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TRADE NEWS:

Penalty Mitigation Guidelines for Wood Packaging Material Violations Released by CBP

Historically, U.S. Customs and Border Protection (CBP) enforces wood packaging material (WPM) regulations to protect domestic agricultural resources from potentially damaging wood-boring pests brought in from foreign countries by issuing WPM violations that assess liquidated damages on importers who fail to take action as required under an EAN (Emergency Action Notification).

Cancellation of Claims for Liquidated Damages for Failure to Take Action on an EAN

CBP may issue a claim for liquidated damages against an importer for breach of its bond conditions in circumstances in which the importer failed to take a required EAN action issued by the Animal Plant Health Inspection Service, Plant Protection and Quarantine ("APHIS/PPQ") related to 7 C.F.R. 319.40-3.

Circumstance of Violation	Amount of Mitigation Relief
Petitioner eventually took action required under the EAN, but it occurred after the specified deadline.	The claim for liquidated damages may be cancelled at an amount between \$500 and \$5,000 (depending on the specific circumstances of the case).
Petitioner was unable to take action required under the EAN due to circumstances beyond its control, or due to APHIS/PPQ or CBP error.	The claim for liquidated damages should be cancelled.

Mitigation of Penalties Assessed for Violations of the WPM Regulations

Effective November 1, 2017, CBP may issue a penalty pursuant for an importer's violation of three categories of 7 C.F.R. 319.40-3; these include unmarked WPM, inappropriately marked WPM and/or infested WPM.

# of Violations	Amount of Mitigation Relief
1	Between 1 to 10% of the value of the assessed penalty depending on the presence of mitigating and aggravating factors
2	Between 10 to 25% of the value of the assessed penalty depending on the presence of mitigating and aggravating factors
3+	Not lower than 25% of the assessed penalty depending on the presence of mitigating and aggravating factors
Continuous	Will not be provided if the violator has a continuing documented pattern of WPM violations

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Recently, CBP released new guidelines advising importers of the possible factors that may affect penalty reduction requests.

CBP reviews relevant mitigating and aggravating circumstances of each case separately and reserves the right to reference or deviate from any of the points put forth in its guidelines when deciding whether or not to grant penalty relief. Should officials determine relief is warranted in any given situation, then CBP will ultimately decide the mitigation, remission or cancellation amount they may deem appropriate. However, it's important to note that CBP is not required to grant relief in any specific case.

Certain mitigation factors may include, but are not limited to:

- Clear documentary evidence of immediate remedial action taken to prevent further WPM violations.
- An established record of compliance relating to WPM requirements.
- Exceptional cooperation with CBP and APHIS (required action taken under EAN and other exceptional cooperation to aid in the resolution of the case).
- A small number of WPM violations in relation to the number of transactions engaged in.
- The WPM was actually properly treated (although unmarked or inappropriately marked).
- A small percentage of the shipment involved in the violation is noncompliant.
- WPM was marked, but marking was illegible.
- Violator's lack of importing experience.
- Violator informed CBP or APHIS/PPQ about the noncompliance or possibility of noncompliance.
- Contributory CBP or APHIS/PPQ error.
- Violator is a governmental entity or charitable institution.
- Violations in close temporal proximity

Certain <u>aggravating factors</u> may include, but are not limited to:

- Lack of Cooperation with CBP or APHIS.
- Falsely marked WPM or submission of false information or documentation.
- Attempt to conceal or cover-up WPM violation.
- Failure to take immediate remedial action to prevent further WPM violations.

Click here to access the official WPM Violation Mitigation Guidelines from CBP.

Visit our <u>Wood Packaging Material (WPM)</u> informational guide to learn more.

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Importers and Retailers Beware – ICE Warns of Possible Criminal Prosecutions Over Forced Labor

Sadly, it appears that forced labor is still an unfortunate reality in many countries of the world. The importation of merchandise that is mined, produced or manufactured wholly or in part in any foreign country by forced labor, inclusive of child labor, is prohibited.

Forced labor has become a priority area for U.S. Customs and Border Protection (CBP), which has led to many importers being questioned about their supply chains. If merchandise is suspected of being produced using forced labor, CBP will seize and hold it via a "withhold release order", also known as WRO. When merchandise is subject to a WRO, an importer needs to export the detained shipment or provide enough evidence that goods were not manufactured using forced labor.

