SHAP TALK

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In this issue:

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TRADE NEWS:

Trump's Road to Trade Reform – First Order of Business

The topic of trade reform is high on the list of our President-elect. While movers will be hard at work getting our new president and his family into their new Pennsylvania Avenue home, a Trump transition team has already developed a 200-day plan that begins on Day 1 in office. The plan is built around five main principles; renegotiating or fully withdrawing from NAFTA, stopping the Trans-Pacific Partnership deal, targeting unfair imports, ending unfair trade practices, and refocusing attention towards bilateral trade deals. Trump administration's first order of business concerning trade reform: renegotiating or withdrawing from NAFTA.

On Day 1, the Commerce Department and International Trade Commission will begin a study on the potential ramifications of withdrawing from the treaty and what would be required legislatively to do so. Mexico and Canada would be notified that the U.S. intends to propose some amendments to the treaty, which could include measures on currency manipulation, softwood lumber, country of origin labelling, and environmental and safety standards.

For those who think a revision or withdrawal from the NAFTA agreement needs congressional approval, think again. Our new president has Congressional leeway through Presidential Trade Promotion Authority allowing him to act on this one. With the support of other members, he could open the treaty for revisions or withdraw the United States entirely. NAFTA's Article 2205 simply states that a party may withdraw from the agreement six months after it provides written notice.

Canada and Mexico have already begun discussions while preparing the coordination of their public statements. For the U.S., the disadvantages of leaving NAFTA are significant with damage to both jobs and industry. From an economic perspective, the U.S. cannot compete as effectively against the European Union or China and its trade agreements. While the Trump administration is looking for NAFTA to be redesigned with better protections for all parties, free trade agreements are a necessity if the U.S. is to compete in this globalized world.

President-elect Trump Picks Elaine Chao for Department of Transportation Leader

President-elect Trump has selected Elaine Chao for his Transportation Secretary. Her nomination is likely to raise eyebrows and call into question the president-elect's promise to "drain the swamp" to fight the Washington establishment and curb special interests. Elaine Chao has an extensive background within the inner-workings of Washington and is married to Senate Majority leader Mitch McConnell. Her resume is long, and if confirmed, will be her fourth time serving within a presidential cabinet in some capacity. Chao's extensive experience in the executive branch includes serving as Deputy Secretary of Transportation under President George H. W. Bush, Labor Secretary under President George W. Bush, and even chairwoman of the Federal Maritime Commission in the 1980's.

Chao has a track record of rolling back regulations with a pro-business approach, something that has made her a target of unions when she was Labor Secretary. With Trump's aggressive $1 trillion infrastructure investment plan, he'll need a well-connected Washington insider such as Chao to realize such an ambitious goal. Since the majority of new regulations under the Obama administration are yet to be implemented, motor carriers are set for a windfall and may avoid many of these new regulations altogether.

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CBP Establishes New E-Commerce and Small Business Team

U.S. Customs and Border Protection (CBP) recently announced the establishment of the E-Commerce and Small Business Branch within the agency's Office of Trade. Worldwide e-commerce sales are expected to reach over $4 trillion by 2020, and the new branch will work to address the various complexities resulting from this global shift.

"The new branch demonstrates CBP's commitment to support small and microbusinesses while addressing the challenges posed by this dynamic trading environment," said Office of Trade Executive Assistant Commissioner Brenda Smith.

Although CBP is committed to ensuring the safe and legitimate flow of trade, they caution that they will be identifying and preventing inferior and unsafe merchandise from entering into global commerce.

With the increase of online shopping comes the increase of criminal trade. CBP warns consumers to be cautious of holiday shopping scams designed to deceive them into purchasing counterfeit or unsafe goods. CBP reminds the public to beware of goods with prices that are 'too good to be true,' websites that do not provide legitimate phones numbers or addresses, and sellers that do not have good customer feedback.

U.S. Hardwood and Plywood Manufacturers Pursue Duties against Chinese Imports

On November 18th, the Coalition for Fair Trade in Hardwood Plywood, comprised of the six largest hardwood and plywood manufacturers in the U.S., proposed its second petition to levy duties on Chinese imports containing hardwood and plywood. Although the International Trade Commission (ITC) rejected the first petition nearly four years ago, the coalition has held their initial assertion that the Chinese government is offering subsidies to an exorbitant number of Chinese hardwood and plywood manufacturers, contributing to hefty price gouging in the U.S. market.

