SHAP TALK

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In this issue:

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TRADE NEWS

ILWU/PMA Sign Tentative Coast-wide Agreement

On February 20, 2015, negotiators for the International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) announced a tentative five-year coast-wide contract agreement. Details of the contract are not yet available since membership of both groups must vote to ratify the agreement, a process that could take several weeks. In the meantime, the ports of Los Angeles, Long Beach, Oakland, Seattle, and Tacoma are expected to gradually return to full operations.

After nine months of contract negotiations, which began in July of 2014, conditions at terminals up and down the West Coast have grown increasingly congested. Projections estimate it may take many weeks, if not several months, to clear the backlog and get cargo flowing normally.

Shippers Continue with Plans to Avoid West Coast Ports

Despite the recent news of the new ILWU labor agreement on February 20, a large portion of shippers will continue to divert their cargo away from west coast ports. According to a recent Journal of Commerce survey, shippers that would normally route cargo into west coast ports are planning to use alternative routing options such as east coast and gulf coast ports. Out of 138 shippers surveyed on JOC.com, 60% have said they will solidify their plans to use alternative ports until they are confident that the congestion and delays that have occurred over the past months are fixed. Many of the shippers polled have said that these plans are likely to be permanent through 2016.

The U.S. east coast stands to gain the biggest benefit from the rerouting. Actual cargo projections at the east coast ports are still not clear. However, 38.8 percent of those planning to reroute cargo say they will send the freight to the east coast. Nearly 23 percent of the shippers planning to reroute cargo said the majority of their freight would head to U.S. southeast ports, which have experienced virtually no congestion over the past year, while 16.1 percent tapped U.S. northeast ports as their major load centers for diverted cargo. Of those shippers planning to reroute cargo, 16 percent said they would move the majority through U.S. gulf coast ports. Roughly a quarter of surveyed shippers who said they would shift cargo didn't answer which other ports they would use, nor did they choose the "not sure" option within the survey.

Some of the shippers surveyed who will continue to utilize the west coast ports are those that have no other choice such as agricultural shippers that need to take advantage of the ports' proximity to their facilities.

Next Phase for Lacey Act Declaration Adds 20 More HTS Numbers

The Animal and Plant Health Inspection Service (APHIS) of the U.S. Department of Agriculture published a notice in the February 6th Federal Register announcing the next phase of Harmonized Tariff Schedule numbers that will require a Lacey Act declaration at the time of importation starting on August 6, 2015. This is the first new phase in nearly five years. APHIS is providing 6 months' notice to the phase-in schedule to facilitate compliance with the new requirements. The HTS numbers are:

- *4416.00.3010—new casks, barrels, and parts of wood*
- *4416.00.3020—used assembled casks of wood*
- *4416.00.3030—used unassembled casks of wood*
- *4416.00.6010—new barrel staves of wood*
- *4416.00.6020—new barrel hoops of softwood*
- *4416.00.6030—new tight barrelheads of wood*
- *4416.00.6040—used barrels staves of softwood*
- 4416.00.6050—used hoops, tight barrelheads of softwood
- 4416.00.9020—new other casks, barrels, wood
- 4416.00.9040—used other cooper goods, wood
- 8211.92.6000—hunting knives with wood handles
- 8215.99.2400—table barbeque forks with wood handles
- 9401.61.2010—upholstered teak chair, household
- 9401.61.2030—upholstered teak chairs, other
- 9401.90.1500—parts of bent-wood seats
- 9403.30.4000—bent-wood office furniture
- 9403.40.4000—bent-wood kitchen furniture
- 9403.50.4000—bent-wood bedroom furniture
- 9403.60.4000—other bent-wood furniture
- 9614.00.2100—rough wood blocks for smoking pipe manufacture

The Lacey Act is the U.S.'s oldest wildlife protection statute, dating back to 1900. The 2008 Farm Bill includes an amendment to the Lacey Act intended to strengthen the protection of trees and plants that may have been illegally harvested. The Lacey Act makes it unlawful to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce any plant taken in violation of the laws of a U.S. state, or any foreign law that protects plants. It is also unlawful to make or submit any false record, account or label for, or any false identification of, any plant. More information on the Lacey Act may be found here.

