SHAP TALK

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In this issue:

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TRADE NEWS

Automated Commercial Environment (ACE) Deadlines Released

Shapiro has been working behind the scenes programming its systems to conform to ACE, the Automated Commercial Environment system, and U.S. Customs and Border Protection (CBP) will make use of the ACE system mandatory for entry filing by December of 2016. Test pilots have been ongoing as Customs releases each phase of implementation.

On August 31, 2015, CBP issued revised target deadlines, after industry and stakeholder feedback, as follows:

- November 1, 2015: Beginning of transition period. While not mandatory, users are encouraged to file in ACE. Eligible entry types in ACE include 01, 03, 11, 51, and 52 with or without PGA data.
- February 28, 2016: All electronic entries and entry summaries will be mandatory in ACE. ACS will no longer be available. Electronic FDA, NHTSA, and APHIS (Lacey) data must be filed in ACE.
- July 2016: ACE must be used for filing AMS, APHIS Core, ATF, CDC, DCMA, DDTC, DEA E&C, EPA, FSIS, FWS, NMFS and TTB data.

Importers may be asked to participate during the test phases to streamline processing of importations.

The Automated Commercial System (ACS) is the system used by Customs to track, control and process all commercial goods imported into the United States.

The Automated Broker Interface (ABI) is an integral part of ACS that permits Customs brokers to file import data electronically with Customs. The current processes are largely paper-based and as a result, Customs brokers are often required to submit the same data to multiple agencies at multiple times.

The Automated Commercial Environment (ACE) is the commercial trade processing system to replace the legacy systems of ACS-ABI for a single window to process imports and exports through U.S. Customs and Border Protection (CBP) and the 47 Partner Government Agencies (PGA).

Generalized System of Preference – Let the Refunds Begin!

U.S. Customs and Border Protection (CBP) began processing refunds on entries filed under the Generalized System of Preferences (GSP) for the lapse period between August 1, 2013 and July 28, 2015. Importers who claimed GSP at the time of entry will receive their refund automatically.

In situations for which the entry did not include the Special Program Indicator (SPI) or mail entries, request for refund must be made in writing by December 28, 2015, and any amounts owed by the United States pursuant to the liquidation or re-liquidation of an entry will be paid without interest.

The Generalized System of Preferences (GSP) began 30 days after the law was enacted on June 29, 2015 and is now effective through Dec. 31, 2017. Accordingly, importers are entitled to file GSP-eligible entry summaries without the payment of duty for shipments entered or withdrawn from warehouse for consumption after July 29, 2015 and filed with SPI "A".

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GSP Program renewal excludes goods that entered from Russia, which formally graduated from the GSP program on Oct. 4, 2014, and any other countries that are no longer eligible for GSP benefits, such as Bangladesh.

Importers are encouraged to send inquiries of GSP eligibility, claims or request for refund to the Shapiro branch office handling their importations into the United States.

Get Periodic Monthly Statement and Pay Customs Directly

The Periodic Monthly Statement (PMS) is a key feature of the Automated Commercial Environment (ACE) which allows importers to consolidate entry summaries on one statement for a single payment of duties, taxes & fees due to Customs paid on or before the 15th of each month via the Automated Clearinghouse (ACH).

Importers benefit from flexibility in the management of cash flow and working capital required on duty payments. On average, importers will enjoy roughly 25 day "terms" on their duty payments (which is a bit longer than most brokers like to offer).

Entry summaries not eligible for inclusion on a Periodic Monthly Statement include:

- NAFTA Duty Deferral, Entry Type 08;
- Entry summaries with IRS tax class codes; and
- Reconciliation, Entry Type 09 if IRS taxes are included.

Importers with a bond on file with Shapiro may contact the branch office handling the importations to establish a Periodical Monthly Statement, and we welcome all inquiries about the program.

