Shap Talk

November 2018
Issue No. 199

In this issue:

WE WANT TO HEAR FROM YOU!

Baltimore Headquarters
1215 E. Fort Ave, Suite 201
Baltimore, MD 21230
www.shapiro.com

Phone
410.539.0540
web@shapiro.com

TRADE NEWS:

Prepping for Section 301 Tariff Exclusions

Section 301 tariffs are now affecting all 7,133 products identified on List One, List Two and List Three. Importers, buyers, and sellers have already begun to feel heavy trade impacts. Luckily, there are a few options at your disposal that may assist you in mitigating additional duties.

While the most common option to avoid these additional duties is product reclassification, it is not always the safest. If U.S. Customs and Border Protection (CBP) determines your product was misclassified, you could be charged the additional duties, plus fees and penalties.

You also have the option to source from other countries. However, finding a reputable manufacturer for your growing product can be challenging and harmful, at least in the short-term, to your supply chain.

The most effective, safest and often overlooked option, is to file for an exclusion with the United States Trade Representative (USTR). To file for Section 301 exclusions, you first need to determine the list on which your products are included.

The best thing you can do is to start preparing now – regardless of the filing deadline! Unfortunately, the deadline for List One, has already passed. If you have items that fall on List Two or Three, reference the chart below to find the exclusion filing deadline that applies to you.

	Covered Products	Additional Tariff Rules	Relevant Dates
First Round	818 HTSUS subheadings	25%	• Effective 7/6/1 • Exclusive Filing Deadline 10/9/18
Second Round	284 HTSUS subheadings	25%	• Effective 8/23/18 • Exclusion Filing Dealine 12/18/18
Third Round	Approximately 5745 HTSUS subheadings	10% in 2018 25% in 2019	• Effective 9/24/18 (10%) & 1/1/19 (25%) • Exclusion Filing Dead lines TBA

Here are a few helpful things to keep in mind as you organize your information:

- The exclusions are product specific, so one exclusion must be filed per product. In other words, if you have the same item in 3 different colors, there are 3 separate exclusions that will need to be filed.
- Each item must be accompanied by the correct 10-digit HTS number, as well as additional information (such as product manuals or detail sheets) to help identify the product.
- You will need to prepare and submit your annual quantity and value for the last 3 years.
- A detailed yet concise argument explaining why these additional tariffs are harmful to your business must be linked with your exclusion request.

Don't worry if this information seems daunting – your Customs Broker can assist you through this process! Shapiro has partnered with a Customs Attorney at Thompson Coburn to assist with preparing these arguments and documentation in an efficient and cost-effective manner.

If you are interested in learning more about the exclusions, please contact us at compliance@shapiro.com.

Marissa Curran
Compliance Analyst

Do You Pay Duty via ACH?

Do you pay duty to U.S. Customs and Border Protection (CBP) via Automated Clearing House (ACH), and are you also subject to the Section 301 duties from China? If so, have you reviewed the limit you advised your bank to allow for drafts from CBP? If not, you may want to review the limit and advise your bank to increase to a higher amount.

If you need help determining if the limit should be increased, you can contact compliance@shapiro.com and we can assist you.

Billie Graves
Import Ambassador

FDA Launches New Filer Evaluation Process

The Food and Drug Administration (FDA) has announced the completion of procedures for revamping the filer review process. The new process is in effect on a national level and will be utilized for conducting all evaluations. With this in mind, what filing procedures have changed and do they affect you?

Filing Errors

FDA evaluators must now differentiate between minor errors and significant errors. They also require you to recognize the difference between filer errors and importer errors. This distinction was lacking in earlier guidelines.

If entry lines from a remote location filer contain substantial errors, a cause for filer evaluation will be referred to that local FDA Office.

Filing Transmissions

The FDA expects entry filers to exercise due diligence by transmitting accurate entry information provided by the importer. The transmission should reflect the entry documents and a reasonable effort should be made to work with the importer to provide accurate data. Since the FDA does not regulate or license entry filers, it relies on this accurate entry data. It regularly evaluates transmissions made by entry filers to measure the accuracy of the transmitted entry data.

The FDA expects an entry filer to exercise due diligence when addressing any problem areas identified. It will assist filers with these improvement efforts. However, if filers do not address continued issues, the FDA will inform CBP.

Billie Graves
Import Ambassador

U.S. Exports and the Retaliation Tariffs

Following the implementation of tariffs on U.S. imports by President Trump earlier this year, major trading partners have retaliated with tariffs of their own. China, the European Union, and NAFTA (Canada and Mexico) have hit back with tariffs on over $120 billion of U.S. Exports.