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Cuba Update

Cuba-Cuba-Cuba! There seems to be excitement in the air and even talk of future visits to Cuba by Americans to explore a country which has been for the most part forbidden to U.S. persons for over 50 years. We will keep you abreast of any updates, clarifications, and changes to the U.S. Cuban policy.

Several items of interest have been published recently on the process for both imports into the U.S. and exports from the U.S. to Cuba. The measures announced by the President on December 17, 2014 and published in the Federal Register on January 16, 2014 are meant to support, engage and empower the Cuban people.

On February 13. 2015, the U.S. Department of State released a Fact Sheet and list of goods and services eligible for importation from Cuba. This list is found in 31 C.F.R. § 515.582 of the Cuban Assets Control Regulations (CACR).

The Department of State references below chapters from the Harmonized Tariff Schedule of the United States (HTS) to show goods that cannot be imported into the U.S. from Cuba at this time. Goods that are produced by independent Cuban entrepreneurs that do not appear on the below list may be imported into the U.S. with documentary evidence. This evidence must prove the entrepreneur's independent status, such as a copy of a license to be self-employed issued by the Cuban government or, in the case of an entity, evidence that establishes that the entrepreneur is a private entity that is not owned or controlled by the Cuban government.

- *Section I: Live Animals; Animal Products*
  - » *All chapters*
- *Section II: Vegetable Products*
  - » *All chapters*
- *Section III: Animal or Vegetable Fats and Oils and their Cleavage Products; Prepared Edible Fats; Animal or Vegetable Waxes*
  - » *All chapters*
- *Section V: Mineral Products*
  - » *All chapters*
- *Section VI: Products of the Chemical or Allied Industries*
  - » *Chapters 28-32; 35-36, 38*
- *Section XI: Textile and Textile Articles*
  - » *Chapters 51-52*
- *Section XV: Base Metals and Articles of Base Metal*
  - » *Chapters 72-81*

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- *Section XVI: Machinery and Mechanical Appliances; Electrical Equipment; Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders and Reproducers, and Parts and Accessories of Such Articles*
  - » *All chapters*
- *Section XVII: Vehicles, Aircraft, Vessels, and Associated Transportation Equipment 4416.00.9020—new other casks, barrels, wood*
  - » *All chapters*
- *Section XIX: Arms and Ammunition; Parts and Accessories Thereof*
  - » *All chapters*

This list does not supersede or excuse compliance with any additional requirements in U.S. law or regulation, including the relevant duties as set forth in the HTS.

For travelers importing authorized goods into the United States pursuant to § 515.582 as accompanied baggage, the $400 monetary limit set forth in § 515.560(c) (3) does not apply to such goods, but goods may be subject to applicable duties, fees, and taxes.

The Bureau of Industry and Security (BIS) will be holding a teleconference on March 4, 2015 at 2:30 p.m. Eastern time to discuss the Cuba rule. Callers should submit questions in advance to ecrweekly@bis.doc.gov. BIS will answer as many as possible during the teleconference. To hear the teleconference, please call 1-888-455-8218 and use passcode 6514196. If you are calling in from overseas the number is 1-212-547-0330.

The Bureau of Industry and Security rule is at:

http://www.gpo.gov/fdsys/pkg/FR-2015-01-16/pdf/2015-00590.pdf

The Treasury/Office of Foreign Assets Control rule is at:

http://www.gpo.gov/fdsys/pkg/FR-2015-01-16/pdf/2015-00632.pdf

On February 26, 2015, U.S. Customs and Border Protection (CBP) issued a public notice for Requirements for Authorized Imports under the Cuban Assets Control Regulations. This notice covers Importing Commercial Goods from Cuba and Importing Goods for Personal Use from Cuba. Personal Use covers imports by authorized travelers of goods produced by independent Cuban entrepreneurs; Imports by authorized travelers of goods other than those authorized 31 C.F.R. § 515.582; HTSUS Duty Free Exemptions for Alcohol and Tobacco-Non Returning Resident and Returning Resident.

Senate Proposal to Increase De Minimis Level

A new Senate bill has been introduced to raise the de minimis level from $200 to $800 which would bring it into line with the duty free allowance for travelers entering the United States. Currently, importers may bring in shipments valued at $200.00 or less on a duty free basis with no entry required (one per importer per day).

