

## **AMERICAN SHIPPING COMPANY**

## **Supply Chain Gazette**



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## CBP Developing Guidance Around Uyghur Forced Labor Prevention Act

The two top issues Thomas Overacker, CBP's executive director of cargo and conveyance security, has been dealing with are the blockades at the Canadian border and the Uyghur Forced Labor Prevention Act. He told an audience at the National Association of Foreign-Trade Zones' legislative conference that CBP is going to have a challenge identifying what goods come from the Xinjiang region, given the number of middle men in China, issuing invoices or acting as freight forwarders. "It's not always evident from the data we collect at CBP ... where the goods were actually produced," he said Feb. 15.

Knowing if a good—or an input—was made in China's Xinjiang region is crucial, since the UFLPA creates a rebuttable presumption that goods made in Xinjiang were made with forced labor. "Now it's incumbent on the importer to show otherwise," Overacker said, or it will be on June 23, when the law takes effect. Overacker said that CBP will be providing guidance "well in advance of June." Trade lawyers had expected that guidance not to come early enough to be of use to importers (see ITT 01/11/2022).

Whatever the precise guidance will be, the heart of it is likely to be what Overacker said CBP expects, which is that importers know where their goods were produced, and where their inputs come from. Overacker said that the agency is going to try to be as precise as it can when identifying goods that come from Xinjiang, and will try to minimize the impact on traders, "so we are not grinding trade to a halt to try and determine whether [goods] did or did not come from Xinjiang."

Overacker didn't mention the issues of labor transfers of Muslim minorities within China during his talk, or the problem of goods imported from other countries that could have Xinjiang content. Both of those are also covered in the law. "Labor transfer is an issue, no question about it," he said. "That's one of those things, though, where we have to

rely on credible information in order to identify that." He said that other agencies in the government can help, and that CBP relies on civil society groups that work on the issue. "We need to have credible information in order to act on that," he said.

When it comes to Xinjiang inputs in goods produced in foreign countries, he said that's also an information challenge, and CBP will have to rely on "the information we can glean from the trade community and others to try to pinpoint that as best we can. But it's not 100% certain, but we will do the best we can to enforce the act as written."

Jim Swanson, director of the cargo and security controls division under Overacker, also spoke at the conference. He told the group that CBP is working on writing regulations on goods subject to withhold release orders being stored at foreign-trade zones until a determination is made. Allowing these goods to be stored at FTZs would allow importers to avoid paying demurrage. This is already happening (see ITT 09/22/2021), but regulations would make the procedures clearer.

Swanson said clarifying the procedures for FTZs to hold these goods will become more important as the Uyghur Forced Labor Prevention Act goes into effect. "Stay tuned," he said. "This is not going to go away anytime soon, and we're going to need to have a way to deal with that merchandise as it arrives." — *Mara Lee* 

## CIT Oral Argument Largely Focuses on Limits to Presidential Modifications of Section 301 Tariffs

The Court of International Trade heard oral argument on Feb. 1 over whether lists 3 and 4A of Section 301 tariffs were properly imposed, marking one of the largest cases in the CIT's history. The hourslong affair saw the judges push back on arguments made by both the Department of Justice and the plaintiffs, with significant attention paid to the procedural elements of the president's decision to impose the retaliatory Section 301 tariffs on billions of dollars worth of

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Chinese goods. In all, the three-judge panel of Mark Barnett, Claire Kelly and Jennifer Choe-Groves heard from the Department of Justice, counsel for the test case plaintiffs HMTX Industries and Jasco Products, and amici.

Section 301 test-case plaintiffs HMTX and Jasco seek to vacate the lists 3 and 4A tariffs on Chinese imports and get the duties paid refunded with interest on grounds that the Office of the U.S. Trade Representative overstepped its authority, stemming from the 1974 Trade Act, by escalating the trade war with China and violating Administrative Procedure Act protections against sloppy and unresponsive federal rulemakings. A combined 9,000 comments were filed in the lists 3 and 4A proceedings, and the government "acknowledges they were overwhelmingly opposed to these tariffs," attorney Joseph Palmore of Morrison & Foerster said on behalf of amici CTA, the National Retail Federation and five other trade associations.

The arguments opened up with statements from DOJ. The HMTX-Jasco complaint should be dismissed because the Section 301 China tariffs were imposed "at the direction" of President Donald Trump, "and presidential action is not reviewable" under the Administrative Procedures Act "or this court's residual jurisdiction" authority, DOJ lawyer Justin Miller said. Chief Judge Mark Barnett interrupted, pressing Miller to show "where in the record is the president's direction" on the tariffs, "something with his signature on it."

