Shap Talk

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WE WANT TO HEAR FROM YOU!

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TRADE NEWS:

CPSC Import Assistance Program

Whether you are an importer or consumer, you've come across the agency known as the Consumer Protection Safety Commission (CPSC) at some point in time. CPSC is tasked with issuing and enforcing standards on consumer products, developing voluntary standards for manufacturers and businesses, researching possible dangerous and hazardous products and informing and educating consumers. They play a major role in the safety and protection of the U.S. consumer.

Labeling Errors

While CPSC investigates a wide variety of commodities, they deal most often with toy importation issues. One of the biggest and most common errors seen is labeling or "tracking label issues." Toys designed primarily for use by children under the age of 12 must contain distinguished, permanent marks affixed to both the product and package. These must contain:

- Manufacturer or private labeler name
- Location and date of production
- Detailed information on the manufacturing process, such as a batch, run number or other identifying characteristic
- Any other pertinent information to help facilitate determining the specific source of the product

Other labeling requirements may be needed based on the specific type of toy.

Missing Test Documentation

CPSC also commonly sees toys imported without all necessary documentation. Certain toys require specific lab testing documentation to verify if the item contains any lead at the time of import. All accessible component parts of a children's product must be tested to demonstrate compliance with the lead content limit. This must be conducted at a third-party, CPSC-accepted laboratory. In other instances, items may be lacking the necessary trademark agreements.

While CPSC is not the agency that enforces this requirement, they are able to request any necessary documentation for suspicious trademarks to assist with their investigation of the product. Trademark owners can permit someone else to use a trademark in connection with specific products or services. A trademark agreement must be presented at the time of import between owner and importer, along with other commercial documentation.

CPSC offers a "Regulatory Robot" program to assist importers in identifying product safety requirements on regulated items. This program can assist with a variety of commodities including textiles, apparel, children transport/carrier devices, jewelry, bags and accessories.

For more information on the "The Regulatory Robot", visit https://business.cpsc.gov/robot/.

As always, we are here to help, so please reach out to compliance@shapiro.com if you have any questions about CPSC import assistance.

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Bond Requirements Continue to Surge

Importers continue to feel the effects of the Section 301 Tariffs on Chinese goods. Rising bonds often accompany increased tariffs, and these bonds mean extra charges and harm to your bottom line. Additionally, underwriters can also ask for collateral to cover the supplemental risks involved. These fees can create hardship and weigh heavily on companies operating with thin profit margins.

CBP requires importers to post a bond that represents 10% of their duties, taxes and fees for a rolling 12-month window. Forecasting this magic number has been quite burdensome for some importers as they scramble to calculate the potential tariff adjustments and changes to their supply chain.

In the last 12 months, some clients have received more than one insufficiency notice. We've also seen many clients that are being required to post full collateral on their bonds with cash deposits or letters of credit. Importers who have found and moved manufacturing sources outside of China may not see the full benefits of reduced bonding requirements for 6 to 12 months, depending on CBP's evaluation of historical import data to determine bond sufficiency.

Some importers are challenging bond sufficiency requirements. In an interesting ruling, the Court of International Trade ruled in favor of an importer who challenged increased CBP bonding requirements on December 7, 2018. Tabacos USA had filed the lawsuit after CBP denied their request to reconsider increased bond requirements.

Importers should take a hard look at their bond at the time of renewal. It is a perfect time to evaluate your business, your current tariff rates, and to factor in future growth to ensure that your existing bond will meet your needs over the next 12 months.

Reach out to Shapiro's Compliance Team for assistance in offering your bond and import compliance program some spring cleaning!

Trump Postpones U.S.- Mexico Border Closure

In March, President Trump threatened to close the U.S. border with Mexico in light of the continued issues stemming from the perceived immigration crisis. Trump's announcement is the latest in a series of escalated threats against Mexico in his pursuit of border security.

However, a week after his initial threat, Trump announced that in lieu of a border closure, he would first turn towards less drastic measures. He revealed plans to add tariffs on Mexican products in order to encourage Mexico to control its border crisis. He explained, "We're going to give them a one-year warning, and if the drugs don't stop or (are) largely stopped, we're going to put tariffs on Mexico and products, in particular, the cars…and if that doesn't stop the drugs, we close the border."

