“SHAP” TALK

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SHAPIRO SEMINARS

Save the Date! Registration to Open Soon for our August 9th Classification Seminar

Samuel Shapiro & Company, Inc.'s popular summer seminar will be held August 9th in Baltimore. Our customers and industry professionals are invited to join us for this sought-after event. Under the law, importers are required to use Reasonable Care for the classification of imported merchandise so that Customs can properly assess duties, collect accurate statistics and determine whether other applicable legal requirements have been met. Classification is important not only for duty purposes, but also to determine admissibility, such as quotas and antidumping and countervailing duties. Incorrect classification may lead to delays in shipment clearance and increased duties with interest. At this half-day seminar, you will learn about the development of the Harmonized Tariff System and the rules for classification. We'll also talk about tariff engineering and other ways to reduce duty costs. Registration will be available shortly at www.shapiro.com.

TRADE NEWS

Tensions Rise between ILA and USMX

The International Longshoreman's Association and the United States Maritime Alliance continue to face tense negotiations with the expiry of the ILA contract at the end of September. While the US Maritime Alliance has championed the increased use of labor saving technology for U.S. East Coast and Gulf Coast ports, the ILA has demanded job guarantees for its members. ILA President Harold Daggett stated, "It appears at this time that the USMX is unwilling to agree to the ILA's main demand for job protection for the members affected by automated terminals." However, to maintain ILA wages and benefits, employers have insisted ports must invest in technology to increase productivity and revenue. Automation and technology, as well as chassis pools, work jurisdiction, and container weights are also major issues for the contract negotiations.

Though the ILA has not had a coast wide strike in 35 years, negotiations have made little progress recently. According to the Journal of Commerce, "major retailers and other importers are anxiously watching this year's negotiations…several large shippers have said they may start diverting some cargo to West Coast ports if negotiations do not show progress by this summer."

The ILA and USMX will resume negotiations on June 27-29 in Delray Beach, FL. These will be the first negotiations since the two parties first met in March.

Customs Issuing Invoices for Additional MPF

This is a reminder from our May Shap Talk about the retroactive increase for the Merchandise Processing Fee (MPF). We saw a first wave of bills from Customs in April for the MPF increase. Customs has announced that more invoices will be coming starting in June. Differences in the MPF of less than $20.00 are de minimis and will not be processed for retroactive collection.

The legislation to increase the Merchandise Processing Fee from 0.21% to 0.3464% was signed by President Obama on October 21, 2011, with the increase retroactive to October 1, 2011. Customs did not start accepting the increase until November 5, 2011. Customs will be issuing invoices to importers for the additional MPF due for entries made between 10/1/11 and 11/4/11. If you receive such an invoice from Customs, please be sure to pay it promptly to avoid additional interest charges and possible sanctions for late payment.

TSA and EU Achieve Air Cargo Security Agreement

On June 1, 2012, the Transportation Security Administration (TSA) and the European Commission announced an unprecedented air cargo security partnership with the European Union and Switzerland, paving the way for improved information sharing, stronger security, and more efficient transportation of cargo between the U.S. and the EU. TSA and the EU now mutually recognize their respective air cargo security regimes. Private industry can move cargo though the 27 EU Member States, the U.S., and Switzerland, while following a single set of security rules.

Siim Kallas, Vice-President of the European Commission responsible for transportation advised with this mutual recognition of our comprehensive and solid regulatory frameworks we create significant savings and simplification for our freight transport industry while maintaining a high standard of security.

TSA Administrator John S. Pistole notes the agreement will strengthen security by ensuring that the U.S. and EU share information and work together towards common goals. Pistole also states that it will allow for free movement of goods and commerce between our nations and ease the burden on industry.

Through TSA's National Cargo Security Program (NCSP) recognition process, the agency analyzes the air cargo programs of its international counterparts, and determines if they are comparable to what is required in the United States.

The TSA announcement dated June 1, 2012 can be found on the TSA website at: http://www.tsa.gov/press/releases/2012/0601.shtm

Certain Exports from the US to Chile Require Fumigation
Vessels from the U.S. to Chile will be inspected for stink bugs before discharge. No cargo will be discharged if any stink bugs are found on the vessel. The original phytosanitary certificate for fumigation issued by the company in the originating country will be required.

On a temporary emergency measure, all shipments of clothing, toys, vehicles, and used goods entering Chile from the United States, China, Japan, Korea, and Taiwan must be fumigated to protect the spread of the brown marmorated stink bug, Halyomorpha halys, with specific methods prescribed by the Servicio Agrícola y Ganadero (SAG), which is the Ministry of Agriculture in Chile.

