increased foreign demand - Brazil corn exports increased by 138 percent since June of 2015 - Brazil is now in a position where it must consider all options. The CTNBio is slated to meet in early September to make a decision on the matter.

The South American nation has already begun to feel the negative impacts of a shortage as processing plants have closed their doors and animals that could not be fed were prematurely slaughtered. Tom Sleight, CEO of the U.S. Grains Council, says U.S. farmers are eager for more business and ready to export to Brazil. Though U.S. corn exports are strong, production is as well, and this has kept prices low and created a need for more sales outlets.

Chinese investment in ports and railways has huge support from Brazilian shippers as it would lead to significantly reduced transit times and costs. Exporters of iron, chicken, beef and foodstuffs would see a vast increase in international competitiveness. The hope is that expanding and enhancing Brazilian infrastructure through Chinese investment will increase export trade and thus, assist in helping a waning economy recover.

# TRANSPORTATION NEWS:

*Industry News:*

## *Peak Season? Oh, There You Are.*

The trans-Pacific import peak season is upon us. We are approaching what historically has been a time when freight volumes spike, rates increase steadily, and bookings start to roll as space becomes overbooked. Shippers compete with each other for spots on full vessels in order to get their cargo shipped in time for the holiday shopping rush. A few weeks ago, the term "peak season" was used loosely; however, cargo volumes are actually starting to peak.

Prior to the announcement of Hanjin's bankruptcy, carriers were desperate to adjust the market and raise the abysmal rates. As carriers tightened capacity by pulling vessels out of rotation, the September 1 peak season surcharge (PSS) and subsequent 15th general rate increase (GRI) will start to hold in the long-term. A surge of exports from Asia is typically seen as major retailers gear up for the holidays. Additionally, with the G20 Conference in Hangzhou, the Chinese government took steps to restrict industrial pollution in the greater Ningbo/Shanghai area which impacted supply chains as manufacturing was temporarily shut down and a glut of cargo hit the market once the conference ended.

Recent news of Hanjin's financial status has quickly put pressure on cargo capacity of the other carriers as shippers shift their bookings from Hanjin. This news, coupled with tightened capacity forecast, has flipped the market. Carriers announced an October 1 GRI of $1,000 per FEU, justifying the increase as a chance to get rate levels back to profitable levels after several failed attempts over the past few months. Many carriers are also looking to the market leader, Maersk Group, who experience its own dismal results in the last quarter.

While extra sailings have been added by some carriers such as COSCO and CMA to accommodate the surge of seasonal cargo, carriers must also look ahead to the China National holiday in October as blank sailings to keep demand high and shippers locked into higher rates.

## *Ocean Carriers Are Seeing Red but for How Long?*

The ocean carrier market as a whole is financially unhealthy in 2016. Carriers are lamenting a terrible first-half performance after shockingly poor second-quarter financial results. The industry was stunned to learn that the world's largest carrier, Maersk Lines, and OOCL are both seeing red; traditionally, these two managed to remain profitable even in the toughest financial quarters. In the case of Maersk, their recent $151 million second quarter losses were $658 million less than the same quarter in 2015; OOCL experienced their first quarterly loss since 2009.

After Drewry published the financial results for top 2016 carriers, the market's diseased state is clearly unsustainable; the last time the industry saw such depressing financial results was back in 2009. This year is shaping up to shrink by almost $29 billion despite forecasts that the carriers should see stronger second half results as fuel costs rise. While third quarter projections are a bit brighter as space starts to come at more of a premium, analysts fear it won't be enough to pull carriers out of the doldrums.

As carriers reach their limits when trimming the fat on rates, mergers and acquisitions are becoming more common.  Steamship lines developed alliances over the past few years in an attempt to save money but it looks like consolidation of the industry will be the new reality.

The recent development with Hanjin's bankruptcy may be cause for hushed rejoicing as carriers not burned by the alliance take advantage of limited capacity and jack up rates to more sustainable levels.

# OCEAN FREIGHT NEWS:

*Increased Routing Options in the Wake of Carrier Alliances*

The ocean carrier race toward consolidation began earlier this year with the announcement of the 2M Alliance, comprised of Maersk Line and Mediterranean Shipping Company (MSC). Together, they dominate the Asia-EU trade lanes holding almost 35% of the market share with the possibility to expand further as ZIM and Hyundai Merchant Marine contemplate participation.