CBP officials are currently working with Immigration and Customs Enforcement (ICE) to increase and ensure the proper enforcement of forced labor laws. The agency is teeing up criminal investigations within the next year, according to Kenneth Kennedy, Senior Policy Advisor for forced labor programs at the Homeland Security Investigations division at ICE. He warned that U.S. business officials will be the targets and that importers and retailers will be subject to hefty penalties if it is discovered that they have any level of awareness of forced labor being used in their supply chains.

Ultimately, it is up to the importers and retailers to practice due diligence and know what's going on in their supply chains. Importers should take reliable measures and use reasonable care to ensure imported goods are not produced with convict, forced, and/or indentured labor.

Here are some questions that importers should ask themselves to prevent the use of forced labor in their supply chain:

- Do you conduct periodic internal audits to check for forced labor in your supply chain?
- Have you reviewed the Department of Labor's "List of Goods Produced by Child Labor or Forced Labor" to familiarize yourself with at-risk country and commodity combinations?
- Have you established a reliable procedure of having a third-party auditor familiar with evaluating forced labor risks conduct periodic, unannounced audits of your supply chain for forced labor?
- Do you check labor conditions prior to sourcing goods in another country? Many factories in Vietnam, Bangladesh or other Asian countries are already at capacity, so importers should be asking who is paying the recruiter's fees. If the workers are paying, that's going to be a forced labor violation
- Do you vet new suppliers/vendors for forced labor risks through questionnaires or some other means?
- Do your contracts with suppliers include terms that prohibit the use of forced labor, a time frame by which to take corrective action if forced labor is identified, and the consequences if corrective action is not taken, such as the termination of the contractual relationship?
- Have you developed a reliable program or procedure to maintain and produce any required Customs entry documentation and supporting information?

In this day and age, it is imperative that you have a documented, comprehensive and transparent social compliance system in place. If you need guidance on starting or enhancing a social compliance system for your company, please contact us at compliance@shapiro.com.

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How to Document Your Classification Process

Did you know that classification is always a focus area in U.S. Customs and Border Protection's (CBP) audits or focused assessments?

Should Customs come a knocking at your door, would you be prepared to show that you exercised reasonable care when determining the classification of imported merchandise under the HTSUS?

To answer that question, you, as an importer, should adopt formal procedures for the classification of merchandise that are detailed, strong and well-documented. The process is usually documented in a company's compliance manual, which should have a separate section for classification, and should be tested for efficacy.

How do you create a process to ensure that your business is using reasonable care?

First, internally identify the responsible parties that have knowledge about the product, so communication can be established with them. This party could be comprised of the product development department, purchasing department, or even the engineering department.

It is smart to determine classification in the early stages of product development because the specifications of the products are usually known best at the time. Also, this allows for enhanced assessment of risks and costs and changes can be made at early stages before time and fiscal investment are at maximum capacity.

Next, define the Customs broker's responsibility and authority over classification, binding rulings, etc., in addition to determining who's responsible for the following:

- Making final classification determinations
- Maintaining the classification databases
- Making changes or adding products
- Reviewing classifications in post entry audits
- Comparing the data between the importer and broker systems
- Filing post entry corrections
- Determining if a prior disclosure is necessary
- Filing binding ruling requests
- Conducting internal control testing

Documenting all of the above in your company database is a good way to store data about the product as well as the thought process when determining classification.

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Also, creating a useful product description in the database is essential! The description is usually utilized in the PO to the vendor and subsequently in the commercial invoice. Vague descriptions might lead Customs to ask questions and issue CF28s. It is ideal to include key characteristics of the product in the description, so classification can easily be determined by just looking at it, which eliminates or reduces the back and forth to obtain information.

What exactly should be documented in the database?

- How the information was obtained to ensure proper classification was it in an e-mail, the company's website, a catalog, classification or specification sheets, etc.
- How to access the information
- General Rules of Interpretation (GRIs)
- Section and chapter notes
- Terms of the heading
- Explanatory notes
- Binding rulings
- Informed compliance publications

How can it be tested?

Now that you have a strong, well-documented process, it needs to be tested. Audits are a good way to test your processes, and they should be done on a regular basis. (Hint: the compliance manual should indicate how often these audits are performed – whether it's on a monthly or quarterly basis.)

Using the services of an expert <u>Customs broker</u>, is a good step towards ensuring reasonable care. However, is important to understand that the importer bears the legal responsibility for furnishing the correct classification on each entry. Therefore, you want to make sure you are working closely with your broker and are providing details on the merchandise, so they can determine the correct classification. If your broker is not asking any questions when it comes to classification, that's probably a red flag!

