Samuel Shapiro & Company, Inc.

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“SHAP” TALK

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TRADE NEWS

2007 Harmonized Tariff Grace Period

The 2007 Harmonized Tariff Schedule (HTS) will go into effect February 3, 2007 with the multiple changes from the World Customs Organization. U.S. Customs & Border Protection (CBP) has granted a 17 day grace period for the trade to finalize internal classification changes. The grace period pertains to entries rejected by CBP for classification correction and to post entry classification corrections, and will help prevent the assessment of penalties for negligence and non-egregious errors.

Only the tariff in effect at the time may be transmitted to CBP; Customs will not be accepting both the 2006 and 2007 HTS numbers during the grace period. The 2007 tariff will be available in ABI on February 3rd.

If you have questions how the WCO changes will affect the classification of your products, please contact us at compliance@shapiro.com.

House Passes 100% Cargo Inspection Bill

The House of Representatives has passed the Implementing the 9/11 Commission Recommendations Act of 2007 (H.R. 1). This bill requires 100% inspection of all cargo on passenger aircraft by the end of fiscal year 2009. 100% scanning of containers overseas destined for the U.S. will be required within five years (see also our article in this issue on the Secure Freight Initiative). When one considers the number of ports from which containers to the U.S. ship, this is a daunting task. Many of the over 700 ports are in developing countries and have neither the infrastructure nor funds to implement the scanning measures. The legislation includes a provision for a one year extension if scanning equipment is not available for purchase and installation at the port.

This bill has stirred up controversy in the trade community. The National Customs Brokers & Forwarders Association of America (NCBFAA), the American Association of Exporters and Importers (AAEI), the Retail Industry Leaders Association (RILA), and the Chamber of Commerce of the United States of America all strongly oppose this legislation stating it will "significantly disrupt the flow of trade and impose costly mandates on American business without providing additional security" (Chamber of Commerce letter to members of the House of Representatives). While the SAFE Port Act legislated pilot programs for container scanning, the 9/11 Commission legislation is mandating container scanning. The purpose of the pilot program is to test its effectiveness and correct any deficiencies before widespread implementation. This new legislation seems to run contrary to the SAFE Port Act by bypassing the pilot program. 100% screening of air cargo will slow down air commerce and have a negative impact on shippers who rely on just in time inventory.

The bill has been referred to the Senate Committee on Homeland Security and Governmental Affairs.

New Legislation Introduced Regarding China

Once again, Congress has introduced legislation to impose additional tariffs on Chinese imports if the U.S. Treasury Department determines that China is engaging in currency manipulation with its exchange rate policy. The additional duties would be equal to the percentage of manipulation found. The duty rates would be adjusted annually based on China's exchange rate policies. The bill (H.R. 321), known as the Currency Harmonization Initiative through Neutralizing Action (CHINA) Act of 2007, was introduced by Reps. Phil English (R-PA), Robin Hayes (R-NC), and Thomas Reynolds (R-NY).

On the Democrats' side of the aisle, Dale Kildee (D-MI) introduced H.R. 388, the Unfair Chinese Automotive Tariff Equalization Act, which would ban the import of Chinese passenger vehicles unless the tariff rates imposed by China on U.S. vehicles were equal to the rates imposed by the U.S. on Chinese vehicles.

Bulgaria and Romania Admitted to European Union - Lose GSP Benefits

On January 1, 2007, two additional countries were admitted to the European Union (EU): Bulgaria and Romania. The EU describes itself as "a family of democratic European countries." On July 23, 1952, six founding members formed a union, which was transformed into the European Community, and in 1992 renamed the European Union.

The EU is a supranational and intergovernmental union of 27 democratic member states in Europe. Member states include Belgium, France, Germany, Italy, Luxembourg, The Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria, and Romania.

Once admitted to the EU, member states may not continue to receive benefits from the Generalized System Preference (GSP) program. As a result Bulgaria and Romania lost their GSP benefits on January 1, 2007.

Secure Freight Initiative for Foreign Seaports

The Secure Freight Initiative (SFI) is a program from the Department of Homeland Security (DHS), in conjunction with the Departments of Energy and State, designed to strengthen port security and advance screening and inspection capabilities. The SFI is codified in the SAFE Port Act, signed by President Bush in October 2006, which will provide for research for new advanced scanning techniques to screen cargo before it leaves the foreign port.

In the first phase of SFI, the U.S. will place radiation detection and container imaging equipment in three ports – Port Qasim, Pakistan; Puerto Cortes, Honduras; and

Southampton, Great Britain. 100% of container cargo coming from these ports to the United States will be scanned. Port Qasim and Puerto Cortes are expected to be operational in February 2007, Southampton in June or July 2007. DHS plans to add the ports of Salalah, Oman; Singapore; and the Gamman Terminal in Busan, Korea later in 2007. (See also our article on the House legislation requiring 100% scanning of containers).