Tariff rates have grown quickly over the past few months, and currently affect 6.1% of the $2 trillion worth of U.S. goods and services exported in 2017. Not surprisingly, China's retaliatory actions have been the harshest at $101.4 billion, followed by Canadian, Mexican, and EU retaliations. The top four industries most affected by the retaliatory tariffs are: Agriculture, Motor Vehicles, Iron & Steel Products, and Waste & Scrap.

Currently, retaliatory actions directly affect 294,000 export jobs. However, they also indirectly affect another 354,000 jobs (those dependent on the exports). The commodities affected vary by country, yet all four major trading partners have a shared focus on agricultural products.

A representative from Mexico's Economic Ministry attributed its recent NAFTA actions to domestic motivations. He explained that the retaliatory tariffs were aimed at having a minimum impact on the price of basic consumer goods and the supply chain, while also providing political incentives as encouragement to resolve the issues quickly. The retaliatory tariffs have heavily targeted commodities stemming from Republican-held regions of the U.S.

With discussions of the United States-Canada-Mexico Agreement still underway, there are signs of relief with the United States' North American partners, but trade relations with China continue to be vulnerable.

McKenzie Dillon
Marketing Analyst

Apparel Experts Predict Higher Tariffs are the New Reality

While some are taking a "wait and see" approach to U.S. tariffs on Chinese goods, experts in the apparel industry are bracing for continued escalation, as they anticipate that higher tariffs are likely the new reality.

The apparel industry was just included in the most recent round of tariffs, with leather and fur goods, as well as other accessories being affected. Nevertheless, the industry had already felt the heat from earlier tariff increases on many non-apparel items widely utilized during production, such as plastic garment bags, garment hangers, and plastic tags. This has contributed to a hidden tax on a much wider range of apparel products.

The industry is now bracing for even more direct tariffs, as the Trump Administration continues to narrow its focus on consumer goods, citing the lack of progression on negotiations between the U.S. and China as the culprit. As the conflict deepens, industry experts grow concerned that supply chains, consumers, and politicians alike will acclimate to the new international trade norms. This could lead to the general acceptance of higher costs as an inevitability, as well as reduce political motivation to remove the tariffs. International trade experts are also beginning to coalesce around this narrative.

Some shippers are counting on China to crack under the increased pressure on its exporters, therefore pushing for de-escalation.

On the other hand, Nicole Bivens Collinson, President of International and Government Relations at the law firm Sandler, Travis & Rosenberg, believes that intransigence on both sides could lead to increased tariff durations upwards of 20 years. Collinson supports her claim by shedding light on methods the Chinese government could use to soften the blow and maintain Chinese exporter's competitive edge in the face of rising tariffs. It has already begun to expand such support to exporters, with the implementation of the export tax rebate.

Whether the recent wave of tariffs is an aberration, or the new reality for global sourcing, Shapiro is ready to help. Together, we can navigate the current regulatory environment and support your efforts to evaluate China and non-China sourcing alternatives based on landed cost, lead times, and regulatory concerns. Please reach out to us at web@shapiro.com.

Devin Turner
Implementation Manager

Trump Announces Plans to Withdraw from Postal Treaty

Consumers have long been able to purchase cheap goods from China, courtesy of the Universal Postal Union (UPU). During its tenure, the UPU has set standard fees that National Postal Services charge to deliver mail and small parcels to countries world-wide. However, the Trump administration recently threatened U.S. withdrawal from the 144-year-old treaty pending the results of negotiations with China.

The New York Times reported that State Department officials will announce plans to ditch the treaty and "self- declare" new terms with China. This would allow the U.S. Postal Service to set its own prices for shipping international packages of all sizes. The withdrawal procedures could take up to a year to process and would require negotiating new terms with over 100 nations, including China.

The National Association of Manufacturers called the treaty "outdated", claiming it "contributes significantly" to the flood of counterfeit goods that enter the country directly from China. Initially, the lower rates were intended to foster development in Asia and Africa. However, Chinese companies now account for about 60 percent of imported packages, therefore taking advantage of the lower rates to ship clothing, household gadgets and consumer electronics into the U.S. Economy.

If the U.S. moves ahead with its withdrawal from the UPU treaty, U.S. consumers are likely to experience higher prices as a result the new shipping rates. This will be on top of the higher costs they are already facing due to the imposition of Section 301 tariffs on Chinese imports. Currently, the U.S. Postal Service is only permitted to use self-declared rates on packages that exceed 4.4 pounds. The U.S. government is expected to start setting its own rate for small packages within the next six months to one year.

Tanisha Harper
E-commerce Account Specialist

Tariffs May Be Hot, but When Did Cybersecurity Threats Become Cool?

A recent Maritime Cybersecurity Survey sent shockwaves through the logistics community, as industry respondents overwhelmingly deemed U.S maritime technology unprepared, inefficient and ineffective given today's cybersecurity risks. Factors such as size and prior experience with cyber threats leave small (1 to 50 employees) and mid-size companies (50 to 400 employees) at a disadvantage in the wake of a cybersecurity breach. With larger companies such as Maersk and COSCO already falling prey to cyber attacks in recent months, it's essential for everyone to be aware and proactive in their approach to enhancing their cyber preparedness and responsiveness.

