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"SHAP" TALK

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In this issue:

TRADE NEWS
CBP's Focus on Centers of Excellence and Expertise
Customs Broker Role Discussed at COAC Meeting
CBP Issues FY2011 Year-End Report
Record Highs for Exports and Imports in March
BIS Proposed Rule: Auxiliary and Miscellaneous Items that No Longer Warrant Control Under the United States Munitions List

COMPLIANCE CORNER
Incoterms In-Depth: C Terms, CIF and CIP

TRANSPORTATION UPDATE
June Update

SAMUEL SHAPIRO & COMPANY, INC. NEWS
Employee of the Month

WE WANT TO HEAR FROM YOU!

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TRADE NEWS

CBP's Focus on Centers of Excellence and Expertise

On May 17, 2012, U.S. Customs and Border Protection (CBP) Acting Commissioner David Aguilar gave testimony to the U.S. House of Representatives on CBP topics including the agency's focus on creating Centers for Excellence and Expertise (CEE). Goals mentioned include:

- Utilizing the Automated Commercial Environment (ACE) system in conjunction with CEE to simplify Customs entry and financial processes with a hope of reducing business costs through one-stop processing
- Strengthening CBP knowledge of key industry processes and practices
- The resolution of trade compliance issues at a national level
- Unifying CBP practices across all ports of entry for greater consistency, predictability, and enforcement effort processes
- Providing tailored support to industry specific issues
- Establishing enforcement risks for each industry

The two current centers are coordinated from Long Beach, CA and New York: the Electronics Center and the Pharmaceuticals, Health & Chemicals Center.

Two new centers will be established by the end of the fiscal year 2012 coordinated from Detroit and Houston: Automotive & Aerospace and the Petroleum, Natural Gas & Minerals Centers.

In fiscal year 2013, CBP expects to establish five more centers, their placement to be determined by collaboration with trade and key industry stakeholders.

Importers are encouraged to continue to use their established ports of entry as CBP will use technology to bring the work to the centers regardless of where the entry occurs.

A program will also be initiated which will provide centralized processing benefits to importers at the CEE level. Priority consideration for participation will include importers participating in the Customs-Trade Partnership Against Terrorism (C-TPAT) and Importer Self Assessment (ISA) programs.

Currently the centers are to focus on risk management and segmentation with an evolving scope in subsequent years. CBP has developed metrics to measure the value of the centers, but there remain many questions about the value to industry and trade.

Additional information on CBP's CEE and the announcement of the new centers can be viewed by visiting the CBP website at: www.cbp.gov.

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Customs Broker Role Discussed at COAC Meeting

On May 22, 2012, the Advisory Committee on Commercial Operations (COAC) met in Savannah, Georgia to discuss various topics including the rewrite of broker regulations in 19 CFR Part 111 and the role of the Customs broker.

U.S. Customs and Border Protection (CBP) stated that they will conduct an intensive outreach program which will include 2-4 all day meetings this summer with brokers and importers which will allow parties to provide input on the rewrite. They will also conduct webinars throughout the summer for brokers to be able to ask questions and to share information which will assist CBP in assessing the economic impact and benefits associated with the proposed changes. The effort will include measures to reach all brokerage professionals including brokerage firms, private practice brokers, and brokers who work for government and importers in the private sector.

As part of the emerging new role of the broker, CBP advised that they will be launching a pilot test of the Importer Self Assessment Pre-Certification Program (ISAPC). The program will allow Customs brokers to vet applicants for readiness and eligibility into CBP's Importer Self Assessment (ISA) program. The program will allow the importer to be approved for ISA in 90 to 120 days vs. the current 9 to 18 months. Requirements for participating brokers will likely include: that they've been C-TPAT certified for at least 3 years, that they've been a licensed broker who has represented importer filers for at least 5 years, have written internal control procedures, and have a history of compliance with CBP without any substantial penalties.

CBP intends to expand from JFK and O'Hare airports a streamlined broker licensing pilot to include the ports of Long Beach, Miami, Detroit, Atlanta, Houston, and Dallas. Changes are to include further automation of the exam application process including a more efficient automated payment process, and to scheduling of the exam. The process will also include an enhanced background investigation. The redesigned process should reduce the licensing process time period from the current 9 to 12 months to 3 months.

CBP has also stated a requirement for continuing education for licensed Customs brokers. A number of methodologies are currently being discussed to achieve the requirement.