Although Trump's decision seems to postpone imminent closure of the U.S.-Mexico border, it does not actually guarantee that the border won't close in less than a year. When faced with questions from reporters, Trump made sure to clarify that he "didn't say that" it was impossible; it will largely depend on Mexico's actions.

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At this time, it's unclear whether the closure would apply to all traffic and immigration processes or if it would solely apply to pedestrian traffic. If the closure applies to pedestrian traffic only, any workers needing to cross the border on their daily commute will be unable to do so. Should the border close to commercial traffic, all ground shipments moving via commercial truck and rail would be prohibited from crossing the border. It's uncertain whether or not trusted trade members, such as C-TPAT or SENTRI members, would be exempt from such closures.

U.S. firms importing or exporting to Mexico are already preparing for disruption. Many shippers have reacted to Trump's announcement by moving high priority goods across the border before any major halt or closure is made. However, many are already beginning to feel the effects of the rapidly worsening congestion at several Mexican ports following CBP's (US Customs and Border Protection) decision to cut freight processing capacity at the Mexican border by 30-40% to better support immigration processes.

Combined with upcoming Holy Week celebrations and spring breakers in Mexico, the U.S.-Mexico border is already slammed with higher than normal traffic. CBP reports that commercial trucks are now averaging 7 hours to cross the border – an increase from last week's estimation of 4-5 hours. As the Mexican produce season begins, exporters need to evaluate how to ensure their U.S.-bound freight makes it across the border prior to expiration.

While folks on either side of the political spectrum may argue about Trump's decision, one thing remains clear for international trade; the uncertainty of Trump's actions could potentially wreak havoc on supply chains.

Worried your supply chain may be affected by the U.S.-Mexico border slowdown? Contact our marketing team today to see how Shapiro can help you avoid unnecessary delays!

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TRANSPORTATION NEWS

IMO 2020 Fuel Regulations Could Result in More Transshipments, Slower Vessels

Shippers will face increased fuel costs as the result of the International Maritime Organization's (IMO) deadline for carriers to use cleaner fuel with a sulfur content cap of 0.5% in 2020. However, industry insiders are warning that carriers could potentially take other actions to meet the IMO deadline, which may in fact have broader implications for the shipping community at large.

Industry analyst Drewry warned that some carriers may not be able to pass on the costs associated with meeting IMO's requirements, resulting in possible operational budget gaps. The analyst has warned that carriers' have a historically low industry success rate (approximately 50%) when implementing fuel rate hikes on shippers partially or in full which would result in carriers evaluating other opportunities to mitigate operational costs, particularly fuel costs. Such options include, but are not limited to, utilizing slower vessels and increasing transshipments to help maintain competitive transit times between key ports, at the expense of transit times from smaller ports.

A shift toward more transshipments and slower vessels is likely to be met with much derision from the shipping community, as transshipments both increase overall transit time and decrease shipper's visibility on their containers in transit. This makes auditing port to port transit times more difficult, as transshipment ports can change, often with little to no notification to customers by the carriers.

IMO 2020 fuel regulations represent yet another disruption to our ever-evolving industry.
If you are feeling overwhelmed by the rate of change, contact our marketing experts today for more information on how Shapiro can help you navigate these new waters.

Intermodal Investments Improve Supply Chains in Brazil

The Brazilian trucker strike that occurred in May 2018 continues to rock supply chains. The strike commenced throughout Brazil's peak shipping season, causing port congestion and space issues. This led to delivery delays on all sides of the supply chain, causing shippers and investors to lose confidence. Though the immediacy of the situation has since subsided, labor disputes continue to resonate in the region.

The Brazilian government has agreed to establish the Minimum Freight Rate Table (MFRT) under the terms of recent labor negotiations, which will allow truckers to charge 50-300% more per trip. The move will certainly increase the availability of independent truckers and has encouraged beef and chicken exporters to acquire additional trucks as well.