Shapiro remains actively committed to providing a safe and secure environment in today's market. We recognize that we share many of the risks facing our mid-size competitors.

What are some of the investments that Shapiro is making to ensure its preparedness?

Technology

- New multi-factor authentication for remote access to company systems
- Increased desktop and dual threat analysis for viruses
- Increased SPAM filtering
- Purchasing new desktop PCs for all internal employees to ensure an up to date system that is more capable of advanced protection software
- Advanced encryption of all laptops

Training

- Including cybersecurity as part of our strategic plans and budgeting
- Documenting cybersecurity policies and procedures
- Empowered information security and/or compliance officers, with well-defined roles and responsibilities
- Network security plans routinely sent via company-wide correspondence

Cybersecurity threats will only continue to grow with the increasingly digitalized landscape of today's global economy. Hopefully the rest of the maritime community shares Shapiro's commitment towards a safe and secure market. As we move into 2019, we will keep you updated on any new security initiatives and how they may affect you. Please contact us at mis@shapiro.com with any questions.

Maura Perry
Marketing Strategy Specialist

TRANSPORTATION NEWS

Brazil's Bad Infrastructure

Brazil's immense dependence on road transportation became clear earlier this year, when a nationwide trucker strike paralyzed supply chains throughout the country. This comes as a surprise considering that only 59% of the 57,200 kilometers of highways under federal administration are currently deemed to be in "good condition". According to the National Transport Infrastructure (DNIT), the number of operable highways YTD has decreased 8.5% from 2017.

The staggeringly low quality of highways has increased costs significantly for logistics companies, as roads are the predominant method of transportation available in Brazil. Between 2017 and 2018 over-the-road transportation costs rose 12.4%. As the majority of manufacturers and suppliers are located in interior cities in Brazilian states, most of the roads they utilize are under state administration, meaning roads are more likely than not in poor condition.

According to the National Transport Confederation (CNT), Brazil needs to invest at least $408 billion (U.S.) in its transportation sector to deal with its infrastructure problems. Unfortunately, the government has yet to invest in its infrastructure issues. Industry analysts expect the trend will continue to worsen, therefore generating higher costs for companies and consumers alike.

Jackie Holland
Business Development Associate

LA Long/Beach Port Rail Efficiencies Past Due!

While West Coast (WC) ports have no plans to mitigate the higher intermodal costs shippers face at their helm, they are instead looking to enhance process efficiency.

On average, the additional cost estimated with shipping to major hubs such as Chicago through Vancouver and Prince Rupert is $400-$600 higher for importers. While there are no immediate plans to reduce prices, WC ports will focus on improvements in harbor connectivity through more on-dock rail, smoother hands-off transitions from vessel to rail, and a more timely and accurate data flow.

Seattle-Tacoma recently viewed it's efficient on-dock rail operations as a competitive advantage. The port of Oakland currently has no first call inbound services from Asia but is developing a hub on the former Oakland Army base that could attract inbound services. The port has also completed development of an intermodal yard and has extensive cold storage outbound on-dock rail operations as well.

Baltimore Headquarters
1215 E. Fort Ave, Suite 201
Baltimore, MD 21230
www.shapiro.com

Phone
410.539.0540
web@shapiro.com

Union Pacific (UP) and BNSF Railroads have no plans to lower prices. Instead, they too will focus on improving on-dock rail and lowering costs of the intermodal transfer for LA and Long Beach ports.

In September of this year, the harbor commission approved a budget for the Pier B rail support facility. This is a major infrastructure initiative and the facility will enable the building of longer trains without the need to shuttle containers from the terminals by truck, thereby reducing the time and costs associated with intermodal transfers. As a long-term project, building a mile-long train is a solution for eliminating truck trips. Phase one is estimated to be completed sometime in 2024.

With over 100 train arrivals and departures each day, as well as more intermodal rail coverage than any other gateway in the nation, WC ports already have the traffic railroads need to enhance their intermodal offerings. The WC ports are likely to continue turning to process improvements and the use of technology to improve efficiency, which results in reduced costs, to attract more discretionary cargo.

Tammy Sandridge
Global Logistics Manager

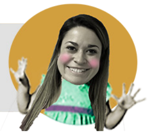
Lufthansa Dry Ice Ban…and Lift

Earlier this month, Lufthansa Cargo placed an immediate ban on all dry ice shipments via its 747s. The airline carrier's announcement came in a wake of negative press surrounding several in-flight animal deaths as a result of dry ice.