COAC concluded that the following amendments should be included in the regulations as part of the rewrite:

- Increasing broker community professionalism
- Changing outdated definitions and procedures that aren't relevant to current broker operations
- A methodology to identify shell or theft importers of record

Proposed amendments should include:

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- Clarification of broker responsibilities in relation to importer of record validations
- Modernization of regulations to current operational practices
- Further "professionalize" the broker through a continuing education requirement

A summary of the COAC meeting can be viewed in its entirety by visiting:
http://www.cbp.gov/xp/cgov/trade/trade_outreach/coac/coac_12_meetings/may22_meeting/

CBP Issues FY2011 Year-End Report

U.S. Customs and Border Protection (CBP) has issued its year-end report for fiscal year 2011. The report reflects the recovery in the U.S. economy, with imports surpassing 2008 levels, their highest point before the economic downturn. Import values increased 10.5 percent to $2.3 trillion, and are projected to continue modest growth in FY2012.

Duty collections increased by $4 billion to nearly $30 billion. Total revenue collected was more than $37 billion, an increase of 16 percent over FY2010.

Entry volume was up by almost 1.3 million entries. CBP projects entry summary volume to easily surpass 30 million entries in FY2012. 49 percent of entry volume was from C-TPAT members, up from 35 percent in FY2010. The value of entries from C-TPAT importers accounted for 55 percent of total import value.

Our top trading partners for import by value were China, Canada, Mexico, and Japan. Interestingly, the number five country for import value is the United States.

The year-end report may be found here:
http://www.cbp.gov/linkhandler/cgov/trade/trade_programs/trade_trends/fy11_yearend.ctt/fy11_yearend.pdf

Record Highs for Exports and Imports in March

On May 10, 2012, the Bureau of Economic Analysis, along with the U.S. Census Bureau issued the March 2012 U.S. International Trade in Goods and Services Report.

For March 2012, the trade deficit in goods and services increased to $51.8 billion from $45.4 billion (revised) in February, as both exports and imports increased to record highs of $186.8 billion and $238.6 billion, respectively.

March goods exports ($131.5 billion) and imports ($198.0 billion) were the highest on record. March saw record exports of Industrial Supplies and Materials ($44.3 billion) and Capital Goods ($44.4 billion). March also saw record highs in imports of Capital

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Goods ($47.7 billion) and Automotive Vehicles, Parts, and Engines ($25.4 billion). March exports ($54.1 billion) and imports ($38.3 billion) of services were also the highest on record.

The Graph of the Month for March shows U.S. Imports of Automobiles (NAICS 3361) from Japan over the last 18 months. The dip in April and May clearly shows the effects of the March 11, 2011 Tohoku earthquake. The graph also shows that automobile imports from Japan have returned to their pre-earthquake levels and have actually increased the past three months.

In addition to the March U.S. International Trade in Goods and Services Report, the Census Bureau also released the U.S. Goods Trade: Imports & Exports by Related-Parties 2011 report.

View the full release with charts and tables, or past reports dating back to 1992 from Census and the Bureau of Economic Analysis at the following link: http://www.bea.gov/newsreleases/international/trade/tradnewsrelease.htm

BIS Proposed Rule: Auxiliary and Miscellaneous Items that No Longer Warrant Control Under the United States Munitions List

On May 18, 2012, the Bureau of Industry and Security (BIS) published a proposed rule for Revisions to the Export Administration Regulations: Auxiliary and Miscellaneous Items that No Longer Warrant Control under the United States Munitions List and Items on the Wassenaar Arrangement Munitions List. Comments must be received by July 2, 2012.

The Bureau of Industry and Security (BIS) published this action to propose how auxiliary and miscellaneous military equipment and related articles the President determines no longer warrant control under Category XIII (Auxiliary Military Equipment) of the United States Munitions List (USML) would be controlled under the Commerce Control List (CCL) in new Export Control Classification Numbers (ECCNs) 0A617,0B617, 0C617, 0D617, and 0E617 as part of the proposed new “600 series” of ECCNs.

This rule proposes also to integrate into those five new ECCNs items within the scope of Wassenaar Arrangement Munitions List (WAML) Category 17 that would be removed from the USML, or that are not specifically identified on the USML or CCL but that are currently subject to USML jurisdiction.

Finally, this rule proposes to control some items now classified under ECCNs 0A018, 0A918 and 0E018 under new ECCNs 0A617 and 0E617. This action would consolidate the above-mentioned auxiliary and miscellaneous military equipment and related articles on the CCL in the proposed new “600 series.” This rule is one of a planned series proposing how various types of articles that the President determines, as part of the Administration’s Export Control Reform Initiative no longer warrant control on the

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USML under the International Traffic in Arms Regulations (ITAR), would be controlled on the CCL in accordance with the requirements of the Export Administration Regulations (EAR).