Since the onset of the crisis last year, players with higher stakes in Brazil's success, such as Maersk and Brado, have begun investing heavily in intermodal improvements in an effort to establish and maintain control over end-to-end supply chain operations.

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Aliança Navegação, Maersk's sister company, added 50 trucks to their existing fleet of 169 trucks to improve access to an often difficult and isolated southeast Brazil. The company has also moved forward with its plans to build a new terminal in the ABC industrial region. The investment will better connect São Bernardo do Campo with the port of Santos and the city of São Paulo.

Though the investments primarily aim to improve supply chain operations, they've also proven to be profitable. Maersk reported 20% year-over-year growth in 2018 and has already increased by 225% in the first quarter of 2019. Moreover, Aliança reported that cabotage volume rates increased nearly 16%. Brazilian intermodal provider Brado reported a 75% increase in container shipments, nearing a total of 280,000 TEUs in 2018. Moreover, such increases in trucking and regional accessibility have projected a 20% boost in 2019 rail volumes. Brado is also investing in trucks to assist with drayage due to the added pressure on the company's existing equipment.

Shapiro is intimately familiar with the political and logistical landscape of Brazil, so please contact us today so we can assist in creating efficient process for your Brazilian imports and/or exports.

Shippers Face Price Surcharges on Truckloads

Trucking companies are reportedly increasing fuel surcharges and other accessorial fees in an attempt to offset the rise in shipping costs incurred annually. Carriers have recently opted to charge 'special delivery fees' in lieu of standard rate increases to bridge any gaps or losses that exist in their business profitability.

Effective March 18, 2019, FedEx implemented higher fuel surcharges on multiple services; there was a 4% increase on FedEx Ground and an 11% increase in FedEx Express respectively.

Frustrated shippers decry the recent decisions, such as FedEx's, attributing the fee adjustments on their shipments as little more than an act of greed to boost the rates and overall bottom line of the carriers. However, parcel companies continue to justify the price hikes as part of a routine process used to regularly review and audit surcharges based on changing market conditions.

Examples of past and potential accessorial fees to look-out for:

Past Fees	• Repositioning of trailers • Electronic Logging Devic (ELD) for truck drivers • Capacity surge related maintenance
Potential Fees	• Use of liftgate • Redeliveries • Layovers • Less-than-truckload (LTL) reclassifications or reweighing • Inside deliveries • Loading/unloading of drivers • Detention and demurrage

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Market conditions and customer relationships will play a pivotal role in determining if and how much a carrier may leverage on a given shipment. Accessorial fees will hurt worse for shippers when market capacity, and therefore negotiating power, is low, but should sting less once conditions rebalance.

Shippers utilizing parcel carriers (FedEx and UPS) are more likely to be hit with higher prices due to their negotiating disadvantage in a low-competitive sector. Also, the technology used by this carrier niche allows them to more accurately track and trace applicable fuel surcharges routinely. On average, accessorial fees account for more than 10% of their profit annually.

Conversely, big sector LTL trucking companies are less likely to leverage such fees due to the highly saturated competition, while market conditions will likely determine the number of fees charged in the smaller sector. Accessorial fees only account for less than 5% of their annual revenue.

Interestingly, carriers have used surcharges to try and manipulate past customer behavior. Effective 2018, UPS increased fees on packages exceeding maximum size limits in an effort to deter customers from inefficient, bulky and oversized shipments. Carriers hope that a stick (sans carrot) approach may provide the motivation and incentive shippers need to reevaluate their relationships and often unrealistic demand expectations.

Contact our experienced drayage and delivery team today to learn about our country-wide network of inland freight vendors available for your cargo.

Trans-Pacific Blank Sailings: Voidable or Unavoidable?

As we enter the second quarter of 2019, recent data suggests importers will see an uptick in blank sailings this year due to the continued downward trends in Trans-Pacific spot rates and total import volume.

Carriers announced a total of 35 blank sailings (22 West Coast bound services and 13 East Coast bound services) from February to early March in response to struggles with balancing capacity and demand. Another 10 sailing cancelations had been reported by members in the OCEAN Alliance. Ocean reliability has also declined to 40%.