Last-minute animal booking requests have increased in recent months, resulting in a surge of dry ice off-loading. Why can't dry ice and animals share cargo space? Due to the high-level of carbon dioxide in its chemical makeup, dry ice sucks oxygen out of the cargo hold. Therefore, there is a minimum separation distance requirement between the two in cargo areas to avoid animal suffocation. Many dry ice importers, especially within the pharmaceutical industry, have experienced delays due to off-loaded shipments.

In a world filled with air freight carriers, reputation is everything. Lufthansa's response created brief turbulence for the airline's cargo business services, resulting in a lift of the ban days later. Instead, they are focusing on resolving the issue by deploying an internal task force aimed at avoiding the overbooking and off-loading of dry ice.

Maura Perry
Marketing Strategy Specialist



Continuing Steps to Cut Carbon Emissions at the Port of New York and New Jersey

As part of an ongoing effort to reduce carbon emissions and meet the conditions of the Paris climate accord, the Port of New York and New Jersey are close to testing the first all-electric straddle carrier to be used in daily operations in the United States.

PNCT and Maher Terminals would be the initial terminals used to test the all-electric equipment and according to Beth Rooney, Assistant Director of the Port Authority's Port Division, "the port is expected to unveil the electric straddle carrier pilot by the end of the year".

Although President Donald Trump withdrew the U.S. from the Paris climate accord last summer upon claims it would "hurt the U.S. economy and its global competitiveness", many state and local governments, as well as other organizations, have embraced the agreement. The Port Authority of New York and New Jersey is a prime example, as current leadership has vowed to cut port generated emissions by 80 percent in the next 32 years (by 2050).

According to the JOC, "the port has also provided incentives of several thousand dollars to container ship operators that voluntarily make engine, fuel, and technology enhancements that reduce emissions or steam slowly while entering and leaving the New York Harbor" as part of its continuing environmental initiative.

Colin Chapman
Director, Commercial Development

Baltimore Headquarters
1215 E. Fort Ave, Suite 201
Baltimore, MD 21230
www.shapiro.com

Phone
410.539.0540
web@shapiro.com

SHAPIRO NEWS:

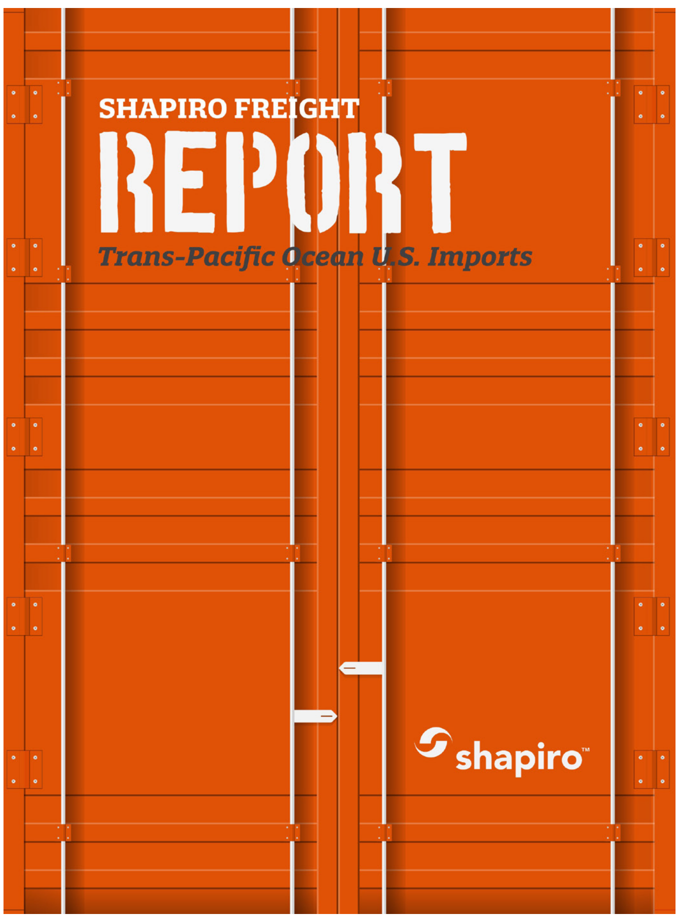
Employee of the Month

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 ***Patricia Carvalho, Compliance Analyst in Baltimore,*** 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!



LOADING UP FOR THE LONGEST PEAK SEASON IN FIVE YEARS

After 14 straight weeks of five-year highs, spot rates continue to rise steadily in early November. Since August 3rd, average rates to West Coast ports have eclipsed $2000 per 40', while East Coast levels for that equipment have remained above $3000. To put this rally in recent historical perspective: rates to both U.S. coasts are over 90% higher today than one year ago (WOW!). 2018 will certainly be a year to remember for the ocean carriers, BCOs, and the rest of us brave enough to work in this crazy business...

Click here to read more...