DHS press releases available at:
http://www.dhs.gov/xnews/releases/pr_1165943729650.shtm
http://www.dhs.gov/xnews/releases/pr_1165520867989.shtm

Increased Civil Penalties for Specified Export Violations

Effective January 9, 2007, the Department of Commerce issued a final rule to adjust civil monetary penalties (CMPs) as provided by Federal law under the Patriot Act.

The recent Patriot Act adjusted certain CMPs under the International Emergency Economic Powers Act. A civil monetary penalty is defined as any penalty, fine, or other sanction that:

1. Is for a specific monetary amount as provided by Federal law;
2. Is assessed or enforced pursuant to Federal law; and
3. Is assessed or enforced pursuant to an administrative proceeding or a civil action in the Federal courts.

This rule adjusts the affected CMPs that are codified at 15 CFR, the Department of Commerce regulations.

The Sections affected in order to make the penalties consistent are 50 U.S.C. 1705(a), International Emergency Economic Powers Act--Export Administration Regulation Violation, from $11,000 to $50,000, and 50 U.S.C. 1705(a), International Emergency Economic Powers Act--Chemical Weapons Convention Implementation Act, Import Restriction Violation, from $11,000 to $50,000.

The January 9, 2007 Federal Register Notice can be accessed on the GPO website
http://frwebgate3.access.gpo.gov/cgi-bin/waisgate.cgi?WAISdocID=48778620841+41+0+0&WAISaction=retrieve

Export Express Pilot Program Extended until September 30, 2007

A notice posted in the December 15, 2006 Federal Register announced the extension of the U.S. Small Business Administration (SBA) Export Express Pilot Program until September 30, 2007. This extension will allow time for the Agency to finalize its analyses of this program and also complete internal discussions regarding potential modifications and enhancements to the Program.

The Export Express Pilot Program is a subprogram of the SBAExpress Program. It was established in 1998 to assist current and prospective small exporters, particularly those needing revolving lines of credit. Export Express generally conforms to the streamlined procedures of SBAExpress, although it carries SBA's full 75–85 percent guaranty. The maximum loan amounts under this Program are limited to $250,000.

For further information on this program, please contact the following:
Charles Thomas, Office of Financial Assistance
U.S. Small Business Administration
409 Third Street
Washington, DC 20416
Telephone (202) 205–6490
charles.thomas@sba.gov

The December 15, 2006 Federal Register Notice is located at:
http://frwebgate.access.gpo.gov/cgi-bin/getpage.cgi?position=all&page=75606&dbname=2006_register

Simplified Network Application Process Redesign (SNAP-R)

As of January 12, 2007, the Bureau of Industry and Security is no longer using the original version of the Simplified Network Application Process or "SNAP." Everything is now migrated to the Snap Redesign or "SNAP-R". All rulings and license applications to the Department of Commerce will now be submitted to SNAP-R. For additional information about SNAP-R, please refer to the Bureau of Industry and Security website at: http://www.bis.doc.gov/SNAP/index.htm

COMPLIANCE CORNER

Quota/Visa/ELVIS Eliminated Due to Vietnam's Accession to the WTO

The Committee for the Implementation of Textile Agreements (CITA) has issued a directive adjusting the 2007 quota period for Vietnam and eliminating quota, visa and Electronic Visa Information System (ELVIS) requirements for textile and apparel imports from that country. Vietnam entered the World Trade Organization (WTO) on January 11, 2007 and as a result, CITA has directed U.S. Customs and Border Protection (CBP) to change the 2007 quota period to January 1st through January 10th, and to eliminate quota, visa and ELVIS requirements for goods exported from Vietnam on or after January 11th. CITA states that the quota levels are not being prorated to match the 10 day period, and are unchanged from their annual levels (as adjusted). CITA also notes that goods exported from Vietnam prior to January 11th will continue to be charged to the applicable quota and subject to paper visa and ELVIS requirements.

CITA notice available at;

http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/07-65.pdf

TRANSPORTATION UPDATE

Beachcomber's Bonanza

On January 20, 2007, the MSC Napoli was beached off the southern English coast after hitting stormy seas earlier in the week. The ship suffered serious damage and was towed towards shore so that environmental teams could prevent hazardous spillage.

Dozens of containers washed ashore Branscombe beach in Devon leading to a frenzy of beachcombers who have scooped up BMW motorbikes, Lancôme cosmetics, and assorted auto parts. Under British maritime law, scavengers are permitted to take wreckage from shipping accidents but only on the condition that the goods are declared to the British lost property office and handed over within 28 days. Otherwise, the persons can be charged with theft.