At Shapiro, we understand that the <u>classification of merchandise is a very detailed and complex process</u>, and we offer the expertise you need to succeed!

Please reach out to <u>compliance@shapiro.com</u> so that one of our team members can take care of your trade compliance needs!

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Effects of Section 301 Tariffs on Vietnamese and U.S. Supply Chains

After nearly a year and a half of tit-for-tat tariffs between China and the U.S., it is now becoming clear just how much of an effect Section 301 is having on the U.S. economy, for both consumers and producers.

Here are some facts about the Section 301 tariffs:

- Chinese tariffs have added \$31 to \$35 billion to U.S. consumer prices.
- For every container imported from Southeast Asia, or any other origin, the U.S. is losing (on average) two and a half containers from China.
- Officials at the Port of Los Angeles recently revealed that it would take roughly 7 Vietnams to make up for the lost cargo from China, which had benefited largely from the deep relationships created across the sophisticated Chinese supply chains.
- U.S. exports have been hit harder than imports at the Port of LA, with a reported decrease of exports to China by 41% compared to last year.
- Officials at the Port of LA also estimate that nearly half of all exports have been hit by tariffs thus far, which has led to talk of layoffs in order to make up for lost cargo at the port.
- Contrary to Trump's hopes, China has actually lowered tariffs on products from other countries, while continuously raising them on goods from the U.S.
- Although the tariffs themselves may not be directly harmful to Chinese wallets, there is still light at the end of the tunnel for the U.S., as Section 301 has hurt China's second largest employment sector textiles and apparel.

Effects on Vietnamese production

As many of you are aware, U.S. importers have found alternative production sources in Vietnam in the hopes of counteracting Chinese tariffs and it appears that the switch is already causing capacity problems for Vietnam. However, the relatively dismal rise in U.S. household products imported from Vietnam, a mere 0.6%, reveals that the shift in sourcing is still unable to offset the decline in Chinese imports, as household imports from Asia made up roughly 22.5% of total U.S. imports through August.

Household items include (but are not limited to):

Furniture	
Tableware	
Bedding	
Lamps and lighting	
Refrigerators	
Air conditioners	
Dishwashers	

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If China has taught us anything about supply chains, it's that production and manufacturing scalability takes time to build.

Imports from Vietnam have risen exponentially since 2014, as the country has worked to enhance manufacturing and infrastructure. As a result of such rapid production growth, Vietnam's supply of skilled labor is dwindling and manufacturing capabilities are still rudimentary, which has led experts to forecast a plateau in Vietnamese exports over the next few months as it works to scale its capabilities to mirror those of China.

According to analysts, the current manufacturing and capacity constraints on household products from Vietnam portend the likelihood for worsening issues, as vessels departing Vietnamese ports are already fully loaded. Also, most Trans-Pacific sailings are primarily designed to serve the North Asia and Chinese markets. Although carriers created an additional 18 weekly sailings out of Southeast Asia in 2019 alone, most vessels are over capacity, which has in turn increased rolled cargo out of Vietnamese ports. While the overall decrease in U.S. household imports can largely be contributed to capacity concerns in Vietnam, it's also the direct result of declining Chinese imports and a slowing U.S. economy. Overall, many pundits believe that household exports from China will still outproduce those from Vietnam in the long run regardless of the U.S. – China trade war due to manufacturing, infrastructure and the availability of skilled labor.

Want more information? Shapiro's <u>Section 301 Tariff News</u> page can help you evaluate the impact on your supply chain and assist you in weighing various <u>Importer Options</u>, such as alternative sourcing models, to reduce the risk to your supply chain efficiency.

TRANSPORTATION NEWS:

IMO 2020 Developments – Carriers Introduce Surcharges in Response to Upcoming Mandate

New surcharges continue to emerge to help carriers offset the costs incurred from the International Maritime Organization's (IMO) 2020 mandate, requiring steamship lines to <u>reduce the sulfur content of their fuel by up to</u> <u>3% effective January 1st</u>. As a result, shipping lines were tasked with determining exactly how the costs associated with compliance, such as upgrading their vessel fleets and/or fuel, would be translated into ocean rates.

Earlier in the year, carriers announced changes to their Bunker Adjustment Factor (BAF), which targeted long term contract rates. Now, as the fourth quarter rapidly approaches the halfway mark, the cost to forwarders and BCO shippers is becoming clearer as more pricing structures are announced.

