SHAP TALK

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In this issue:

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TRADE NEWS

MTB/GSP Renewal Update

Although recent fiscal battles have taken center stage for lawmakers it is still possible that a Miscellaneous Trade Bill (MTB) and Generalized System of Preferences (GSP) legislation could be passed by the end of the year as part of an omnibus trade bill with retroactive provisions for both; although it's less likely for the MTB.

The last MTB expired on December 31, 2012 and GSP expired on July 31, 2013. Since that time eligible products under the GSP program, which are not being entered duty free as the program allows, are costing domestic manufacturers approximately $2 million a day. Failure to pass the MTB will cost manufacturers $748 million in taxes over the next three years resulting in economic losses of $1.857 billion according to the National Association of Manufacturers (NAM).

Although there is no requirement that Congress include retroactivity, similar law renewals have passed with retroactivity in the past; the current difference being that legislators, given recent fiscal policy issues, may not be inclined to spend the money that retroactivity would require, or to undertake revisions to the program that have been suggested to focus benefits on countries that actually need the benefits.

Length of time between the expiration and renewal of the MTB and GSP may also play as factors in any retroactive provisions. Since the MTB expired nearly a year ago there is less reason to make a case for retroactivity. The longer the lapse between expiration and renewal the more expensive it would be to include a retroactivity provision. According to government officials, retroactivity for any GSP bill would be a less expensive endeavor as GSP expired more recently.

Although the bill included other trade measures along with GSP and certain MTB provisions, the last omnibus trade package was passed in 2002 and according to the Congressional Budget Office (CBO) it resulted in an increase of $6.4 billion in direct spending and reduced government revenues of $5.9 billion over the ten year period through 2012.

Unfortunately in the current battleground environment all legislative progress has been impeded. Fortunately any action taken on GSP this year would probably include a simple measure to extend the program through September 2015 in accordance with legislation introduced earlier this year by both the House and Senate.

Please visit Renew GSP Today to review the latest information on this topic.

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FDA Proposes Animal and Pet Food Safety Regulations

The Food & Drug Administration (FDA) has proposed new regulations to ensure the safety of animal and pet foods in light of recent issues related to mad cow disease, dioxins, melamine, microbial contaminations, and nutrient deficiencies and excesses over the last number of years which have resulted in animal illnesses and deaths.

The proposed rule, which was published in the October 29th Federal Register, would establish improved standardized manufacturing, packing, and food holding processes for domestic and foreign facilities, which are required to register with FDA under the Federal Food, Drug, and Cosmetic Act.

The rule would establish procedures for controlling pests, personal hygiene, facility cleaning and design. Facilities currently under FDA registration would need to implement preventative controls and risk based analyses for animal foods. Facilities would be required to have a written food safety plan, a testing program, and to take actions to correct any controls based on hazard analyses. Importers would have to verify foreign suppliers' compliance as part of FDA's Foreign Supplier Verification Program.

Specifically the rule would call for:

- *Establishing a written food safety plan, which will include procedures for hazard analysis, preventative controls, corrective and verification procedures, and a recall plan of action.*
- *A written hazard analysis plan that would identify known or likely hazards for each type of animal feed including biological, chemical, physical, and radiological hazards.*
- *A written preventative controls plan to ensure that likely hazards are minimized or prevented, and that adulteration has not occurred.*
- *A written recall plan for foods where hazards are likely to occur.*
- *A monitoring system for preventative controls to ensure consistent performance and documentation of established measures.*
- *Establishing a qualified individual who would be responsible for overseeing the food safety plan, validating preventative controls, record review, the implementation of corrective actions, and any re-analysis of the food safety plan. The individual would be required to complete standardized training or to be qualified through job related experience.*

The rule would provide for facilities to focus on the hazards most likely applicable to their feed products. For example, a facility that manufactures, processes, packages, or holds food for a single animal would only have to focus on those hazards related to that animal. Facilities involved in products or ingredients for multiple types of animals will be responsible for a broader range of hazards.