Following the formation of the 2M came the grouping known as the Ocean Alliance that brought together CMA-CGM, COSCO, OOCL, and Evergreen. Once the Ocean Alliance begins operations next February, market analysts have forecasted that it will control about 26% of Asia-EU market. The service networks in the alliance will cover the Asia-Europe, Asia-Mediterranean, Asia-Red Sea, Asia-Middle East, trans-Pacific, Asia-North America East Coast and trans-Atlantic trades using the latest vessels from a fleet of 350 container ships. Shippers will have access to a vast network with the largest number of sailings and port rotations connecting markets in Asia, Europe and the United States.

Shifting carrier alliances and partnerships are likely to keep trending as the market attempts to cure its problems and turn to healthier, long-term solutions.  In the meantime, partners are focused on providing increased choices, increased competition, and increased efficiencies focusing mainly on maintaining competitive rates and reducing port congestion.

# AIRFREIGHT NEWS:

*Global Air Cargo Market Growing, but Fragile*

The global air cargo market experienced its fastest growth rate in 14 months this June, rising 4.3% year-over-year according to data compiled by the International Air Transport Association (IATA). Nevertheless, the organization warned that the air cargo market remains fragile as global overcapacity and political conditions threatening to undermine these gains.

Capacity has been a continued threat to the profitability of air carriers, a gluttony of space overtook demand at a rate of 4.9% year-over-year. The overcapacity is the result of air carrier strategic allocation decisions, the effects of which have been compounded by global political and economic uncertainty. IATA's director general and CEO, Tony Tyler, cited the aftermath of the Brexit vote and generally sluggish world trade volumes as the largest political and economic threats going forward. These lethargic trade volumes are most severe in Latin America, where air cargo dropped an astounding 9.6% as a result of weak economic conditions and the political crisis in Brazil.

Other regions, including Europe, North America, and Asia-Pacific, saw some progress, but capacity increases continued to outpace growth in Asia-Pacific and the Middle East.

## *Airlander 10 Test Flight: Success Until Landing*

The Airlander 10, 'the world's largest aircraft currently flying,' as publicized on Hybrid Air Vehicles website, suffered the world's slowest crash landing last month. As seen on You Tube, the test flight of the hybrid airship manufactured by UK-based Hybrid Air Vehicles ended with a soft thud. No injuries were reported. A spokesman commented to the BBC that, "the flight went really well and the only issue was when it landed."

The company is applying helium technology to develop efficient aircraft that does not need conventional airport infrastructure, making the aircraft ideal for accessing remote areas for logistics and surveillance. The Airlander was initially a U.S. Government project to develop long-endurance surveillance but was dropped during DOD cutbacks.

Its big brother, the Airlander 50, is touted to be able to carry over 50 tons of cargo featuring a cargo bay "in excess of 500 cubic meters." The feature will allow Hybrid Air Vehicles to target the heavy lift cargo market in time for development in early 2020. UK's daily mail has nicknamed the aircraft "The Flying Bum" because of its appearance.

# DOMESTIC NEWS:

## *U.S. DOT Proposes Regulations to Limit Truck Speeds*

On August 26th, U.S. regulators released a proposal requiring speed limiting devices for all newly manufactured trucks with a gross vehicle weight rating over 26,000 lbs. The jointly proposed rule from the Federal Motor Carrier Safety Administration and National Highway Traffic Administration would allow manufacturers three years to comply with the speed limiting mandate. Trucking companies will be required to maintain the speed limiters and regulators are asking the public for comments on a rule to require trucks built after 1990 to be retrofitted.

The committee has not yet defined the set limit, but are opening comments from the public on the impact of setting the limits to 60, 65, or 68 MPH. The regulation is expected to curb trucking and busing companies from compensating drivers that default to excess speeds.

According to federal data, the primary reason for 18% of all large truck fatalities where the truck was as fault was due to speeding. Regulators are hoping with these new rules they can cut down on fatalities and help level the playing field for companies that encourage safe driving.

## *California Wildfire Disrupts Highway, Intermodal Rail Route*

A massive wildfire that started on Tuesday, August 16, in San Bernardino County disrupted both truck and rail routes in California for a week. These disruptions have affected cargo flow both into and out of Los Angeles and Long Beach ports.

Dubbed as the Blue Cut fire, the blaze started in the Cajon Pass and swept quickly through the area. Interstate 15 and other local roads were forced to close and by Wednesday, big rigs were backed up on either side of the Cajon Pass, attempting to wait out the fire closure instead of attempting alternate routes.