Exceptions to this duty free procedure are goods subject to other government agency requirements (since most require a bond for release), quota goods, and goods subject to antidumping or countervailing duties.

The de minimis level has been at $200 for nearly 20 years. Raising the level to $800 will promote faster border clearance and reduce transaction costs which will benefit small businesses that import low value shipments.

Congress introduced a similar measure in the spring of 2013, but it did not pass.

TRANSPORTATION NEWS

March 2015 Update

INDUSTRY NEWS:

Canadian National Railroad Averts Walkout

As if importers and exporters have not had enough supply chain issues, they were faced with additional new problems from the north. Canadian National Railway (CN) announced on Friday, February 20th, that it was intending to lock out 4,800 workers represented by Unifor at 11 p.m. on Monday, February 23rd, unless the union agreed to binding arbitration to settle contract differences. Much of the intermodal cargo that discharges in Vancouver and Prince Rupert bound for the U.S. moves via CN Rail and any work stoppage would likely cause additional delays.

A CN statement announced the company's hopes to reach a negotiated settlement or persuade the union into binding arbitration. Both parties resumed contract talks over the weekend and thankfully an agreement was reached by Tuesday, February 24, 2015 to avoid a lockout.

Brazilian Truck Drivers Protest Fuel Tax

As reported in the Wall Street Journal and Reuters, protests against a 15-centavo-per-liter ($0.20/gallon) fuel tax hike are on the rise in Brazil. What originally started as an isolated protest in Mato Grasso has quickly spread to six other states across the country. Protesters are choking off main roads as truck drivers are blocking other trucks from transiting the main highways, but allowing cars and public transport to pass. Negotiations with truckers have been difficult since the impromptu strikes are not organized by a central union or organization.

The protests are well timed as the world's second biggest producer and exporter of soybeans is nearing its peak harvest. Soy bean harvests and other industries located further inland have halted or delayed production due to fuel and supply shortages created by the blockade. A spokesman for the Santos port stated that the protests have not yet disrupted port activities.

U.S. Truck Drivers Becoming a Rare but Needed Commodity

U.S. truckload carriers continue to struggle with keeping drivers employed to drive their trucks. According to the American Trucking Association the turnover rate rose to as high as 97 percent in the third quarter of 2014. For three consecutive years and 11 consecutive quarters, the trucker turnover rate has risen above 90 percent at the nation's largest trucking companies.

Finding and hiring drivers is one issue, but keeping them behind the wheel has become a serious problem. The cost of hiring a driver averages $5,000, and a company with 200 drivers with a 100 percent turnover rate would lose $1 million on recruitment alone.

Trucking companies like Swift Transportation have had to raise their pay, benefits, and incentives at a time when freight demand is strong to keep a respectable level of customer service and continuity. While revenues for the publically owned trucking firms rose more than 10 percent this past year, these companies will have to use this extra money to hire and retain employees in the coming year. The nation's unemployment rate and job competition from growing construction and manufacturing industries is creating increased competition for drivers in the U.S.

OCEAN FREIGHT

India Dockworkers Threaten to Strike (Again!)

Indian labor federations in 12 major cargo hubs representing dock and port workers have announced plans to walk off the job beginning March 9th. A strike threatens to disrupt India's movement of cargo just as port volumes are starting to see a turnaround and clearing of backlogged cargo. The looming strike is a result of the federal government's policies and decisions to reform publicly owned ports without consulting with trade unions. If the strikes occur as planned, it is expect to completely close or partially shut down India's major ports including its largest gateway, Nhava Sheva. These 12 major ports account for 75% of the nation's port cargo. Shipping lines, terminals, and shippers have begun to prepare for possible disruptions with contingency plans that include utilizing smaller private owned port facilities on both coasts. A strike is likely to create increased volumes at private terminals which have already seen a spike as a result of congestion at the major federally owned ports. As of now, no talks have been scheduled between the dockworkers and the government.