This proposed rule is being published in conjunction with a proposed rule from the Department of State, Directorate of Defense Trade Controls, which would amend the list of articles controlled by USML Category XIII.

The proposed rule may be found at:
http://www.gpo.gov/fdsys/pkg/FR-2012-05-18/pdf/2012-12124.pdf

COMPLIANCE CORNER

Incoterms In-Depth: C Terms, CIF and CIP

CIF stands for Cost, Insurance, and Freight. CIF and CIP (Carriage and Insurance Paid To) are the only Incoterms that address insurance. Under CIF and CIP, the seller is responsible to obtain cargo insurance. When it comes to insurance coverage under CIF and CIP, it is buyer beware.

If you are the buyer under CIF or CIP terms, you may not be provided with full insurance coverage. The default for CIF and CIP is minimum insurance coverage. It covers only major casualties such as total loss of cargo. For example, the seller is not obligated to cover War Risks. Some countries provide only "FPA" (free of particular average) coverage that would cover loss only due to specific perils such as a sinking or stranded vessel.

Of course, the buyer does have the option of requiring additional coverage from the seller. The seller must provide the buyer with the insurance policy or other evidence of insurance coverage. The insurance should cover 110% of the CIF value. This is industry standard and is what is indicated in the Incoterms.

Insurance is not door to door for CIF and may not be for CIP. CIF is for ocean cargo only, and the terms are to the named port on the buyer's side. If there is damage to the cargo after it has been picked up from the port, the insurance under CIF terms will not cover it and the buyer will be responsible. Therefore, the buyer should obtain his own insurance or make sure the seller provides adequate insurance coverage through to the final destination.

The buyer must also consider that if there were a claim, he would be dealing with an overseas insurance agency. It may be hard to collect when dealing with an overseas insurance company, particularly if there is a language barrier.

The buyer should also question if he is getting a competitive price for the insurance. The seller is likely going to mark up the cost. It may be better for the buyer to arrange

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for insurance outside of the Incoterms. All shipments, both import and export, as well as domestic, should be insured.

C Incoterms are different from the other terms as the risk and cost have two different points. The seller's cost will end at the named destination on the buyer's side, so the seller is in charge of selecting and arranging the main carriage. The seller's risk will end on the seller's side - at the first carrier for CPT and CIP, and at vessel loading for CFR and CIF.

From the U.S. importer perspective, there is not much advantage to using C terms unless the seller gets very favorable shipping rates and passes the savings on. Even so, the buyer has no control over the carrier selection and routing. The big catch with C terms for U.S. importers is freight, insurance and duty. In March 2000, U.S. Customs issued Treasury Decision 00-20 outlining the proper deduction methods for prepaid ocean freight and insurance in order to determine the entered value of imported merchandise. Customs states that if the actual costs are not available or cannot be verified, costs for international transportation and insurance cannot be excluded from the CIF invoice value. These costs can only be deducted if they are the "actual" figures for freight and insurance. "If the importer of record does not know the actual costs for freight, insurance and other costs incident to international shipment, it must declare the entire value without a deduction for freight, insurance and other costs incident to international shipment." [T.D.00-20]

The importer of record is required to use reasonable care to properly value their merchandise**.** Neither estimated freight and/or insurance charges, nor charges outlined by the supplier on the commercial invoice, is acceptable for deductions on the Customs entry.

Customs considers actual costs to constitute those amounts ultimately paid to the international carrier, freight forwarder, insurance company, or other appropriate provider of such services. Customs regards proof of actual cost to be commercial documents to and from the service provider such as:

- An invoice listing freight/insurance costs
- A separate contract listing freight/insurance costs
- A freight/insurance bill
- A rated bill of lading/air waybill
- Proof of payment of freight/insurance charges such as letter of credit, bank statement, check

All of these are examples of documents which may serve as proof of actual freight / insurance costs. If costs are estimated and not documented, Customs considers this a failure to exercise reasonable care on the part of the importer. Customs will disallow the deduction and you can be faced with penalties. It is unacceptable to simply state the freight and insurance charges on the shipper's commercial invoice.