Both Union Pacific and the BNSF railways were forced to close portions of their track systems. In a service advisory put out by the BNSF, they reported an "operational impact" and that customers may experience delays of 36 to 48 hours on shipments moving through this corridor. As noted in the Journal of Commerce, a spokesman for the Union Pacific commented that they had "begun rerouting trains around the fire…" and they "do not currently have an estimate when normal operations will resume."

The northbound lane of Interstate 15 re-opened late Wednesday night, with the southbound lane remaining closed until mid-Thursday morning due to continued fire activity. U.S. Forest Service spokeswoman Melody Lardner stated at midday that, "in some areas it's still burning pretty actively."

Two of the BNSF's three lines in that area re-opened late Wednesday, with one remaining closed. Trains started to move slowly, but progress was hampered by the large number of emergency workers in the area, which affected train speeds. Lena Kent, a spokeswoman for the BNSF, said, "We were shut down for about 30 hours…we are working through the backlog. Customers may experience delays of up to 48 hours." Union Pacific spokesman Justin Jacobs reported that, "The fire has affected some of our operations, but we are trying to work through those as best we can." The U.P. lines remained closed Thursday due to fire damage sustained to a 141- foot steel beam on a bridge, in addition to damage to the wooden decking on the bridge.

## *Are Chassis Shortages a Sign that the Market is Picking Up?*

According to the Harbor Trucking Association the average visit time in July at the port of Los Angeles-Long Beach has increased an average of 3 minutes, going from 83 minutes to 86 minutes in the last month. Truckers worry that chassis shortages in July could indicate longer lines and waiting times during the upcoming peak shipping season.

According to Alan McCorkle, vice president at Yusen Terminals in Los Angeles, they have been experiencing chassis shortages since the 4th of July holiday and it has worsened in the last couple of weeks. In addition to longer street dwell times, the chassis-leasing companies have restricted maintenance and repair on equipment at the terminals to the day shift, increasing the number of out-of-order chassis at the terminals.

The Intermodal equipment providers (IEPs), believe there are sufficient chassis in the Los Angeles-Long Beach area to meet the needs of truckers, BCOs, terminals and railroads as long as the containers are returned on time by all parties. The chassis leasing companies also agreed that there are enough chassis in the market, however they are not all where they need to be. The pool of chassis is to ensure that chassis are taken from surplus locations to terminals where there is a deficit.

So far this summer, we have yet to see a true peak season, but the number of chassis on the streets and at the BCO warehouses have increased, and it could be a good indicator that trade volumes are starting to pick up.

## *U.S. Intermodal Rail Network Prepares for 2016 Bumper Harvest*

In past years when the U.S. has experienced a crop that yielded an unusually productive harvest, referred to as a bumper crop, the intermodal rail network has been known to experience extensive congestion and delays. Back then, farmers were complaining of delays from weeks to months for shipping crops via rail to ocean ports. This was a result of a lack of equipment and farmers headed to the secondary markets in order to move their crops, resulting in higher costs per unit.

Now, U.S. exporters are preparing for another productive harvest season as all evidence is pointing to a strong harvest and historic bumper crops for soybeans, wheat, distillers grains, and pulses, or legume grain seeds. Soybean is being forecasted for record numbers with a 3% increase from 2015 and wheat in 2016 is forecasted to be up 13% year-over-year.

All of this additional volume will put a strain on the U.S. rail, but the network is in a much better position today than it was three years ago. Since 2013, there have been considerable investments in rail systems such as new tracks, added personnel and advancements to locomotive power that was simply not available during previous bumper crops.

While only less than 10% of U.S. grain exports are shipped via container vessels, healthy competition from markets overseas should also help to reduce pressure on the intermodal equipment demands. Exporters should still expect to see equipment shortages in places such as Kansas City and Minneapolis and congestion in the Northwest. This simply comes down to supply and demand. Kansas and Minneapolis have fewer inbound shipments than say, Chicago. It is too costly to move empties from Chicago, which always seems to have an abundance of equipment.

Another determining factor in the pressure that will be put on the U.S. grain market will be a direct result of the harvest by other countries. If South America and Asia have a poor harvest it could result in more demand on the U.S. and lead to a larger percentage of grains being exported abroad.

# 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 Jessica Roca, Sr. Import Analyst in New York for her outstanding performance and contributions.

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