This entire episode underscores the critical need to have your cargo insured. How likely are the scavengers to declare and return goods retrieved from the MSC Napoli? Not bloody likely. You can avoid the financial losses like those suffered by the shippers on the MSC Napoli by obtaining marine cargo insurance for your shipment. Please contact us at insurance@shapiro.com for information on how we can put your mind at ease and protect your investment.

February 2007

Far East
Chinese New Year
This year's Chinese New Year 4705 begins on February 18, 2007. New Year festivities traditionally start on the first day of that month and continue until the fifteenth. In China many companies close and employees take days off. As a result, the time just before and just after the Chinese New Year results in extremely heavy shipments. Preparing in advance is important since space will be very limited. Please book your shipments as far in advance as possible.

Suez Canal
The Suez Canal Authority (SCA) will raise its transit fees by an average of 2.8 percent in 2007, according to various news reports. The increase would range from 1.14 percent for passenger ships to 3.73 percent for oil tankers, effective April 1, 2007. The SCA said its 2006 revenue reached a record $3.82 billion, up 11 percent from $3.4 billion last year with the number of vessels passing through the canal up by 580 to 18,580 ships. Cargo loads were up by 66.8 million tons to 736.8 million tons.

Northern Europe
There is still an acute shortage of flat racks, open top and other special equipment from Europe to the U.S. Importers requiring special equipment should forecast their needs 60 days in advance in order to secure the special equipment. This is a major struggle right now all over Europe.

The Mediterranean
There were talks of a general rate increase from Turkey for February 1, 2007; the GRI has now been pushed back to April.

South America
Maersk/MOL is discontinuing their service from Brazil into Miami/Pt. Everglades. The last vessel will be calling Itajai to Miami on December 19, 2006. New York will now be the first port of call with a transit time of 8 days. They are also replacing the port of Itajai with São Francisco do Sul.

The export ocean freight scenario from Brazil looks much better. In July of last year, shippers in Brazil were afraid we would face another collapse similar to what happened in 2004 - lack of containers, lack of space, port congestion, etc. Due to a disruption in one of Maersk's services, there was a substantial impact from September to early December, especially in the Santa Catarina region. Some carriers were accepting bookings just for 2-3 vessels ahead. The situation seems to be much better now and the rates are remaining steady and may even come down a bit in the first quarter. We have very good rates for several commodities such as furniture, ceramic tiles, lumber, footwear, and FAK.

Air News
Global airfreight traffic has rebounded steadily since the downturn after September 11, 2001. According to a new report by Air Cargo Management Group, levels are up in the last five years. The report says continued airfreight growth of 6 percent is achievable but that high fuel prices and the unsteady global economy may hold the growth rate to 4 to 6 percent in 2007 and to a slightly higher level of 5 to 7 percent in 2008.

Domestic USA
DOT -Hazmat
The Department of Transportation is proposing tougher rules governing the shipment of hazardous materials by rail. The DOT's Pipeline and Hazardous Materials Safety Administration, in consultation with the Federal Railroad Administration and the Transportation Security Administration, is proposing to revise the current requirements in the Hazardous Materials Regulations.

Some of the requirements:
1) Rail Carriers to compile annual data on certain hazardous shipments.
2) Analyses safety and security risks along the rail routes.
3) Assess alternative routing options
4) Clarify current security, storage, delays, notifications and inspections.

Comments on the proposal are due by February 20, 2007.

The Federal Register notice of 1/19/07 is available at:
http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/E7-671.pdf

Transportation Workers ID Credentials
The Transportation Security Administration (TSA) has published the text of the final rule for the Transportation Workers Identification Credential (TWIC). This will be formally published in the Federal Register soon. The rule should become mandatory in 12 to 18 months, and will affect some 750,000 individuals who regularly work in U.S. seaports. The ID card is designed to plug a gaping hole in port security - controlling access to secure areas, generally anywhere inside terminal gates. The photo identification card will include an embedded chip containing biometric data about the cardholder, such as a fingerprint.

There will be a cost for the TWIC which will cover the criminal background check. This program is well overdue. Enrollment is to begin by the end of 2007, but the TSA has not named a general contractor to set up the information management system, or establish enrollment centers.

SAMUEL SHAPIRO & COMPANY, INC. NEWS

News from Our Norfolk Office – Virginia Ports Continue to Move Up

Joseph Dorto, Chief Executive and General Manager of Virginia International Terminals Inc., recently announced that 2006 was a great year for the port of Hampton Roads. With the growing number of containers coming through the port in 2006, Hampton Roads became the second largest container port on the east coast. Dorto remarked that in 2006, 2.05 million TEU's (20 ft equivalent units, a standard measurement for cargo container volume) moved through the port, an increase of 3.2 percent over 2005. He said that the outlook for continued future growth is strong.