FDA advised that there would be exempted parties to the new rule including:

- *Small businesses that meet certain standards would be considered as qualified facilities. Small businesses would be required to notify FDA of their status, that they're addressing hazards through preventative controls, and that they're compliant with local regulations.*
- *Small businesses that perform low risk on-farm activities such as re-packing intact fruits and vegetables, or grinding or milling grains.*

- *Low-acid canned food facilities would be exempt from microbiological requirements.*
- *Facilities that only store packaged animal foods that are not exposed to the environment; although modified requirements would be applicable to those storing packaged refrigerated foods such as temperature control monitoring for correctness and consistency.*
- *Facilities that only store raw agricultural commodities other than fruits and vegetables intended for further processing or distribution.*

Comments on the rule are due within 120 days of October 29th or February 26, 2014. A series of public meetings are also scheduled for November 21st, 25th, and December 6th in College Park, MD, Chicago, Il, and Sacramento, CA respectively.

Information about the proposed rule, its publication, comment period, and meeting dates can be viewed by visiting the FDA website.

Initial Items under the Export Control Reform in Effect October 15, 2013

The first set of regulatory changes for the Export Control Reform (ECR) effort became effective October 15, 2013. The new rules define the revised list of items regulated for export under the U.S. Munitions List's (USML) Category VIII – Aircraft and Associated Equipment, and Category XIX – Gas Turbine Engines. The ECR implementation status is listed below from the Directorate of Defense Trade Controls (DDTC).

Revisions to the United States Munitions List (USML), by category

USML Category	Description	Status
I	Firearms	Under Review
II	Artillery	Under Review
III	Ammunition	Under Review
IV	Launch Vehicles/Missiles	Under Review
V	Explosives/Propellants	Under Review
VI	Vessels of War	Effective 1/6/14
VII	Ground Vehicles	Effective 1/6/14
VIII	Aircraft and Related Articles	Effective 10/15/13
IX	Training Equipment	Under Review
X	Personal Protective Equipment	Under Review
XI	Electronics	Under Review
XII	Fire Control/Sensors/Night Vision	Under Review
XIII	Miscellaneous	Effective 1/6/14
XIV	Toxicological Agents	Under Review
XV	Spacecraft/Satellites	Under Review
XVI	Nuclear	Under Review
XVII	Classified Articles	Effective 10/15/13
XVIII	Directed Energy Weapons	Under Review
XIX	Gas Turbine Engines	Effective 10/15/13
XX	Submersible Vessels	Effective 1/6/14
XXI	Articles Not Enumerated	Effective 10/15/13

Export Control Reform will move less sensitive items that no longer merit controls under the USML, such as certain parts and components, to the Commerce Control List (CCL) to allow for more flexible licensing authorizations to allies and partners while increasing the number of enforcement officials available to safeguard against illicit attempts to procure sensitive defense technologies.

The effective changes are the result of more than four years of collaboration and are based on technical and policy reviews of the United States Munitions List led by the Departments of State, Defense, and Commerce, and also representatives from other departments and agencies. These reforms were developed in close consultation with the private sector and Congress with extensive public review and comment. As seen in the chart above, additional control list changes will be implemented throughout the remainder of 2013 and 2014.

What's Going on with C-TPAT?

The Customs-Trade Partnership Against Terrorism (C-TPAT) is a voluntary trade partnership program that allows certain companies to be certified by U.S. Customs and Border Protection (CBP) as having reviewed and secured the integrity of their supply chains. C-TPAT members are accorded low risk status and receive benefits from Customs such as fewer cargo inspections. Created in the aftermath of 9/11, C-TPAT is now over ten years old. Is it still going strong? That depends on who you ask.

Two years ago, then-CBP Commissioner Alan Bersin issued a challenge to quadruple membership in C-TPAT over the next seven years. A lofty goal for sure. The program has added about 500 members in the past two years, an increase of only 5%, so membership has somewhat plateaued. Even so, C-TPAT certified shipments make up over 50% of all imports by value. When one looks at the percentage of importers in C-TPAT, the numbers are very different - about 6% according to a report issued earlier this year by the Congressional Research Service. Thus, the C-TPAT membership tends towards larger importers.

Some C-TPAT participants have found that the benefits of the program do not justify the time and expense of maintaining membership. Customs has found it difficult to expand the benefits. For example, with the northern and southern border ports, there is only so much physical space in which C-TPAT dedicated lanes can be built. While many members have experienced a decrease in Customs exams, the exams will not go away entirely, and C-TPAT has no effect on USDA exams.