TRANSPORTATION NEWS

September 2015 Update

INDUSTRY NEWS:

U.S. Manufactured Exports Maintain Advantage in Spite of Strong Dollar

Conventional wisdom in international economics suggests that a strong currency sinks exporting potential, but an analysis of current international manufacturing competitiveness by the Boston Consulting Group (BCG) has added a few caveats to this "law" of markets. In examining the cost-competitiveness of U.S. manufacturing vis-à-vis its peer economies, BCG found that while a strong dollar and weaker global currencies did impact cost-competitiveness of American goods, only two European economies, Poland and the Czech Republic, experienced a tipping of the competitive balance.

According to BCG, the United States' cost-competitive advantage was driven primarily by low manufacturing costs and high labor productivity. With one of the lowest costs for manufacturing in the developed world, the difference in manufacturing costs between the country and its peers has yet to be surpassed by the strengthened U.S. dollar. While the Brazilian real, for example, has dipped 20 percent below the dollar, manufacturing costs are still 17 percent higher in Brazil.

For other developing nations, such as China, the increased strength of the dollar has occurred simultaneously with an increase in the cost of their labor, as China shifts from a production to a consumption and production society. Manufacturers are also aware that currency gains by the dollar can quickly be reversed, suggesting that the United States' core competitive cost advantages could continue to make the country an attractive manufacturing location, even in the face of short to medium-term currency devaluations (such as the recent devaluations of the RMB by China's Central Bank).

Customs' Agency "Standard Operations" a Sign of Worsening Economic Woes in Brazil

On August 19th, Brazilian Customs Agency workers began an indefinite "Standard Operations" strike, which has already begun to affect port operations. The "Standard Operations" strike is not a total walkout or shutdown, but rather a slowdown with only a minimum number of permitted staff allowed to operate. Brazil's electronic Customs systems will still be up and running with standard regular imports being cleared using the automated system, but cargo that needs approval outside the system will be delayed. Customs delays have already begun impacting ports throughout the country, and, as a result, port operational efficiency is worsening steadily.

The National Brazilian Union, Sindisfisco as it's known in Brazil, called the strike in protest of working conditions as well as to demand a 35% increase in pay and additional benefits. Sindisfisco has been working to put pressure on the Brazilian government to meet their demands. For three weeks leading up to the strike, the union first organized a "switch all computers off day" every Thursday. Customs officials are likely taking advantage of the current very public problems and perceived weakness of the government currently in power in Brazil.

The strike announcement follows the news story of a major multi-billion dollar corruption scandal which has embroiled state-owned oil company, Petrobras, involving some key officials within Brazilian President Dilma Rousseff's administration. Highly negative economic indicators are compounding frustrations with the Brazilian government for the general population.

The Brazilian economy is suffering with the plummet of the USD/BRL exchange rate, which is almost half of the rate that it was 12 months ago. Also, their credit rating was cut just above junk status by Moody's at the beginning of the month. Economists have speculated that the inflation rate for this year will sit at 7 to 10%, and GDP is expected to shrink by 2%. Unemployment continues to rise, and the Brazilian Stock index has plunged 21% over the last 12 months. Protesters have taken to the streets across the country to demand Ms. Rousseff's impeachment or resignation. Her approval rating has fallen to 8%, the lowest in Brazilian history since the last impeachment of a president back in 1992. With its biggest trading partner, China, slowing down, devaluing its currency, and struggling with its own market turmoil, the Brazilian economy is facing a perfect storm that will likely be felt throughout South America and beyond.

China's Slowing Economy Leads to Devaluation of Currency

Earlier this month, China initiated a devaluation of its currency, the yuan, by 2.8 percent against the U.S. dollar. China's slowing economy spurred the decision in an attempt to revitalize their diminishing export volume, which fell by 8.3 percent in July. The move is also intended to gently slow China's growing taste for imports. The overall desired result is to increase domestic trade while strengthening their overall balance of trade position.