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Therefore, under C terms, U.S. importers end up paying duty on freight and insurance included on the commercial invoice as Customs requires documentary evidence of the actual charges in order to deduct them. It is unlikely you will get this from a seller who has probably marked up the freight and insurance on the commercial invoice. Importers who take these deductions must be prepared to substantiate them. This is a very common valuation error and low hanging fruit for Customs during an audit. Importers should think about this additional and unnecessary duty cost when negotiating a purchase and use an F term instead.

On the flip side, C terms are good for exporters. When you are quoting your foreign customer, it is beneficial to include the cost of getting the goods to the buyer's side. If you quote Ex Works, a prospective buyer may not want to have to deal with making his own freight arrangements. Make it easy for the buyer by including the cost of getting the product to his country. You want to get the best rates possible to make the C terms attractive to your buyers. When you ship on C terms, you have control over the routing which is certainly preferable if you are shipping a controlled item.

TRANSPORTATION UPDATE

June 2012 Updated

INDUSTRY NEWS:

China's Halting Growth Predicted to Impact Supply Chain Decisions
If the old adage about things coming in threes is to be believed, then the Journal of Commerce's Peter Tirschwell's analysis of the threesome that currently impacts supply chain management decisions regarding east-west trade will bear it out. He cites the first of the three as an overinvestment in expectation of a "never-ending stream of compound growth rates exceeding 7percent or higher." The second is financial crisis and recession, impacting housing starts that fueled container growth and employment that fuels consumer spending. It is the third factor, which Tirschwell maintains could be the greatest and have the most enduring negative impact on port volumes, that being the end of China as "a geyser of growth in container volumes".

While Tirschwell does not forecast the end of China as a source of volumes, he believes that the country will remain a "powerhouse for the foreseeable future." Last year China accounted for nearly half of all U.S. container imports. Tirschwell does predict that China's rapid industrialization, responsible for bringing the world's manufacturing to its coasts and converting an inexhaustible supply of labor into an expanding flow of outbound container volumes, has reached its zenith. Tirschwell predicts that China has reached an unmistakable halt in its acquisition of the container market share, and that this will have far reaching implications not just for U.S. ports, but globally, and for logistics service providers as well. He sees this as a "window into an increasingly complex global sourcing environment in which the optimal mix of quality, price, reliability and speed to market is becoming more elusive to retailers and others reliant on container shipping."

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In a brief chronicle of China's history, Tirschwell highlights its start "from nowhere," with its container volume accounting for a small piece of the U.S. market in the early 1990's. By 2001 China's share of U.S. container import volumes climbed to 27.5 percent, and by 2007 it was 47.7 percent, inching up over the next three years to 48.4 percent. According to Tirschwell, this marked the culmination of a six-year period starting in 2004, indicating the slowing of China's rate of market share expansion. Last year, for the first time in a very long time, the country's share declined.

While he advises that China's share isn't plummeting, there is a trend, and in some major commodities, China is no longer growing. This change is being attributed to a pullback in mass migration to coastal areas, hefty labor cost increases and national policies encouraging consumer spending versus dependence on "fickle" export markets as a source of growth. It is predicted that we will witness a fragmenting market, with smaller container markets growing faster than east-west trades, as sourcing shifts and living standards improve.

Journal of Commerce statistics report that average wages in China increased more than 130 percent in seven years up to 2006, and by 20 percent a year from 2005 to 2010. In some areas labor costs are expected to jump 20 percent a year over the next four years. Electricity tariffs have increased 15 percent since 2010, with industrial land prices soaring to $11 to $21 per square foot in many coastal cities – a rate 10 times as expensive as some southern U.S. states. According to Rajiv Biswas, Asia-Pacific chief economist at HIS Global Insight, "Coastal China is a victim of its own success…wage costs on the coast have risen to middle income levels." These rising costs have pushed some companies to countries where inputs are lower. Biswas asserts that many companies no longer need to be on the coast because China's domestic market is increasingly important for sectors which are no longer set up for exports. This industrial shift in production is predicted to have a profound effect on planning by manufacturers and third-party logistics providers to shift their production to the inland areas of China; and according to John Lu, Chairman of the Asian Shippers Council, "as industry migrates inland, the demand for logistics services will increase for both domestic and international shipments".

OCEAN FREIGHT:

Port of Wilmington, DE Seeks Expansion Partnership
According to the Philadelphia Inquirer, the state of Delaware has received proposals from Kinder Morgan, Inc. and Delaware Terminal Operating Co. to expand the port of Wilmington. The port specializes in refrigerated cargo, and expansion plans call for a $500 million deep water terminal on the Delaware River. This expansion on the Delaware would allow the port to be reached by larger vessels, able to take advantage of a channel being deepened to 45 feet.