Two programs are underway that will help lead to increased C-TPAT membership as well as increased trade flows. The first is opening up the C-TPAT program to exporters. While Customs has required exports from other countries coming into the U.S. to be secure, there has been no such requirement for U.S. exports. To have true mutual recognition with other countries, the United States needs to expand the C-TPAT program to U.S. exporters. This should have the intended effect of making U.S. exports more attractive to other countries and lead to expedited clearance at destination. Eligibility requirements and security criteria for the C-TPAT export program are being finalized.

The second program is known as the Trusted Trader Program which is intended to consolidate the C-TPAT and Importer Self-Assessment (ISA) programs. ISA is currently open to C-TPAT members and is a voluntary program where importers commit to monitoring their own compliance using internal controls and annual risk assessments in exchange for certain benefits such as removal from the audit pool for Focused Assessment. Fewer than 300 companies currently participate in ISA, but account for about a quarter of imports by value.

The goal of the Trusted Trader program will be to integrate security and compliance throughout all aspects of an importer's supply chain. There will be a unified C-TPAT/ISA application which will cover enforcement risk, compliance history, prior audits, documented systems of internal controls, financial reviews, corporate history, structure, and ownership. The Trusted Trader program will be more aligned with the European Union's Authorized Economic Operator (AEO) program which similarly unites security and compliance. Customs will be leveraging the Centers of Excellence and Expertise to manage Trusted Trader accounts. The program plans to offer significantly different benefits, for example, the ability to retroactively flag an entry for reconciliation. Customs will be establishing metrics to clearly demonstrate benefits and measure the program's effectiveness. A Federal Register notice will be published shortly seeking volunteers for the pilot program. Companies need not be C-TPAT members to apply.

DDTC Posts New Version of "Guidelines for Preparing Electronic Agreements"

The Department of State, Directorate of Defense Trade Controls, has published a new version of "Guidelines for Preparing Electronic Agreements: Technical Assistance Agreements, Manufacturing License Agreements, and Warehouse and Distribution Agreements." These guidelines are effective October 9, 2013.

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TRANSPORTATION NEWS

November 2013 Update

INDUSTRY NEWS:

Implementation of Japan's Advance Filing Rules on Maritime Container Cargo Information

On March 30, 2012, a bill to amend part of the Customs Tariff Law and relevant laws passed the National Diet of Japan (Japan's legislature). This amendment enacts the Advance Filing Rules, which require a vessel operator or a NVOCC to electronically submit to the Customs information on maritime container cargoes to be loaded on a vessel intended for entry into a port in Japan, in principle no later than 24 hours before departure of the vessel from a port of loading. The Rules will be implemented in March 2014.

Tight Air Cargo Capacity from Asia Expected

The cost of air cargo from Asia is currently on the rise due to shrinking capacity on cargo aircraft in the Asia to United States trade lane. Higher rates and lower capacity indicate the peak season for air cargo is currently underway.

Air cargo rates from China to North America are up 15%-25% from two weeks ago and will continue to rise in the coming weeks as cargo space is diminished. Shapiro customers should be aware that mitigating circumstances, beyond the scope of the traditional holiday season air cargo rush, exist which will affect capacity. Between November 1 and November 15, Apple, Microsoft, and Sony all have major product releases which will consume the majority of capacity. Microsoft alone is believed to need nearly 200 charters for the launch of their Surface 2 tablet. Further, some all-cargo carriers are planning temporary cessation of scheduled services to respond to the demand for charter services.

Already backlogs being reported in Taipei, Hong Kong, Shanghai, and Singapore.

Transportation Adds Jobs in September

Transportation and warehousing businesses added 23,000 jobs in September, mostly in transit and passenger transportation, as total nonfarm employment increased by 148,000 jobs, as reported by U.S. Labor Department

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TSA Carriers Announce Rate Hike

The 15 container shipping lines that belong to the Transpacific Stabilization Agreement (TSA) said they are recommending a $400 per 40-foot container General Rate Increase for cargo moving from Asia to the United States covering all origins and destinations, effective November 15th.

The move follows individual actions by several lines in the trade to raise their rates during October. TSA said carriers are seeking to restore baseline freight rates for holiday shipments and the 2014 contract negotiating season beyond.