While the relative price of goods produced in China will be reduced by the currency move, origin charges from a total-landed-cost perspective will remain more expensive than ever before due to significantly higher labor and domestic transportation costs. That said, the decrease in the price of Chinese goods should yield a boost for Chinese exports. It is possible that some Chinese exporters might push for a revision in their Incoterms from Free On Board (FOB) to Ex Works (EXW) in an attempt to pass on the higher origin charges to buyers while enticing them with a lower product price.

It is not likely the devaluation of the yuan by 2.8 percent will have an immediate effect on U.S. import volumes, nor will it stimulate the Chinese economy overnight. U.S. importers will need to monitor the marketplace in the interim as both Chinese suppliers and U.S. importers react. As for U.S. exporters to China, who have already seen Chinese demand wane considerably, the currency move only gives them more incentive to investigate new markets for their goods.

OCEAN FREIGHT

Chinese Carriers COSCO and China Shipping (CSCL) Consider Merger

In early August, the Chinese press reported that China's government-owned China Ocean Shipping Company (COSCO) and publicly traded China Shipping Container Line (CSCL) are considering a merger. Executives from both companies are working on a plan to be released before the end of 2015.

If the merger goes through, the combined company will have a fleet of 1.5 million TEU, or 8 percent of the world share. This would put COSCO, currently in sixth place, and CSCL, currently in seventh place, in fourth position in the ocean container market.

Currently, the carriers are in separate carrier alliances. COSCO is a member of the CKYHE alliance (with K-Line, Yang Ming, Hanjin and Evergreen) while CSCL is in the Ocean Three alliance (with CMA-CGM and United Arab). The significant size of the proposed merger means whichever alliance wins the new member will increase their market share by as much as 28 percent while the "losing" alliance's market footprint will decrease by as much as 13 percent.

Jawaharlal Nehru Prepares for Labor Strikes While National Strike Looms

Ocean carriers and shippers doing business at the port of Jawaharlal Nehru, otherwise known as JNPT or Nhava Sheva, are preparing themselves for more delays and disruptions next week as unionized dockworkers at India's biggest port prepare to strike (again).

This is the second labor disruption in two months, and some carriers have been forced to re-route cargo to other hubs such as Colombo in Sri Lanka. As freight backlogs spike, the carriers have been forced to announce congestion surcharge notices at rates of $150 per 20-foot-equivalent unit and $300 per 40-foot-equivalent unit for all JNPT-bound shipments to offset the extra costs caused by the work stoppages. Officials at JNPT worry that the planned labor action will disrupt operations at most state-owned ports and lead to permanent cargo diversions to other privately-owned terminals in the country.

While the port of Nhava Sheva remains mired in congestion, another labor battle is nipping at its heels. Labor groups have announced a 24-hour national, industry-wide labor protest against the government's decision to privatize terminals in its attempt to reform public trusts. Labor groups across the industry including dockworkers, truckers, seafarers, shipyard workers, rail employees and portions of the public sector have vowed to join in protest, set to begin September 2nd.

Union members and labor groups within the port system view privatization as a threat to their jobs and benefits. The impact of a nationwide strike would cripple India's economy as well as vested supply chains.

U.S. West Coast Ports Regain Business Lost to East Coast Ports

West Coast ports are starting to see an increase in container volumes as they try to win back business lost to the East Coast and Gulf in last year's longshoremen contract negotiation slow-downs/congestion. Container volumes for the Los Angeles-Long Beach ports increased by 6.8 percent in July indicating shipping patterns are slowly returning to normal levels.

U.S. East Coast and Gulf Coast terminals are still reporting double-digit increases in container volumes caused by diversions from the West Coast. This shift in freight began in July 2014 when the contract between International Longshoremen and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) expired. In an effort to avoid the mounting congestion at West Coast terminals, importers diverted cargo through Vancouver and Prince Rupert in Canada and via the U.S. East and Gulf Coast. Interestingly, many of the diversion ports do not have sufficient infrastructure to handle the large increases, and they in turn have suffered congestion and delays.