Please refer to the link below from the National Customs Brokers and Forwarders Association of America, Inc regarding the procedures required by Chile.
http://www.ncbfaa.org/userfiles/file/chileanstinkbugresolution.pdf

CBP Discusses Due Diligence in Establishing Bona Fides

As part of its Role of the Broker Initiative Customs and Border Protection (CBP) discussed in its June 21st webinar entitled "Establishing Bona Fides" the role of the broker in validating importers of record. CBP is recommending a two point approach for the validations including determining whether the importer of record is a real entity and whether the designated importer of record on the Customs entry is the owner or purchaser of the goods.

As CBP is having issues with underpayments, undervaluation of shipments, and failure to pay ADD/CVD in cases where they cannot identify or track a legitimate billing party, they need assistance from Customs brokers in validating importers of record.

Some areas of concern include:

- The enhancement of broker/importer relationships with those that represent the greatest compliance risk for CBP such as one-time or unknown importers.
- Shell companies and identity theft.
- 3rd party or sub agent powers of attorney from unlicensed freight forwarders, which often results in the broker not having direct communication with the importer.
- Billings that are not from the broker to the importer but to the 3rd party and limitations of the waiver provision in CFR 19 111.36(a) which entitles the importer to waive in writing a copy of the entry and/or bill for services rendered. Those transmittals are provided to the 3rd party representative instead.
- An updated 5106 with additional information that will be required to help CBP vet importers of record.

As such, CBP wishes to establish evidence through the Customs broker that the importer of record is legitimate. Such evidence could include:

- A required face to face meeting.
- Photo identifications including drivers' licenses and passports.
- Internet searches.
- Copies of importer purchase orders and contracts established with the seller of the goods.
- Company articles of incorporation.
- Company tax returns.
- A negotiable bill of lading to establish title to the goods, which would not include a "to order" bill of lading.

CBP is suggesting due diligence by the broker community to help validate importers of record, but they are hesitant to update the Customs regulations to include the documentation that brokers may ask of importers. CBP stated that the standard of due diligence for brokers is sufficient to allow the collection of said suggested documents, but CBP will leave the actual individual broker to decide what evidence satisfies the standard.

In summary, CBP emphasized the need for direct communication between broker and importer as a requirement, the possibility of eliminating 3rd party powers of attorney, and updating the 5106 to include more information about the importer of record.

The webinar presentation in its entirety and the subsequent Q & A can be viewed by visiting the CBP website at www.cbp.gov and questions or concerns can be addressed to RoleoftheBroker@cbp.dhs.gov.

CBP's C-TPAT Validation Process Requires Improvements

The Inspector General of The Department of Homeland Security has published a report which outlines needed improvements to Customs and Border Protection's (CBP) Customs-Trade Partnership Against Terrorism (C-TPAT) program in relation to the validation process.

The C-TPAT program allows participants to secure their supply chains under enhanced and required security standards. As required by the Security and Accountability for Every Port Act of 2006, CBP is required by law to certify submitted security profiles and practices within ninety days of submission, to complete validations within one year of certifications, and to revalidate profiles every four years from the original validations. To complete the validations CBP utilizes Supply Chain Security Specialists (SCSS) who work within published SOPs to ensure that supply chain partners worldwide meet the program's minimum security requirements, standards, and published best practices.

The report however notes the following deficiencies:

- The SCSSs documentation did not always support initial validations for highway carriers as the accuracy and effectiveness of profiled security measures was not verified properly.
- SCSSs often did not complete the initial validations within one year of the certifications.
- They often did not obtain signed certification letters as required by the program.
- They did not consistently follow the validation SOPs.
- They did not consistently provide details in the required documentation as to how they verified evidence of security procedures.
- They did not consistently conduct secondary reviews to verify that no violations had taken place.

According to the report these deficiencies occurred because the SOPs don't provide specific information on what evidence or formats should be maintained or where. The initial SCSS training also did not include specific details on said methodologies or documentation.

The report recommends that CBP:

- Update its SOPs to include specific detail of the said requirements in its validation worksheet, and the requirements for verifying evidence of procedural practices.
- Ensure that the SCSSs follow the updated SOPs when conducting initial validations of supply chain partners.

CBP responded by stating that they are incorporating the above recommendations by adding specific instructions to SOPs and by providing additional webinar training to SCSSs as SOPs are updated. They also intend to link the SOPs to their Security Link C-TPAT portal, which should decrease the likelihood of misinterpretations of procedures and procedural failures.