TSA Calling for Rate Increases in March and April

The Transpacific Stabilization Agreement (TSA) is recommending to their members to move forward with the announced general rate increase (GRI) of $600 per 40-foot container (FEU) on March 9 and April 9. Currently, there are 15 container shipping companies that are members of the TSA – APL, China Shipping, CMA CGM, Cosco, Evergreen, Hanjin, Hapag-Lloyd, Hyundai, "K" Line, Maersk, MSC, NYK, OOCL, Yang Ming, and ZIM. The TSA can only recommend rates to members. The member steamship lines are the ones who negotiate rates confidentially with individual shippers.

TSA has provided the members several reasons as to why they should go ahead with the GRI. First, the congestion along the west coast ports due to the contract negotiations should be returning to normal efficiency levels. With the new contract in place, the TSA expects that there will be a stronger demand for west coast routings, thus leading to a price increase. Neils Enrich, a spokesman for the TSA said, "We are looking at several months ahead where demand, as we see it, will be increasing. We are going to be digging out of the current situation and trying to invest for the longer term. It is an attempt to bring the rate structure up a bit."

In addition, TSA is trying to increase revenue levels in order to address higher long term rail, truck, equipment management and cargo handling costs. This is in response to recent congestion issues related to the west coast labor negotiations.

Brian Conrad, the president of TSA said, "Carriers are mindful that all affected parties face higher operating costs as well as lost revenue and business opportunities amid the current situation. But it is also a reality that we are all not simply returning to business as usual. To the extent the U.S. economy is showing sustained recovery and the dollar is likely to remain strong against Asian currencies for some time, carriers need to step up their game, reverse some of the retrenchment seen since 2011, and complete the service integration necessary to fulfill scale and efficiency objective in the market. The limited improvement in freight rates to date neither addresses costs accrued since last September nor the network investment necessary through 2016 to meet customers' needs."

Announced with the recommended GRI amounts are lowered bunker surcharges and lowered low sulfur surcharges. The bunker surcharge for the first quarter of 2015 for containers moving to the U.S. west coast, for example, was $444 per 40-foot container and is slated to drop to $336 per FEU for the second quarter. The low sulfur component during the same period is slated to drop from $53 to $49 per FEU.

Most contracts with the TSA run from May 1 through April 30 of each year. In October 2014, TSA recommended carriers seek minimum eastbound rates in contracts of $2,000 per FEU and $1,800 per TEU from Northeast Asia ports to the U.S. west coast and $3,800 per FEU and $3,150 per TEU to the U.S. east and gulf coasts, respectively. From Southeast Asia ports to the U.S. west coast it recommended rate minimums of $2,150 per FEU, $1,935 per TEU, and $3,950 per FEU and $3,285 per TEU to the U.S. east and gulf coasts.

AIR FREIGHT

Chinese New Year Requires Early Air Bookings

Forward Air Corporation, based in Greeneville, TN, announced that it had reached an agreement to buy Towne CLP, a trucking-and-logistics company headquartered in South Bend, IN along with the preannouncement of fourth quarter and full year 2014 results. The $125 million deal is expected to close before the end of March. Forward Air Corporation operates three business segments: Forward Air, Inc., Forward Air Solutions, Inc. and Total Quality, Inc.

Bruce A. Campbell, Chairman, President and CEO of Forward Air Corporation, said, "We are extremely pleased with this acquisition. Those familiar with Forward Air and Towne have long thought that this deal was inevitable simply due to the substantial synergies that clearly exist. That's not to say that our combined teams don't have our work cut out for us. Our plan is to take a methodical approach to evaluate, then integrate, as much of the Towne book of business as we possibly can. In the short term, this will require a lot of hard work and some additional, integration-related expense. In the longer term, the finished, fully integrated result will create a more reliable network benefiting our customers and ultimately our shareholders."

Founded in 1963, Towne is a full-service trucking provider offering time-sensitive less-than-truckload shipping, full truckload service, an extensive cartage network, container freight stations and dedicated trucking. Randy Clark, President and CEO of Towne, said: "Combining Towne with Forward Air makes all the sense in the world. It will enable us to leverage Forward Air's network where we lack adequate shipment density, in turn, driving increased profitability almost immediately. Furthermore, Towne's best-in-class Midwestern cartage network is a great fit with Forward Air's complete product and should drive higher utilization and enhanced profitability. Towne's employees and its contractors are all very excited to become part of the Forward Air team."

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 Billie Mullineaux, Account Specialist in Charelston, 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.