March spot rates demonstrated decline year-over-year in quarter one when compared to January and February 2019. In March, sailings from Shanghai to the East Coast were $2,357 per FEU; a 4.9% decrease from February and a 26% decrease from January rates. Similarly, spot rates from Shanghai to the West Coast were $1,345 per FEU in March; a 6% decrease from February rates and a 36% decrease from January.

Capacity adjustments, such as blank sailings, and falling Asian imports suggest a flat year for most individual and alliance carriers. Alphaliner recently announced that "this year, the carriers' cautious approach marks the first time since 2009 that no new trans-Pacific services are to be introduced on the route for the summer's peak shipping season." Although its alliances will maintain current Asia to East Coast sailings, the liner shared plans to reduce its Asia to West Coast sailings from 37 to 36 per week.

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At present, overall demand growth hovers at 4% across industry averages, while capacity is expected to grow at a more modest rate of 2.5%.

The salty aftertaste from disappointing 2018-2019 rates caused dissatisfied carriers to shrink capacity to the West Coast by 6% and to the East Coast by 1.3%, just as the uptick in frontloading began ahead of Section 301 tariffs on Chinese imports. Spot rates reached record peaks in wake of limited vessel space and booking availability and have lingered with the uncertainty of U.S. – China trade relations.

Carriers' appear to be unveiling a new propensity that shifts away from a month-to-month strategy based on canceled sailings and extra-loader vessels during demand spikes, and instead moves towards more durable and sustainable service schedules. The marked differences between the upcoming sailing service management and Q3-Q4 2018 service offerings is expected to carry through the 2019-2020 contract season.

Walmart Continues to Press Suppliers on OTIF Requirements

Beginning in May, Walmart will increase its requirements for on-time and in-full delivery (OTIF) for its full and partial truckload suppliers. The recent OTIF program lays out penalties for delivery times and order quantities outside of the specified ranges, with non-compliant suppliers incurring a 3% penalty assessed on the cost of goods sold.

The new mandates will increase the required compliance ratio for delivery within a two-day window from 85% to 87% for full truckload suppliers and from 50% to 70% for full partial truckload suppliers. Walmart has emphasized that such increases are necessary to meet their inventory reduction goals and will result in greater supply chain precision.

Supply chain experts, including former Walmart Senior Vice President of Transportation Tracy Rosser, suggest that while these stringent requirements may present initial pain for suppliers to achieve compliance, they will ultimately result in a net benefit for suppliers by decreasing overall supply chain inventory and increasing sales by reducing the risk of stockouts. "There is far less inventory in the stores," says Rosser. "If you are a supplier, that means the likelihood of your product making it from truck to shelf is significantly greater, and sales will improve."

Other industry experts suggest that the industry as a whole will move in the direction of greater compliance with required delivery dates and fill rates, as today's hyper-competitive market with dynamic e-commerce and omni-channel retailers leave little room and patience for stockouts.

If you are sourcing from abroad, timely delivery to your customer begins with timely international transportation. Contact our marketing experts today for information on how Shapiro can enhance visibility of your supply chain and optimize your logistics network.

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East – West Cargo Rates Warming Up

Demand for air freight space from China to the U.S. fell off after late 2018 holidays, as expected, but did not pick up for a strong peak prior to CNY 2019. Rates had fallen to very low levels and dulled the outlook for previously forecasted growth due to trade uncertainty, economic slowdown and increased capacity.

Despite available capacity, we are seeing rates warm up alongside the weather, as they usually do this time of year. Demand normally leads to increased rates prior to springtime holiday closures in China, as well as any unexpected launches of electronic products that suck up an entire week's worth of capacity. We are seeing the upward trend and it is expected to last through Easter.

With rates changing weekly we'll keep watching for the best space and rates to fit your timeline and budget. Reach out to us today for a quote!

Cracking the Code for Istanbul's New Airport

The long-awaited transition for Turkey's new international airport to handle cargo has begun. Knowing that the main airport codes will swap is essential and key to avoiding problematic or chaotic shipments.