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Recently, the Journal of Commerce (JOC) reported that the gap between the cost of high and low sulfur fuels had reached 58% as of November. As a result, it warned that carriers will need to make the switch by mid-November in order to meet the deadline.

At the beginning of the month, Hapag-Lloyd announced a Freight of All Kinds (FAK) and spot market fee called the IMO 2020 Transition Charge (ITC), which they plan to remove as soon as costs stabilize.

Maersk followed in announcing their own Environmental Fuel Fee (EFF) for all spot business and contracts.

CMA-CGM then announced a short-term contract low-sulfur surcharge (LSS20). The carrier specified that their fee will account for the change in the cost of buying the new fuel.

Finally, Hamburg Süd has become the latest shipping line to transfer the increased fuel bill onto customers. It announced that its own EEF tariffs would be calculated using the price difference between high sulfur fuel and low sulfur fuel, with the difference being calculated at \$193.08 USD per ton.

All carrier fees will take effect on December 1st, 2019.

Contact our <u>transportation specialists</u> today to learn more about the ways in which Shapiro can help you stay afloat ahead of the IMO's 2020 Low Sulfur Mandate.

Port of Savannah Experiences Fifth Largest Cocaine Seizure In Recent Months

U.S. Customs and Border Protection (CBP) is investigating the source of a 2,133-pound cocaine shipment found inside a container at the Port of Savannah.

The discovery occurred on October 29th during a non-intrusive inspection of the container, on route from South America to Europe. In total, CBP officials confiscated 818 bricks of cocaine, with an estimated street value of \$31 million, from 21 separate duffel bags.

At this time, the investigation is still ongoing, therefore the name of the containership cannot be released. However, according to CBP officials, no arrests have been made thus far.

The cocaine seized at the Port of Savannah marks the fifth largest narcotics seizure made at a U.S. port in the past five months. The previous record at the Georgia port occurred when 1,280 pounds of cocaine originating from South America, with an estimated street value of approximately \$19 million, was seized last May.

In June, CBP made its largest seaport drug seizure ever at the Port of Philadelphia when it discovered 17 metric tons of cocaine, worth an estimated \$1.3 billion, <u>within 7 containers aboard a Mediterranean Shipping Company</u> (<u>MSC</u>) vessel. Following the seizure, MSC temporarily lost its CTPAT certification for 90 days.

In light of recent seizures, CBP has enhanced their reinforcement strategy as a result of emerging trends in narcotics smuggling. Their new strategy focuses on targeting high-risk shipments from source narcotics nations that are either destined for the U.S. or pass through U.S. waters.

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New AB5 Trucking Law for California

Amidst continued backlog at the Port of Long Beach and Los Angeles, the new California Assembly Bill 5 (AB5) law threatens an already overwhelmed drayage industry. Initially intended to target larger companies, such as Uber and Lyft, the bill has had unfortunate ramifications for businesses and independent truckers.

Effective January 1st, 2020, AB5 requires companies utilizing independent contractors to reclassify them as employees, which would effectively eliminate the use of owner/operators through the supply chain – however, there are a few exceptions.

In order to identify such exceptions, companies can use a 3-pronged test, known as the ABC, to prove workers are independent contractors, and not employees. For the state of California, and the trucking industry at large, prong B (listed below) will prove the most difficult for truckers and businesses to prove;

- A: The worker is free to perform services without the control or direction of the company.
- B: The worker is performing work tasks that are outside the usual course of the company's business activities.
- C: The worker is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved the work performed.

It is uncertain how much this new law could affect drayage at the Ports of Los Angeles and Long Beach – two of the busiest and most congested – as businesses and lawmakers in California are currently disputing the legality of AB 5. However, it is not surprising that supporters on both sides of the table will continue their passionate debates heading in to the new year.

Environmental Regulations Are Just Heating Up

Historically, shippers have benefited from a relatively stable market in which carriers are unable to adjust rates substantially. However, it's becoming increasingly difficult to envision this level of stability lasting for much longer.

Lately, carrier consolidation has led to a less friendly pricing environment for shippers, partly because the number of carriers has been halved, which in turn has forced carriers to make strategic improvements when responding to supply and demand changes.

The International Maritime Organization's (IMO) Low Sulfur Mandate will surely raise rates come January 1st, as shippers are forced to sign carrier contracts with higher fuel surcharges. Yet it appears that we've only reached the tip of the iceberg regarding environmental regulations on worldwide supply chains, as ocean shipping contributes approximately 2-3% of global carbon dioxide (CO2) emissions annually (which is nearly the same output as the entire footprint of Germany). Shippers may or may not be aware that there's an even bigger bill soon to hit their invoices, as carrier decarbonization efforts increase in wake of such data.