The product categories outlined in the petition not only include hardwood and plywood in their natural states, but also furniture, cabinetry and recreational vehicles that contain hardwood/plywood components. Based on the perceived severity of Chinese price dumping activities, the petition proposes to instate duties of more than 100% on Chinese imports of hardwood and plywood. The increase in duties would be paid by importers of record in the U.S. and would likely lead to hefty price increases for the end consumer. The ITC is reviewing the petition and is expected to make a ruling prior to April of 2017.

THE Alliance Removes Collective Contracting Language under FMC Scrutiny

Domestic industry is pushing back against the threat of collective purchasing as carrier alliances attempt to extend the power granted by a vessel-sharing agreement's antitrust immunity. The U.S. Federal Maritime Commission (FMC) reviews and approves alliance agreements between carriers to ensure a monopsony power, a market situation in which there is only one buyer, does not adversely affect domestic suppliers of third party services such as tug, barge, bunker fuel, feeder and stevedoring services.

When the FMC approved the creation of the Ocean Alliance, comprised of CMA-CGM, China Cosco Shipping, Evergreen Line, and Orient Overseas Container Line, it was only after extensive adjustments to their original proposal. Federal Maritime Commissioner William P. Doyle cited changes to provisions that allowed for joint contracting and procurement before the final agreement was accepted.

The Transport High Efficiency (THE) Alliance of Hapag-Lloyd, K Line, MOL, NYK Line, and Yang Ming Line, is next in line for FMC scrutiny. THE Alliance has already submitted alternative language, removing the controversial language that is inciting domestic industries.

The America Waterways Operators (AWO) and the Institute of International Container Lessors (IICL) in combination with Assistant Attorney General Renata B. Hesse urged caution to the FMC when reviewing THE Alliance's original proposal. The industry feared that if one alliance is granted permission for collective bargaining, remaining alliances would seek similar permissions.

"The crux of the matter is that the Federal Maritime Commission can approve ocean carrier alliances, thereby immunizing ocean carriers from certain antitrust-related activity, but the commission does not have the authority to grant immunization for domestic service providers," Doyle wrote in a published follow-up by the FMC.

EU-Canada Comprehensive Economic and Trade Agreement (CETA)

On October 30, 2016, the European Union (EU) and Canada signed the Comprehensive Economic and Trade Agreement (CETA). The deal is a comprehensive agreement designed to boost trade, strengthen economic relations, and create jobs. CETA seeks to make trade with Canada easier by removing 99% of tariff's, substantially improve access to public contracts, open up new sectors of the Canadian services market, offer predictable conditions for investors, and protect geographical indications.

CETA is the first trade agreement between the EU and a major world economy. It is also the most far-reaching bilateral trade agreement negotiated to date. The deal addresses a wide range of issues at the Canadian federal and provincial level that affect European exports of goods and services to Canada. The trade deal will also makes it easier for EU to invest and do business in Canada through a more predictable business environment.

After the agreement is signed, the Member States of European Parliament must approve provisional application. Once all Member States conclude their national ratification procedures, the agreement will be implemented and business can start reaping the benefits.

For additional information, please refer to the Europa website's CETA Fact Sheet.

ACE Reports Catalog

Customs and Border Protection (CBP) issued an ACE Reports Catalog of "canned" reports that are designed to assist the trade community with various business needs and to encourage overall use of the ACE reporting tool. The catalog will be updated as report capabilities change and each update will be marked with the month and year of issuance.

The Automated Commercial Environment (ACE) continues to shape CBP's mission by data mining information to address specific areas of compliance. Importers and exporters must be ahead of the game and run their own reports to audit and identify any areas of concern with their importations.

The reports catalog various reports on the following topics:

- *AD/CVD*
- *Cargo Release*
- *Entry Summary*
- *Manifest*
- *Protest*
- *Revenue*
- *Trade Export*

In conjunction with the catalog, CBP has made "how to" video training available in addition to the ACE Reports User Guide to assist the trade in running these reports in ACE.

Revision of U.S. Munitions List Categories VIII and XIX

The Bureau of Industry and Security, Department of Commerce, along with the Department of State have issued companion rules regarding clarifications and revisions to Military Aircraft, Gas Turbine Engines and Related Items License Requirements. The effective date of both rules is December 31, 2016.

These changes are a result of the Export Control Reform effort (ECR). These rules revise Commerce Control List (CCL) controls on certain 600 series aircraft and military gas turbine engines and related parts, components, accessories and attachments, and makes related changes to the United States Munitions List.