This increase in business to the West Coast may signal that peak season is on its way. Importers are beginning to ramp up imports for the annual holiday shipping rush. In past years, Beneficial Cargo Owners (BCOs) would ship as much freight as possible during the winter and spring when rates were low on all-water-services to the East Coast. Peak season occurs each year around late summer through October to take advantage the influx of holiday merchandise which must be on store shelves in time for the shopping season. With peak season comes peak season surcharges. This year, forecasters believe the additional costs will make it much more expensive to route via the U.S. East Coast causing cargo to be re-routed to the West Coast.

The increase in shipper's demand for services to the East Coast has led to six new all-water services from Asia to the U.S.'s eastern ports. With these new services, carriers have been able to maintain higher than normal freight volumes to the East Coast.
West Coast ports are attempting to convince shippers and NVOCCs that terminals are congestion-free and the labor force reliable. Los Angeles, however, maintains issues with excessive wait times. On average, trucking turn times are being reported lasting 90 minutes, a half an hour more than the preferred 60 minute industry average. Oakland too has experienced the difficulty of a labor shortage. Oakland is the only port on the West Coast that does not allow part-time workers to operate cranes; this helps create crippling backlogs. In order to keep costs low, the port limits the number of employees receiving full-time benefits. In an effort to decrease congestion, both the ILWU and PMA have agreed to add 150 longshoremen, 30 clerks and 400 part-time workers. The port authority says this will help eliminate any current or further West Coast congestion.

Port of Tianjin Begins Normal Operations After Massive Explosions

Tianjin, China's sixth largest container port, suffered a deadly explosion Wednesday, August 12, 2015 at 11:20 p.m. The blast, which killed at least 114 people according to Chinese officials, originated from a Tianjin Dongjiang Port Rui Hai International Logistics Company dangerous goods warehouse.

Tianjin port has resumed operations after the hazmat chemical explosions. Tianjin is the main gateway serving Beijing and northeast China and is used to route 40% of imported cars. According to Reuters, Toyota plans to divert shipments to Shanghai and Dalian ports to keep supply chain disruptions to a minimum.

Vice mayor of the northern Chinese municipality, Wang Hongjiang, advised in a press conference that the clean-up operation at the core area of the explosions is progressing well. Tianjin's Maritime Safety Administration reported cargoes, excluding hazardous goods and bunker oil, were entering and exiting normally form the ports' north section and all other berths are functioning at normal capacity.

As a result of this tragedy, chemical companies in the area are undergoing strict inspections. China's ports are tightening up regulations and/or restricting the movement of hazardous chemical cargo at their facilities causing delays and disturbing global chemicals supply chains, according to the JOC. In recent days, more than 100 chemical firms across seven provinces have suspended operations or shut down due to safety violations.

Port of Oakland Seeks to Implement a Pier Pass-Style Program

In an effort to alleviate congestion and improve efficiency, the Port of Oakland is proposing adding Saturday operations at its marine facilities in addition to a weekday gate fee similar to the PierPass program at the ports of Los Angeles and Long Beach.

The OakPass program, which would impose a gate fee to trucks using the terminal gates Monday through Friday from 7 a.m. to 6 p.m., would help to support the Saturday operation of truck gates and reduce truck delays by adding gate hours. The exact fees are yet to be confirmed, however a spokesperson for the terminal said the tentative fee would be $17 per 20-foot container and $34 for all other size containers. Trucks hauling empty containers, transshipment cargo, and bare chassis would be exempt from the fees. The PierPass program in LA/Long Beach was launched in 2005 to relieve traffic congestion, wait times, and reduce air pollution caused by trucks on the roadways leading to the port. Currently, forty-four percent of the terminal's gate moves are now during off-peak hours. However, the program has many critics, and concerns over the Oakland proposal echo those of the PierPass program. Critics argue that there is no guarantee off-peak gate hours will cure the congestion at the port. The Federal Maritime Commission (FMC) is being urged to pressure the terminals for details on expected costs and benefits to ensure transparency of the program.