Container trade will be impacted in two phases, driven by the IMO's 2018 greenhouse gas strategy; the first is the near-term effort to reduce emissions through design and operations of ships that still burn fossil fuels, while the second is the creation and development of zero-emission vessels (ZEVs), which will require a new fuel infrastructure.

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The impact of decarbonization could hit soon for container shipping. Recently, a coalition announced its goal of deploying a ZEV by 2030 and will be exploring the viability of several different fuel sources, including ammonia, hydrogen, and biofuels.

Over the next 10 years, research and debate over the viability of alternative fuels as power sources for ships will continue to emerge, <u>but the urgency for short-term action is growing steadily</u>. Container carriers have argued to those wanting to impose speed limits that lower speeds would ultimately require higher ship utilization, which will then result in more carbon-based fuel consumption, therefore creating a domino effect, as it pulls capital that could be used to build ZEVs.

There are significant doubts about whether potential operational measures, such as Port Call Optimization or vessel design changes, will make enough of a dent in greenhouse gas emissions to send overall emissions into a downward trajectory. However, one thing is certain; reducing greenhouse gas emissions 50% by 2050 will be unachievable if actions aren't taken soon.

LAX Airport Sprint Pass

A recent movement has emerged at Los Angeles International Airport (LAX) that's attempting to ease airport congestion for inbound pick-ups.

What is Sprint Pass?

Mercury Air Cargo, under the premise of decreasing wait times, began using Cargo Sprints' payment and communication platform, Sprint Pass, in which forwarders and truckers can log-in to schedule their pick-ups. Once an appointment is made, Mercury's staff will then stage the shipments at the assigned door for the driver to collect. As an added benefit, the driver gets to skip the long lines and drive right to the appointed door, where they hand over their documents and sign for the cargo on an iPad.

For now, this is being tested at two of their facilities, with the intention to expand to the other three LAX warehouses in the near future.

Is it working?

Shapiro has spoken to one of our dedicated trucking partners in Los Angeles that has been onboard with this project from the beginning stages.

According to this intel, Sprint Pass has helped improve congestion thus far, as the pick-ups are happening fairly quickly, thereby reducing the wait time charges to nil.

Delays still exist, as other truckers unknowingly take up doors that are not assigned to them or are late to pick up cargo. However, analysts believe that these hinderances will soon dissipate should everyone buy into the program. In order to achieve such support, the LAX Cargo community is continuously pushing out information about the program to increase participation.

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Welcome to Daxing Airport!

The new Beijing airport is now open! Reports call it the biggest airport in the world, as it is expected to handle up to 45 million passengers a year by 2021 and increasing to 100 million in the future.

Beijing Daxing International Airport's official airport code is PKX. Located in the rural suburb of Daxing District, 46 km south of Beijing, it is well situated to serve the nearby cities of Hebei and Tianjin. Currently there are 4 runways, with capacity for 7 in the years ahead. Daxing also features an architectural terminal nicknamed "Starfish" for its shape.

At this time, all major Chinese airlines are adding flights routed through Daxing, with airlines and flights sure to come.

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 Aaron Washington, Import Tearn Lead.

Aaron started as an intern with Shapiro and has worked his way up to team lead after two years, where he has come out of his quiet shell and truly shined. His ability to think outside the box is an amazing asset. Aaron is always willing to go above and beyond to lend his coworkers a helping hand with just about anything – including computer and technological headaches – all while wearing a great smile on his face. We are very proud of him. Congratulations Aaron!



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

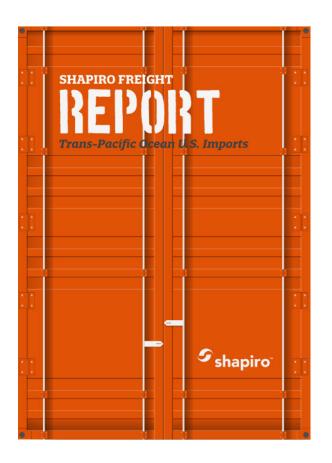
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Shapiro Freight Report

This high-level, monthly review of the U.S. import freight market provides key insights into te 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!



Talking Turkey about Transpacific Trade

Giving Thanks for 2019

Pilgrims, as we march ahead on the crisp fallen leaves of autumn, and as we anticipate pumpkin and apple pies later this week...

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