These rules clarify the treatment of certain transport aircraft and marine gas turbine engines along with certain military parachute systems and materials. It expands the scope of certain .y paragraphs under the CCL, and it clarifies that a note related to control of unfinished articles applies to all 600 series, product group "A" ECCNs.

For more information, visit the Federal Register's BIS Rule and State Rule.

Tariff Changes in 2017

Every five years, the World Customs Organization (WCO) reviews the harmonized schedule and makes changes that affect each member country's tariff schedule. In 2017, there will be a larger impact than the updates issued in the previous 2012 review.

There are 233 announced changes up to the 6th digit level across numerous chapters including agriculture, chemicals, wood, textiles and machinery. For example, an update to monopods, bipods and tripods now classifies the commodity under a newly created 9620.00 tariff. Currently, microphone stands (monopods) are classified under 8529.90 as articles used with microphones, and camera tripods are currently classified under the material they are made of.

It is the responsibility of each member country to update their tariff with all published updates, which may take several months. The U.S. International Trade Commission (USITC) has not yet published the 2017 tariff.

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ILA Meets Early in Preparation of Labor Talks

While the current contract between International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) is not due to expire until September of 2018, informal meetings are expected to take place this February to start work on the next round of contract negotiations. The contract governs the relationship between terminal operators and the union from Maine down to Texas and covers master issues like wages and benefits as well as local, port-specific issues such as work rules.

The start of early negotiations between the ILA and USMX are seen as a positive sign by many in the industry, especially following difficult negotiations between the two parties in 2012 and 2013. And they aren't the only ones. The International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) have also announced intentions for early discussions for contract extension covering West Coast terminals. These early collaborative efforts are seen as a cautious attempt to avoid the crippling disruptions felt globally when 2015 contract negotiations between the ILWU and PMA deteriorated into chaos.

The upcoming talks will take place in Florida, preceded by internal meetings by both the ILA and USMX. In addition to wage and benefits issues, topics related to jurisdiction over container chassis repair and maintenance and terminal automation initiatives are also expected to dominate discussions as the face of U.S. ocean shipping continues to shift to one that is more automated and decentralized.

Robotics and Their Role in the Future of China's Factories

Year-over-year, increases in Chinese factory wages have some retailers and importers, especially in the apparel, garment, textile and footwear industries, look towards new means of lower cost production in surrounding southeast Asian countries. However, these retailers and importers may take some measure of relief knowing that China's new focus on factory automation and industrial robotics are likely to alleviate most, if not all, of the financial burdens caused by flourishing Chinese factory wages, which are up 64% over the last 15 years.

The Chinese government understands the importance of retaining its status as the world's leading manufacturer and is offering numerous subsidies to factories who purchase and implement robotics systems within their facilities. In 2015, Chinese suppliers purchased over 67,000 units of robotic equipment for factory use and that number is expected to nearly double by 2018.

Aside from aiding in preserving their existing business structure, industrial robotics and automation also prepare Chinese factories to pave the way for a future that is likely to be dominated by ecommerce and fulfillment models. New automation and robotics will further expedite the development of goods and delivery times, which will allow Chinese factories to more efficiently meet the low pricing and hasty delivery times required by ecommerce models. The new, robot-dominated factories should keep consumers and importers happy for decades to come, though they could have negative implications for the current state of factory workers.

TRANSPORTATION & OCEAN FREIGHT NEWS

Industry News:

Black Friday Special: 30% Off Last Summer's Rates If You Book Now!

Much like those commercials you saw while digesting Thanksgiving dinner which offered deep discounts to consumers, Trans-Pacific ocean freight rates are looking like a Black Friday cliché – further declining since the end of November. The weeks following Thanksgiving have historically seen a dip in ocean freight rates from China to the U.S. Generally, the drop is usually attributed to lower demand after the rush to get shelves stocked prior the holiday retail season. Cargo vessels are showing available space and rates have dropped again, thus helping shippers have an even merrier Christmas season.

For the ocean carriers, however, it's more like a lump of coal in their stocking. Not all hope is lost, though, as efforts are being made on their side to get rates back up to more desired levels, including an announced December 15th GRI of $600/40' and a $1000/40' GRI for the first of the year. Looking ahead to early 2017, there is still uncertainty of what rates will do. Signs point to an earlier-than-previous Chinese New Year (CNY) causing a spike in demand much sooner than last year's pre-Chinese New Year rush. This could be good news for carriers and most definitely at the top of their Christmas wish list.