"The trade is seeing modest but healthy cargo growth over 2012, while cargo handling, equipment and other costs continue to rise and most carriers are operating at a loss," said Brian Conrad, TSA executive administrator, in a statement. "It makes no sense for rates to be at current levels, and it threatens the ability of individual carriers to maintain service levels heading into 2014."

Conrad noted cargo volumes have risen steadily since mid-August and are expected to remain strong through mid-November when typical seasonal easing begins.

TSA also announced Wednesday that its Westbound section is recommending minimum rate increases by no later than November 15th in key export commodities from the United States, stating it has "seen steady rate erosion in recent months."

TSA's Westbound section has adopted minimum guideline increases of $100 per 40-foot container via U.S. West Coast ports, $200 per 40-foot container via East and Gulf Coast ports, and $100 per 40-foot container for intermodal shipments, for six commodities – waste paper, metal scrap, plastic scrap and resin, lumber and logs, hay and agricultural products. In the case of waste paper, lines also adopted guideline minimum rate levels via California ports which may lead to increases above the minimum levels.

Conrad said the guideline for export commodities is intended to be flexible, reflecting actions already taken by some carriers in October and different carrier views on the levels of increase achievable in different lane segments.

"At the end of the day member lines are looking for increases of at least the levels in the guideline GRI," he said. "Whether they achieve the goal by building on recent individual increases, and the extent to which they pursue GRIs beyond the minimum levels, will be guided by market conditions and each carrier's strategic objectives."

TSA members include APL, China Shipping, CMA-CGM, COSCO, Evergreen, Hanjin, Hapag-Lloyd, Hyundai, "K" Line, Maersk, MSC, NYK, OOCL, Yang Ming, and Zim. Maersk also announced a rate hike similar to the TSA recommendation this week.

Maersk Line Plans U.S.-Asia Rate Hike for Mid-November

Maersk Line will attempt to raise rates for shipments on its trade from the U.S. to Far East Asia, effective November 15th

- *From the U.S. West Coast and inland points to the Far East, the increase will be $80 per 20-foot container and $100 per 40-foot, 40-foot high-cube and 45-foot container.*
- *From the U.S. East Coast to the Far East, the hike will be $160 per 20-foot container and $200 per 40-foot, 40-foot high-cube and 45-foot container.*

OCEAN FREIGHT

P3 Network Strengthens Presence in US Trade

The operational alliance of Mediterranean Shipping Company SA, Maersk Line and CMA CGM, also known as the P3 Network, will not begin until mid-June 2014 but is already creating an impact in the U.S. container trade market. This massive vessel-sharing alliance will operate a fleet of 255 ships with a 2.6 million 20-foot equivalent units (TEUs) on 27 trade lanes.

The carriers of the P3 Network jointly held 27.1 percent of U.S. laden containers during the first half of 2013, or 4.1 million TEUs. 1.8 million TEUs, or 28% of market represented the U.S. Exports and 2.3 million TEUs, or 26.5% were import volume. Of the P3 Network, MSC is the leader with 11.1% of U.S. market followed by Maersk with a share of 9.9% and CMA CGM with 6.3%

Despite the strength of this alliance, many shippers are voicing concern about the P3 Network. The Global Shippers Forum, which is a coalition of global shipper groups, has stated that members are concerned about the impact of rates and quality of service and that the P3 alliance will eliminate effective competition in the world's primary container trade routes.

The P3 vessel sharing agreement has not yet obtained regulatory approval in the U.S.

Larger Ships Mean Large Outlay of Capital for Port Infrastructure

As container vessels become larger, U.S. ports are faced with the challenge, and expense, of installing taller cranes, dredging deeper channels, and terminal automation enhancements. The ports of Long Beach and Los Angeles together will spend more than $1 billion on port improvements most of which is driven by bigger ships.

Ports are reacting to industry pressure as to where they will be in the coming years with regard to infrastructure. In Southern California, for instance, many carriers today typically deploy vessels with a capacity of 8,000 TEUs. However, carriers such as MSC, are beginning to deploy vessels in the 13,000 – 14,000 TEU range which industry leaders predict will be the mainstays of carriers with Long Beach/Los Angeles area services within three years.

Without infrastructure improvements, ports in the U.S. will not be able to physically accommodate the big ships. There will be winners and losers, which is what carriers are essentially telling ports. Those ports which can efficiently handle large vessels efficiently in an operational sense will be the winners.