There are several factors contributing to the growth of the Virginia ports:

- A five year contract with Chilean Shipping (CSAV) was just signed worth approximately 50 million dollars.
- Additional space at the new 291 acre, $450 million APM terminal in Portsmouth is due to open in July 2007.
- West coast port workers are starting labor contract talks this year, and it may cause some shippers to shift freight to the east coast to avoid being caught in a strike.
- And of course, there is the port's natural deep water with vessels coming in right off the Atlantic Ocean with no long wait times for pilots to bring them up river. The pilots must be ready to go on board at any given time.

So, watch the VIT operated terminals - Portsmouth Marine Terminals, Newport News Marine Terminals, Norfolk International Terminals, and the Maersk APM Terminal. We want your freight to move with us. Give us a call and we will take care of you, we promise.

Fair Trade vs. Free Trade

While we each hold strong individual opinions about the Dubai Ports battle and the resulting media circus, there were a few lessons for all of us in the importing and exporting public. As any of us know from trying to explain what we do for a living at a neighborhood cookout, the American public has only a vague sense of global logistics and the security, transportation, and regulatory compliance environments. This point was unequivocally driven home last year. What we also learned somewhat painfully from the Dubai Ports episode is that many of our country's legislators on both sides of the aisle have only a murky sense of our business. And, above all, we learned that there are enormous political gains and losses at stake in the country's development of security policies and global trade agreements. The media and Congress are very much focused on international shipping, and it is a fascinating time to anticipate the future business climate.

The most recent slogan directly affecting our businesses to echo in Congress is "fair trade over free trade." What makes it particularly interesting is that the banner of fair trade is being carried by members of both parties. A very general snapshot of the political landscape reveals a country with an economically struggling middle class, a growing divide between the rich and the poor, a powerfully divisive foreign war, a public weary of partisan bickering, a public increasingly fearful about security, and a new political majority eager to demonstrate a progressive platform which better reaches the country's middle class. All of these general factors make the fair trade rally cry a popular one. And, in a political world with polarizing issues like abortion, welfare reform, and federal tax policy, global trade also has the benefit of being much less controversial (in part due to the public's lack of information).

In essence, the proponents of "fair trade over free trade" argue that the declining real wages and future prospects of many of the country's blue collar workers have been battered by free trade. "Free trade" as a general term in political discussions includes the obvious agreements like NAFTA, but also includes diminishing tariff rates, removal of quota programs, and other global trade streamlining initiatives. The argument often includes reference to the dwindling number of U.S. exporters in the consumer goods manufacturing sector. When a legislator rightly or wrongly couples fair trade arguments with port security discussions, it becomes hard to dispute the concepts without sounding like an opponent of security.

As part of the First 100 Hours reform platform from the Democrats, we have already heard a bold claim that all containers will be scanned (see our article above on the 100% cargo inspection legislation). This further demonstrates the political significance of the global supply chain, and both political parties will vie to claim the issues as theirs. In addition, the free trade vs. fair trade argument played an intriguingly significant role in the last round of elections. As members of the importing and exporting public, we should carefully watch our Congress and stand together when good political strategy may not create good trade policy. Potential isolationism and protectionism could be very damaging to all of us, and the American public does not have the education in international shipping to create meaningful dialogue or offer appropriate resistance when needed. We are all for better security and a more efficient system to realize greater safety, and we are all for fair trade. The key questions for us in 2007 are how will we as a country define "fair trade" and how will we properly estimate "free trade's" positive and negative economic impacts? Is your seatbelt on?

Shapiro's 2007 C-TPAT Workshop Series

Want to become a C-TPAT member but not sure how to get started? Uncertain what information should be included in your security profile? Need help navigating the Customs C-TPAT portal?

Samuel Shapiro & Company, Inc. will be hosting half-day C-TPAT workshops in Philadelphia, Baltimore, and Atlanta in 2007. This new workshop series will provide importers with the tools to effectively evaluate the security of your supply chain, analyze the results, communicate with business partners, and develop improvement plans. We will supply you with step-by-step instructions plus the materials to create your own security profile and application for admission to C-TPAT!

Stay tuned for Shapiro's workshop calendar. More information will be posted to the Shapiro website at www.shapiro.com and future issues of "Shap" Talk.

Please contact the Compliance Department at 800-695-9465 ext. 290 or by email at compliance@shapiro.com for more information or to reserve your seat today.