The report is available at:
http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-86_Jun12.pdf

Use of Single Transaction Bonds for Antidumping/Countervailing Duty Entries

U.S. Customs and Border Protection (CBP) has issued guidelines for when a port may require additional bonding to secure an antidumping/countervailing duty (AD/CVD) concern if there is reasonable belief that revenue would be in jeopardy when the transaction is secured by a continuous bond.

Use of a single transaction bond (STB) would be determined on a case by case basis with each transaction judged on its own merits.

The guidelines address the following areas:

- Making determinations that there is a reasonable belief of possible revenue risk.
- STB use in conjunction with a continuing review or investigation risk pertaining to AD/CVD orders.
- How to determine the amount of the STB. The amount, in general, will be based on the value of the merchandise times the AD/CVD rate that would apply if the goods were subject to AD/CVD. Should that rate not be known, the highest AD/CVD rate for that commodity will be used. The amount of the continuous bond will always be considered before requiring the STB.
- Importers and brokers will be provided written notice of the STB requirement. The notice will include:
  - The amount of the STB.
  - The general reason why the STB is being required.
- When to discontinue the requirement of STBs and how to return the STB if no revenue risk is determined to exist.
  - The STB requirement will be discontinued when the review is completed and compliance is determined.
  - When the review concludes that there was no revenue risk, the STB will be returned.
  - The importer will be given written notice when the requirement for the STB is discontinued.
- All of the ports will be made aware when one port requests an STB to address possible placement of the revenue in jeopardy involving AD/CVD so that it will be required uniformly at each port.

CBP Notice is available at:
http://www.cbp.gov/xp/cgov/trade/priority_trade/add_cvd/trans_bond_adcvd.xml

Customs Announces Simplified Entry Pilot

U.S. Customs and Border Protection has announced the successful delivery of the first phase of its Simplified Entry pilot program. Simplified Entry is intended to streamline the release process with the submission of both security and entry information prior to arrival of the cargo. Twelve required and three optional data elements are submitted to Customs that will fulfill merchandise entry requirements and allow for earlier release decisions.

At this time, the pilot program is for air shipments only. The shipments must be direct arrivals (no I.T.'s). Entries cannot fall under other government agency admissibility requirements. The entry type must be 01 (formal) or 11 (informal) and the importer must have a continuous bond. Both the importer and the broker must be C-TPAT participants.

The announcement is available at:
http://apps.cbp.gov/csms/docs/18775_543169525/SE_First_Wave_060412.pdf

BIS and State Department Publish Proposed Rules Addressing Personal Protective Equipment

On June 7, 2012, the Bureau of Industry (BIS) and the State Department both published Proposed Rules addressing personal protective equipment, shelters, and related items that the President determined no longer warrant control on the United States Munitions List.

The new ECCNs would be as follows:

- 1A613 – armored and protective equipment, constructions and components
- 1B613 – test, inspection and production equipment and related commodities specially designed for the development or production of commodities controlled by ECCN 1A613 or USML Category X and not identified in USML Category X
- 1D613 – software for the development, production, operation, installation, maintenance, repair, overhaul or refurbishing of items controlled by ECCNs 1A613 or 1B613
- 1E613 – technology for the development, production, operation, installation, maintenance, repair, overhaul or refurbishing of items controlled by ECCNs 1A613, 1B613, or 1D613

This rule would also control military helmets (currently controlled under ECCNs 0A018 and 0A988) under new ECCN 1A613, amend ECCN 1A005 for body armor, remove machetes from ECCN 0A988, and revise license exceptions BAG (baggage) and TMP (temporary imports, exports and reexports) to authorize exports of certain body armor classified under new ECCN 1A613.

The proposed rules may be found in the June 7th Federal Register at:
http://www.gpo.gov/fdsys/pkg/FR-2012-06-07/pdf/2012-13745.pdf
http://www.gpo.gov/fdsys/pkg/FR-2012-06-07/pdf/2012-13744.pdf

TRANSPORTATION UPDATE

July 2012 Update

INDUSTRY NEWS:

Indonesia Overhauls Its Transportation System
Bambang Susantono, Indonesia's vice minister for transport, told reporters last month that the country plans to spend US$86 billion to overhaul its transportation system, including air, road and sea links. Barring any delays caused by land disputes, the development project includes building new airports, ports, and adding tracks to existing rail lines; with the majority of the funds going to develop sparsely populated areas, rather than Jakarta and Java.

LA/Long Beach Traffic Mitigation Fee to Increase August 1st
The Traffic Mitigation Fee (TMF) at the ports of Los Angeles and Long Beach will increase by 2.5% starting August 1, 2012. The TMF will be increased by $1.50 per TEU to $61.50 per 20 foot container or $123 per 40 foot container. The current TMF rates are $60.00 and $120.00 respectively. The increase is taking effect to address labor cost increases.