Los Angeles and Long Beach will most likely keep their status as the nation's largest load center because they have already met the pre-condition of deep water. Los Angeles' channel is currently 53 feet and Long Beach has completed its main channel deepening to 76 feet.

In order for the ports to be ready for the big-ships they must acquire taller cranes with a longer horizontal reach. New cranes will need to be 30 feet higher and must have a horizontal reach over 23 rows. The large vessels will place a tremendous strain on container yards and terminals. While terminals foot the bill for much of the automation, the ports are installing the necessary infrastructure.

Not only are the ports and terminals affected by the larger vessels, but so are railyards and roadways. Like a domino effect, the big-ships and their high volume of containers will spur the need for improved rail access to terminals as well as railcar storage. Capital expenditures will be needed on roadway access within and outside port boundaries.

The big ships will present big challenges to the nation's ports, but will also bring big opportunity as well.

India Port Draws Congestion Surcharges

Due to a strike in India's Port of Jawaharlal Nehru (Nhava Sheva) some carriers are initiated an "emergency port surcharge" for shipments moving through this port. Carriers are charging up to $250 per container for bottleneck fee.

Crowley and Seaboard in Central America Vessel Sharing Agreement (VSA)

Crowley Maritime and Seaboard Marine Ltd. have announced a new vessel-sharing agreement that they say will provide customers of both companies with reliable, weekly service on larger ships between South Florida, Costa Rica and Panama.

By sharing vessel space, Crowley and Seaboard said they will increase total capacity in the trade by using two 2,500-TEU-capacity vessels, resulting in a continued high level of service, a more efficient operation and reduced carbon emissions in the trade lane.

AIR FREIGHT

Amsterdam Airport Schiphol's Cargo Traffic Increases

In September, cargo rose 3.9 percent year-over-year to 130,631 metric tons, bringing the total for the first nine months of the year to 1.12 million metric tons, up 1.6 percent. Schiphol's largest market remained Asia in September, with North America retaining the second position. Traffic for Europe's third-largest cargo hub has shown growth in five of the nine months year-to-date.

American Airlines' Cargo Volume Up 7.5 Percent in September

American Airlines has reported September cargo figures, showing an increase to 146,690 million ton miles, up 7.5 percent from 136,463 million ton miles reported in September 2012.

For the first nine months of 2013, ton miles dropped to 1.330 million, slipping 0.4 percent from the 1.325 million reported for the same period.

SAMUEL SHAPIRO & COMPANY, INC. NEWS

Shapiro Welcomes William Borden to its Mid-Atlantic Sales Team

Shapiro welcomes William J. Borden, a 15-year industry veteran, to its headquarters in Baltimore, MD. In his new role, Borden will support a rising customer base and growth plans in the Mid-Atlantic as a Regional Director of Commercial Development. No stranger to the logistics industry, Borden will spend his first few months lending his expertise to the company's Pricing department while acclimating to Shapiro's systems and culture.

Prior to Shapiro, Borden worked in a range of positions from Business Development Manager with DHL Danzas Air and Ocean, to Global Business Development Director with Tradecom International, Inc., to International Specialist for Specialty Freight Services. Borden also taught International Business as an Adjunct Professor at John Carroll University and Cuyahoga Community College in Cleveland, OH. Borden's extensive skillset is widely cast with experience in international sales and marketing, freight forwarding and Customs brokerage, warehousing, supply chain management and IT systems. Borden is a graduate of Wheeling Jesuit University and earned his Master's degree in Business Administration from Baldwin-Wallace College in 2000.

"What initially attracted me to Shapiro was its longevity, history, stability, and excellent reputation within the industry. That's the outside view," states Borden. "On the inside, I am finding so much more! Shapiro is a dynamic company strong on values, integrity, and innovation whose employees are highly dedicated to their customers. I am truly very proud to be a part of the Shapiro family."

"We are proud to have snatched up such a knowledgeable industry expert," notes Robert Burdette, Vice President of Strategic Development for Shapiro. "Borden's exceptional skillset and diverse experience within logistics makes him a rare catch. We are confident he will fit in well with Shapiro's unique and quirky cast."

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 Olga Lyakhovetskaya, Business Development Analyst, 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.