The new airport, officially named Istanbul Airport, had opened for a slow trickle of new flights in October 2018 under the airport code ISL. It is said to be the world's biggest single terminal airport with the capacity to handle 105 to 200 million passengers a year. Reportedly, it will offer 2.5 million tons of cargo capacity at first and will then scale up for both passenger and cargo over the next decade.

Several air carriers have issued information outlining how they will handle the initial cargo transitioning stages set to begin in early April 2019. Turkey's current main airport, Istanbul Ataturk Airport (airport code IST), closed for passenger service as of April 6, 2019 and switched codes with the new airport (taking on the code ISL, while their old code (IST) transferred to the new airport). This might prove confusing for a while as carriers operate at both airports.

The previous transfer dates had been pushed back several times, as the logistics of such a move created complications since the inception of the project. While all major airlines have moved operations into the new airport, there is still major construction and work to be done outside the main terminal.

It's important to keep these impending changes in mind for any cargo arriving or departing from Turkey in the coming months!

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SHAPIRO NEWS:

Employee of the Month

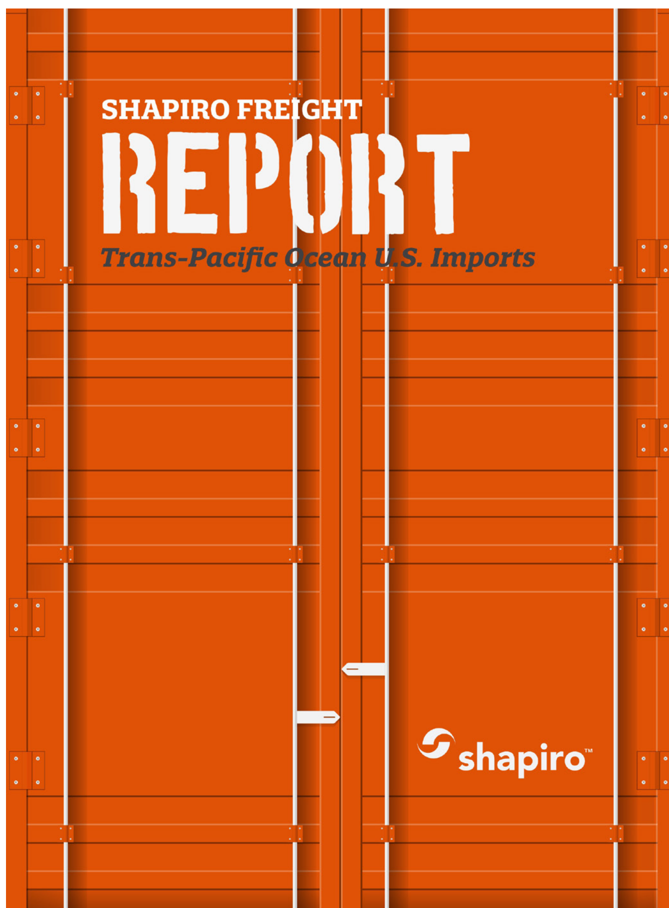
As previously featured in Shap Talk, Shapiro has been sharing with you the names of employees who have been recognized for their exceptional efforts and contributions to our Company. At Shapiro, we continually work to develop, challenge, and inspire all of our employees to grow individually and with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

This month, we would like to recognize **Sherry Oerman-Combs, Global Logistics Specialist, Export**, for her outstanding performance and contributions.

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

Shapiro Freight Report

This high-level, monthly review of the U.S. import freight market provides key insights into the tumultuous world of international shipping. From carrier alliances to labor strikes, Shapiro covers the pertinent information logistics managers need to know. Check back monthly to ensure you don't miss key industry insights!



MARCH MADNESS: SQUEEZING THE RELIABILITY OUT OF SAILINGS SCHEDULES

Transit time reliability for the U.S. Transpacific trade has shifted from an average of about 75% on-time in 2016 to less than 30% as of March, 2019. This kind of decrease is not a trend, but rather a calamity for importers' supply chains. It is also the source of increasing tension and frustration in the essential relationship of trust between carrier and shipper or between carrier and 3PL (and his customers).

Click here to read more...

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