OCEAN FREIGHT:

Shipowners Oppose PCA Toll Increases
Panama Canal Authority's planned toll increase came under fire from International Chamber of Shipping (ICS) Secretary General Peter Hinchcliffe who called the 15 percent increase "simply unacceptable," and criticized the plan as "rushed, excessive, and likely to cause future problems for shipping companies." The Secretary General urged the authority to withdraw plans for the current increase and to provide at least six months' notice for future increases. While the toll increases would not apply to containerships, but would cover containers shipped by breakbulk vessels, Hinchcliffe said that there was, "no pressing need for the increases" because "canal revenues are currently very healthy".

Peak Season Surcharge Trans-Pacific Rates Jump 20 Percent
June 10th peak-season surcharges increased 20 percent on eastbound trans-Pacific trade. According to Drewry Benchmark, the rate for shipping a 40-foot container from Hong Kong to Los Angeles rose to $2,700 per FEU during the week of June 13th, an increase from $2,250 per FEU the previous week, indicating the Transpacific Stabilization Agreement (TSA) carrier members have been able to negotiate more than two-thirds of the May 9th peak-season surcharge recommendation of $600 per FEU. Several carriers have mitigated the PSS at various discounted levels. For the most updated information, customers can feel free to contact their Shapiro representative for details.

Carriers have also been able to implement recommended TSA increases of $400 per FEU on January 1st, $300 per FEU on March 15th, and $400 per FEU on April 15th, with pricing remaining steady. The week of June 13 benchmark rate is 52.1 percent higher than the same week a year ago.

Maersk Plans July 1 Rate Hikes
Danish carrier Maersk Line plans a series of general rate increases scheduled to take effect July 1st. Rates are expected to increase by $200 per 20 foot container and $300 per 40 foot/45 foot high cube container on cargo from the Mediterranean to the Indian Subcontinent and the Middle East. The Subcontinent includes India, Pakistan, Bangladesh and Sri Lanka. North East Asia to Australia and New Zealand trade lanes will increase by $300 per 20 foot container and $600 per 40 foot container. Rate increases on shipments from Canada to Far East Asia will go up by $80 per 20 foot container and $100 per 40 foot/high cube container, with east coast of South America to the Middle East and the Indian Subcontinent rates increasing by $400 per container. Maersk assures its customers that, "in order to continue [to offer] our broad

portfolio of services and high level of reliability, it will be necessary, to implement a number of rate increases/restorations."

MSC Increases BAF on July 1st
Effective July 1, 2012, Mediterranean Shipping Company will implement new BAF (Bunker Adjustment Factor) on all container shipments from the Far East to the U.S. BAF surcharges for shipments to East Coast ports will be $772 per 20 foot container, $996 per 40 foot container and $1,086 per 45 foot and high cube containers. Far East to West Coast ports will be $432 per TEU, $540 per FEU, and $607 per 45 foot and high cube containers. Other carriers have increased their BAF by about $15 to $30 per 20 foot container and $30 to $50 per 40 foot container.

CaroTrans Launches Breakbulk Services
U.S.–based non-vessel operating common carrier and ocean freight consolidator CaroTrans will launch breakbulk, out of gauge and ro-ro service that will provide specialized equipment, including flat racks and open tops, door-to-door service, haulage, crating and delivery to the exit port, targeting developing markets such as Latin America, Middle East and Asia. CaroTrans' fourteen U.S. offices include Atlanta, Baltimore, Boston, Charleston, Charlotte, Chicago, Cleveland, Dallas, Houston, Los Angeles, Miami, New Jersey, San Francisco and Seattle.

Chassis Issues Impact Peak Shipping Season at LA/LB Ports
Lengthy delays due to truck turn times and chassis dislocation issues are expected to be a major cause of congestion at the nation's largest port complex during peak-shipping season this fall. Despite the availability of "incredible assets," the ports are beginning to experience chassis shortages and dislocation problems resulting from ocean carriers getting out of the chassis business and leaving it to third-party providers and pools to manage the equipment. PierPass Inc., a consortium of the port's 13 container terminal operators, predict that the shortages could be the top challenge facing the harbor community this peak season. Working groups are currently being assembled by the Long Beach Board of Harbor Commissioners to address the chassis issues.

Customs Port Strike affects Brazil Imports
Customs officers in Brazil are currently disrupting ports and slowing clearance of imports according to Inchcape Shipping Services.

Customs officers in Brazil are demanding better salaries and better working conditions. The strike is affecting import clearance procedures in most of the major Brazilian ports.