Maersk Buys Smaller Rival Hamburg Süd

A.P. Moller-Maersk has officially agreed to buy its smaller German rival, Hamburg Süd, which is part of Oetker Group. Hamburg Süd is the world's seventh largest container shipping line and operates 130 container vessels. According to August Oetker, chairman of the advisory board behind the management of Oetker Group, the decision was a difficult one for the company to make; however, they are confident in their decision and believe they chose the best possible partners. The deal is Maersk Line's first complete takeover in more than a decade and resulted in a five percent increase in its share price. A.P Moller-Maersk announced plans to provide further details following the approval of the purchase agreement in the early second quarter of 2017.

Maersk Line's newly combined fleet will consist of 741 container vessels with an average age of 8.7 years. The consolidation will allow it to boost its presence in global trade, specifically in Latin America. The takeover highlights the merging drive in container shipping which has been tackling low freight rates and oversupply. Other container lines have also adopted strategic acquisition to build scale. CMA CGM, for instance, closed a deal this year for Neptune Orient Lines which has given it market leadership on Trans-Pacific routes.

Ports of Virginia and Philadelphia Upgrade Port Facilities

The Port of Philadelphia has announced that it will receive state funding of over $300 million for improvements to port facilities, including warehousing, equipment, and infrastructure. Work is expected to begin in early 2017 and continue through 2020. Recently, the Port of Philadelphia decided to scrap plans for a new marine terminal at Southport in favor of improving existing infrastructure to expand its processing of automobiles.

The Port of Philadelphia's goals to double container capacity, create an immediate solution for the handling of automobile business, and expanding the Tioga terminal to better handle break-bulk cargo. The container terminal at Packer Avenue will receive four new electric powered, post-Panamax container cranes to handle the larger vessels now passing through the Panama Canal. The port's container capacity will more than double to 900,000 TEUs with a goal to exceed 1.2 million TEUs in the future.

At the same time that the Packer Avenue terminal is upgraded, the Delaware River's main channel will be deepened from the current 40 feet to a depth of up to 45 feet in order to accommodate larger vessels. Final improvements will be at Tioga Marine Terminal with on-dock warehouse improvements and the conversion of a second warehouse to handle food-grade cargo. Rail access will be improved with the purchase of a mobile crane, used to place cargo on the rail at the terminal.

The Port of Virginia has also approved a $350 million contract with a Finnish manufacturer to purchase 86 rail-mounted gantry cranes (RMGs), used to stack and transfer ocean containers at the terminal and onto the rail. $670 million has been approved to finance the new initiatives including crane additions, improvements to the Norfolk International Terminal's (NIT) layout, and new truck gates.

The upgrades to NIT will allow the Port of Virginia to handle and additional 1 million containers annually. The port will begin to take delivery of the cranes in 2018 and will continue through 2020. The Port of Virginia seeks to become the most modernized facility on the U.S. East Coast.

Port of Virginia Sets Box Volume Record in October

Ocean carriers continue to call the Port of Virginia due to its mid-Atlantic location and its ability to handle the new mega vessels. In the month of October, the Port of Virginia set a record for the single-busiest month in the port's history by handling 238,567 TEUs; a 2.2 percent increase year-over-year.

Rail volumes for the month of October were also up 12.8 percent when compared to October 2015. In addition, the James River shuttle service, which opened in 2008, had their best month with a 52 percent year-over-year increase. An increase in rail and barge traffic creates port efficiency because it strategically decreases traffic on local roads and highways, allow the facility to accommodate larger vessels.

The Port of Virginia has posted TEU volumes of greater than 210,000 in the last eight consecutive months. They have seen a 1.9 percent increase in container volumes since the beginning of the calendar year, while rail moves in and out of terminals have risen 12 percent since the same time period last year. In 2015, the Port of Virginia set a container record of 2.5 million TEUs.

Currently, there are only three ports on the U.S. East Coast that have a 50-foot harbor and can handle the fully loaded mega vessels, and the Port of Virginia is one of them. Their mid-Atlantic location provides many rail options, making the port a gateway to the Midwest. Importers are able to lower their transportation costs by moving from a southern port such as Miami to Virginia because of the supplemental rail options. Additionally, continuous infrastructure upgrades that focus on rail, road and port optimization are geared toward improving traffic and the flow of cargo.

AIRFREIGHT NEWS:

Air Freight Market Hits Peak

China to U.S. airfreight market has finally reached annual peak season rates. Early 2016 predictions have proved true as the market saw slow – painfully slow – global growth; trying to predict when the rates would peak has been tough. While analysts remained skeptical that continued demand would result in a strong peak air season, increased prices and volatility show the market performing stronger than last year's holiday season.