Despite the International Longshore and Warehouse Union's (ILWU) contract being signed and approved by the Pacific Maritime Association (PMA) months ago, the port of Oakland continues to face serious congestion. A labor shortage has slowed vessel loading/unloading operations, and Oakland also faces chronic yard congestion and a severe chassis shortage. Port of Oakland officials have assigned a 30-member task force to help formulate a plan to get cargo moving more efficiently. The Federal Maritime Commission has 45 days to review the proposed OakPass program.

AIR FREIGHT

The Milk Run Concept – Reduce Airport Cargo Congestion

Congested air cargo terminals may see an improvement with a new program being tested in Amsterdam. This year we are seeing even longer delays at our nation's busiest cargo hubs because of port congestion, construction, and third-party terminal handlers' efficiency woes. However, a new concept being tested in Netherland's Schiphol airport could be the logical, collaborative solution other congested air cargo terminals should consider.

Enter the Milk Run model. The concept involves handlers arranging one truck to collect and deliver cargo to the local forwarding community. There are a few participants in the test phase with more expected to take part in future trials. Initial benefits are a 30% reduction in import traffic, streamlined cargo operations, and reduced CO_2 emissions.

The collaboration between Amsterdam-Schiphol logistics community and Air Cargo Netherlands is enviable, and we hope to see an overall positive outcome. With any luck, this trial will be a model for air cargo hubs around the world.

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Cecil's Roar is Heard Worldwide

Delta and 26 other air carriers took a stance against carrying game trophies in response to worldwide criticism of the illegal shooting of Cecil the Lion. All air carriers adhere to CITES regulations, but more have gone further to state they will not accept big game or hunting trophy's for transportation, whether the species is endangered or not. Delta is banning all lion, leopard, elephant, and rhinoceros and buffalo trophies from its cargo holds.

Cecil, a popular 13-year-old lion living on the protected Hwange National Park in Zimbabwe was killed in July by an American recreational big game hunter.

DOMESTIC NEWS

How the New Electronic Logbook Mandate will Affect Domestic Supply Chains

In September 2015, a final Federal Motor Carrier Safety Administration (FMCSA) rule will be released requiring all interstate commercial trucks to move away from paper logbooks within two years in favor of an electronic device to log their hours, both on and off duty. The electronic logging device (ELD) mandate has been a long time coming. The National Transportation Safety Board has called for the use of electronic devices for hours of service (HOS) recordkeeping by drivers since the 1970s, but it was not until the Moving Ahead for Progress in the 21st Century Act that the rule gained significant traction. The FMCSA released a proposal in March of 2014, and after receiving comments, a final rule was issued to the White Office for approval July 30. The final ruling is expected to be published by Sept 30, 2015.

The goal of the ELD mandate is to bring safety related violations – not having a current record of duty status or log, not having the prior week's log, and particularly falsified logs – down to zero.

There is still speculation as to how much investment will be needed to ensure compliance; however, industry leaders have expressed concern over the impact the mandate will have on small carriers, owner-operators and overall truck capacity. The Department of Transportation (DOT) has estimated trucking companies will have to spend $604 million on new vehicles and drivers in addition to the $966 million they will have to shell out for onboard computers and fleet management software. The department has, however, estimated $395 million in annual savings from improved safety and $1.6 billion in savings from administrative overhead. Based on these numbers, the trucking industry will actually benefit modestly from MAP initiatives. The problem is convincing the industry that this is indeed the case.

The trucking industry argues that over the next two years, trucking capacity, in terms of fleet and drivers, could decrease as the ruling is implemented and may result in rate increases. In the long term, however, connecting ELDs to engines, brakes, and onboard systems could provide insights to improve safety, drive efficiency, and develop superior processes. For shippers, the availability of real-time data of their domestic carrier loads will allow them to design more flexible supply chains designed to deal with potentially disruptive events from port strikes to traffic congestion.

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 Niccole Pippin, Global Logistics Specialist in Baltimore 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.