Customs offers originally claimed that they would stop work for two days a week and work at "minimal levels" the rest of the week until an agreement can be reached. Customs is unionized in Brazil and they claim that they will start an "undefined strike" that will affect the whole country, including ports, airports, and bonded warehouses if their grievances are not dealt with.

DOMESTIC:

Truck Capacity Tightens- Reaches "Tenuous Equilibrium"
Panelists speaking at the Council of Supply Chain Management Professionals annual 2011 State of Logistics Report advised that trucking capacity is at a "tenuous equilibrium" as we reach mid-2012, and acknowledge that as capacity tightens, causing increased concern on the part of shippers about their ability to get goods to customers on time, "we're starting to see on-time delivery failures increase." With a failure rate in 2011 more than double that in 2010, panelists agree that the equilibrium is likely to shift, and Rosalyn Wilson, senior business analyst at Delcan and author of the 23rd annual report, advises that as capacity tightens and freight volumes rise, it will be necessary to "make contingency plans now for the day you can't get a truck."

Journal of Commerce tracking of capacity at truckload carriers shows a 0.6 percent drop from a year ago in the first quarter and was down 15.9 percent from 2006. Rick Sather, Vice President of Customer Supply Chain North America for Kimberly-Clark, told the JOC that tightening capacity is impacting service, and service is more challenged then it used to be. Sather said that in his view, it is not the dramatic reductions in service levels that is the problem, but the reduction in the high levels of service over a multi-year period that the industry has come to expect. Sather stated that capacity has been tightest in the congested Northeast and Southeast regions and offers a solution of working more closely with trucking suppliers and sharing scheduling information in an effort to better balance deliveries. Panelist Rick Jackson, Executive Vice President of Mast Global Logistics, a Limited Brands Subsidiary, advises that "…understanding the dynamics of why capacity is tight in a given region and working with the carriers to minimize day-to-day potential misses," and also maintaining a focus about the shipper-carrier relationship, helps to develop more collaborative ways of doing business, that will offset the challenges.

AIRFREIGHT:

Cathay Pacific Volumes Drop
Cathay Pacific Airways and Dragonair saw a drop of 10.6 percent compared to May 2011, and slightly lower than the 124,531 tons carried in April of the same year. The two airlines carried 123,403 tons of cargo and mail in May of this year.

Route Updates
United Airlines will start daily wide body service from Newark to Istanbul July 1st.

Korean Air started 3 times weekly freighter service Chicago-Brussels-Navoi.

Kenya Airways is suspending service to Muscat and Rome in a cost cutting measure.

IATA Requirement for Healthcare Cargo Shipments
IATA announced as of July 1, 2012, the IATA Time and Temperature Sensitive label is mandatory for the transportation of healthcare cargo shipments.

ALERTS:

Effective July 1, 2012, some carriers will be implementing GRI affecting trade lanes from Europe to the USA and from USA to Europe. Average GRI is $400 per 40-foot container on Imports but the amount is mitigated at various levels for Exports. For more specific details please contact your Shapiro representative.

SAMUEL SHAPIRO & COMPANY, INC. NEWS

Shapiro Promotes Kathy McKoy to Regional Manager

Samuel Shapiro & Company, Inc. recently announced the promotion of Kathy McKoy, Baltimore Branch Manager, to Regional Manager of the Mid-Atlantic Region.

Kathy McKoy started with Shapiro in 1998 as an account coordinator and quickly moved through the ranks. In 2000, she was promoted to Team Leader/Import Manager where she managed the workflow and customs brokerage of a number of account coordinators. In 2006, Kathy left import and broadened her scope to manage Shapiro's Transportation Department. After three years of managing international freight contracts and transit, Kathy moved back into import to become Branch Manager of the operations at Shapiro's Baltimore headquarters office. Now, after just three more years and a total of fourteen with Shapiro, she has been promoted to Regional Manager, Mid-Atlantic Region, and will be responsible for both the Baltimore, MD, and Dulles, VA, offices.

"I like this company because of the family environment and the fact that you can grow as much as you want, if you put forth the effort," noted McKoy. "You are recognized for your accomplishments, but given support and encouragement to make them possible."

"We are very fortunate to have someone of such talent and energy in this capacity," noted Margie Shapiro, Samuel Shapiro & Company, Inc.'s President and CEO. "In addition to her vast knowledge of the forwarding industry, Kathy's strong focus on customer service and employee development positions us well to further build our Mid-Atlantic operations."

Employee of the Month

As previously featured in "Shap" Talk, Samuel Shapiro & Company, Inc. 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 Marley Tanno, Baltimore Import Coordinator, 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.