Peak Season Surcharge Announced for June 10
The Transpacific Stabilization Agreement, a discussion group including 15 of the largest carriers in the trade, has announced a proposed peak season surcharge of

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$600 per 40-foot container, scheduled to take effect on June 10, 2012. According to Brian Conrad, executive administrator of the TSA, "The lines see a strong outlook for the coming months, with utilization already in the 95 percent range."

Carriers successfully implemented rate hikes as they applied to shipments booked by NVO's, with increases effective January 1, March 15 and April 15, 2012. The Drewry Container Rate Benchmark released spot market rates on NVO booked cargo from Hong Kong to Los Angeles that dropped as low as $1,400 per FEU in December 2011, with rates increasing on January 1, 2012 to about $1,800 per-FEU with a doubled increase in the ensuing weeks, reaching $2,337 per FEU in the week of April 30. It should be noted that the TSA has no enforcement powers and that proposed increases are voluntary, with carriers and customers negotiating rates confidentially. The surcharge announced by TSA will also apply to service contract rates negotiated confidentially between retailers and other importers with the ocean carriers.

AIRFREIGHT:

United Airlines sent a memo citing they will refuse cargo that uses Dunnage Bags. These inflatable bags are frequently used to cushion cargo inside containers, crates, and ULD's, however changes in air pressure makes them susceptible to bursting.

There are reports that Delta is to reduce capacity on Trans Atlantic and Pacific routes. Many carriers report possible capacity cuts due to declining freight volumes and high fuel cost. Virgin reported it will discontinue Nairobi service in September, and Cathay Pacific is reducing their estimate of freight and belly capacity to only 4% growth down from 7%.

The Transportation Security Administration (TSA) has announced the deadline for 100% cargo screening on inbound cargo loaded on passenger flights is December 3, 2012. Screening for explosives and other threats on inbound cargo is a part of the mandate by the Sept 11 Commission. Coordinating with international governments and designing security processes to avoid impeding commerce caused earlier delays.

ALERTS:

Hapag-Lloyd Rates to Increase on Major Trade Lanes

Hapag-Lloyd will raise its freight rates on major trade lanes as part of a new rate restoration program.

From East Asia (excluding Japan) to North Europe, the German ocean carrier will apply an increase of $400 per 20-foot equivalent unit, starting June 4.

From North Europe and the Mediterranean to East Asia, the Indian Subcontinent and the Middle East, rates will go up by $225 per TEU, also effective June 4.

Hapag-Lloyd will push its rates up by $100 per dry container on trades from the U.S. to the Indian Subcontinent and the Middle East, starting July 1.

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Reefer shipments from the U.S. West Coast to ports in the Subcontinent and the Middle East will attract an increase of $300 per 40-foot container. From the U.S. East Coast, Hapag-Lloyd's GRI on reefer cargo will be $400 per 40-foot container.

The Subcontinent region includes destinations in India, Pakistan, Sri Lanka and Bangladesh.

OOCL to Impose Rate Increase To and From Europe/USA on July 1
Effective July 1st OOCL will impose a General Rate Increase (GRI) to and from the USA/Europe ports as follows:

- $450 per 20-foot-equivalent unit and $600 per 40- and 45-foot-equivalent units for both westbound and eastbound and applicable to dry and reefer cargo on all the routes and services between Europe, Canada and the U.S. via Canadian ports

- $400 per TEU and $500 per FEU and 45-foot container for both westbound and eastbound and applicable to dry and reefer cargo on all the routes and service between Europe and the U.S.

- $200 per TEU and $300 per FEU and 45-foot container for both westbound and eastbound and applicable to dry and reefer cargo on all the routes and services between Europe and Mexico

SAMUEL SHAPIRO & COMPANY, INC. NEWS

Employee of the Month

As previously featured in "Shap" Talk, Samuel Shapiro & Company, Inc. has been sharing with you the names of employees who have been recognized for their exceptional efforts and contributions to our Company. At Shapiro, we continually work to develop, challenge, and inspire all of our employees to grow individually and with the Company. This month, we would like to recognize Melinda King, Global Supply Chain Import Specialist, for her outstanding performance and contributions.

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

WE WANT TO HEAR FROM YOU!

Do you have suggestions for an article? Is there a topic you'd like us to cover in a future issue? Please let us know! Send your feedback to shaptalk@shapiro.com.

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