Overall, PACTL, Shanghai's largest air cargo terminal, cited year-over-year growth in October of 8.9%, its highest volume ever. Hong Kong's volume was up 7.1% year-over-year in the same month, supported by Cathay Pacific's volume growth, its largest source of cargo. The increased demand has allowed air carriers to push rates closer to historical peak season levels.

But does the increase in cargo volumes point to a lasting trend? Industry analysts are not yet ready to commit. Peak season is helped by yearly launches of new electronics in time for peak shopping periods, not to mention this year's reshipping of the defective Samsung Galaxy Note 7. Additionally, while many anticipated for stranded Hanjin cargo to affect the peak, there is has been no empirical evidence to definitely suggest a connected trend. Typically, airfreight rates can be expected to ease between holidays leading up towards Chinese New Year.

Pilot Strike at ABX Air

On the official start of the holiday shopping season, 250 pilots employed by ABX Air went on strike to protest alleged staffing shortages. ABX Air operated 35 daily flights for Amazon.com and 45 for DHL Worldwide Express.

Amazon, which dominates e-commerce sales in the U.S., said it had avoided delays so far by shifting some volume to UPS and Fedex, as well as to some other smaller parcel shippers. DHL on the other hand, informed its customers of the strike, possibly delaying inbound deliveries.

In a hearing Wednesday evening in Cincinnati, the Federal District Court granted ABX Air a temporary restraining order ending the strike, according to representatives of the company and pilot union, ordering striking airline cargo pilots to immediately resume work while negotiations continued.

Amazon has always discouraged its warehouse employees across the country from forming unions, arguing that they would interfere with the company's ability to innovate inside the facilities. The strike by the ABX Air pilots shows how some segments of its logistics network could still be affected by organized labor.

DOMESTIC NEWS:

Has the Trucking Market Finally Hit Rock Bottom?

It has been no secret that the U.S. trucking industry has going through a tumultuous few months; but now, some drayage carriers believe the market has hit rock bottom and will begin to rebound. Overall, 2016 has been an interesting chapter for ocean carriers, truckers, warehousing, and all the other components of international supply chains. Following low consumer demand, rising inventories, and reduced demand for domestic carrier services, truckers are hoping to see some light at the end of the tunnel.

Although U.S. truckload rates fell for the eighth consecutive month and volumes declined for the second month in a row, industry experts believe the market is beginning to make a U-turn. At the 2016 JOC Inland Distribution Conference, executives from leading motor carriers in the U.S. expressed optimism in profitability and the industry's 2017 direction.

"We hit bottom, and we're bouncing back up and there's some possibility we could see a bigger lift in the second quarter rather than waiting until the end of the year," Gregory Ritter, CCO of XPO Logistics, told attendees. While Ritter's outlook is hopeful for many trucking companies, a Hub Group Executive VP defended a more moderate 2017, citing it could be until 2018 for the industry to see significant changes.

SHAPIRO NEWS:

The Baltimore Sun Names Shapiro as a Top Workplace for the Sixth Year in a Row

Shapiro has been named one of Baltimore's best places to work for the sixth year in a row by the Baltimore Sun. Firms were nominated and then evaluated using confidential surveys conducted by Workplace Dynamics, a leading research firm on organizational health and employee engagement which focuses on gauging employees' satisfaction in multiple categories, including corporate direction, execution, pay/benefits, and engagement.

Shapiro ranked as number 58 out of 65 companies on the small employers list. The company employs a little over 90 employees in its headquarters office in Baltimore with additional offices along the East Coast in Rosedale, New York; Philadelphia, PA; Charleston, SC; and Dulles, VA, with a total of approximately 140 employees. Shapiro is now in its third generation of family ownership and management.

"Samuel Shapiro & Company is honored to be selected as a 'Top Workplace' for the sixth consecutive year by the Baltimore Sun and, almost importantly, by our family of employees," said Margie Shapiro, the company's president and CEO. "Our mission statement is 'We Deliver. Problem Solved.' This promise to our customers continues to be delivered by passionate, creative people with the fire and commitment to design the best logistics solutions in the business."

The Baltimore Sun published the complete list of Top Workplaces on December 4th.

For more information about the Top Workplaces lists and Workplace Dynamics, please visit

www.topworkplaces.com and www.workplacedynamics.com.

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 Carlos Pastor, Trade Lane Development Supervisor for his outstanding performance and contributions.

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