The APA doesn't require presidential directives "to be in writing," Miller responded. "The president's directives were quite specific," in *Federal Register* notices and other public documents, "when it comes to the tariffs that are at issue before the court today," he said. Miller couldn't answer when Choe-Groves asked if Trump had "final approval" over lists 3 and 4A and when they would take effect. "I'm not certain of that," Miller said. "The record doesn't reflect that type of review."

DOJ lawyer Elizabeth Speck defended USTR's modification authority under the Trade Act's Section 307 to ratchet up the Chinese tariffs when it imposed lists 3 and 4A without a new Section 301 investigation. "The plaintiffs are incorrect that the trade representative ever expanded the scope" of the original investigation by imposing lists 3 and 4A as a response to China's retaliatory tariffs against the U.S., Speck said. The "modification actions" were "all

steps in the same staircase, and they're all aimed at eliminating the unfair trade practices that were investigated" in the original Section 301 probe, she said.

Barnett asked Speck if USTR could have imposed \$250 billion in List 1 tariffs instead of the \$34 billion "at the very beginning," knowing there were "rumblings" of Chinese retaliation. "Arguably, if they lose this case, they may take a step like that," she said of USTR. There needs to be an "explanation" under the Trade Act about "why a particular action is appropriate," she said. "As it became very apparent that China would not step away from its trade practices, they had to take additional actions."

The "substantive dispute in this case boils down" to whether Section 307's modification provision "hands USTR essentially a blank check to ratchet up tariffs, by virtually any amount, and for virtually any reasons," said Pratik Shah, Akin Gump attorney for HMTX and Jasco. "The government's unprecedented position not only creates serious constitutional concerns, but it eviscerates the careful investigation-based limits Congress placed on Section 301 trade actions."

The government was wrong to base lists 3 and 4A on the "subsequent harm" to the U.S. from Chinese retaliatory tariffs, current manipulation and Beijing's failure to buy more U.S. agricultural products, Shah said. "None of those were the subject of the Section 301 investigation." Shah doesn't deny that the burden on the U.S. economy "certainly increased from China's retaliatory measures," Shah told Judge Claire Kelly. But the language in Section 307 "ties the burden" of increased U.S. harm from "the investigated practices" in the Section 301 report, not from the "subsequent defensive measures" imposed by the Chinese, he said.

Following a brief intermission, the amici resumed the attack on the tariff action. The Trade Act and the APA "impose obligations of opportunities to comment by stakeholders and reasoned decision-making" by the federal agencies involved, Palmore said. USTR "complied with neither" in the lists 3 and 4A tariff rulemakings, Palmore told the court's three-judge panel. USTR "of course didn't have to go and respond comment by comment," Palmore said. "That's not what the APA or the burden of reasoned decision-making requires." The statute, though, does require "some response to significant objections," he said. "Here, there were none," except for

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"simple conclusory sentences" in USTR's *Federal Register* notices that the agency took public comments "into account," he said. "That was not enough."

USTR "hypothetically" could have told the public it believed the projected harms from the tariffs wouldn't materialize, that public fears about the duties were overblown, or that the tariffs were "worth incurring to secure the benefit that we're seeking" in curbing China's allegedly unfair trade practices, Palmore said. "What they couldn't do was just be silent, and that's what they did here."

The "massive scope" of the lists 3 and 4A tariffs as they were being proposed "required meeting the APA's obligations to consider objections and to offer a reasoned explanation all the more important and made the USTR's failure to comply with those obligations all the more stark," Palmore said. Under questioning by Judge Jennifer Choe-Groves about whether it was USTR's normal course to be unresponsive to public comments, Palmore said he didn't know, but it didn't matter. "I've litigated a lot of administrative law cases over the years and read many, many more, and I've never seen one quite like this, where there was just a complete absence of response to fundamental objections to the proposed course of action." — *Paul Gluckman* 

#### APHIS to Accept Copies of Phyto Certs Until Sept. 30

The Animal and Plant Health Inspection Service announced it will continue to allow importers to file electronic copies of phytosanitary certificates for plant commodities until Sept. 30, it said Feb. 14, as expected (see <a href="ITT 02/07/2022">ITT 02/07/2022</a>). The agency had previously delayed the end the policy of accepting copies Jan. 1 (see <a href="ITT 12/10/2021">ITT 12/10/2021</a>), before postponing again until March 31 (see <a href="ITT 12/29/2021">ITT 12/29/2021</a>). The policy is in place to mitigate challenges from the COVID-19 pandemic. The National Customs Brokers & Forwarders Association of America asked for the latest extension. "Starting October 1, 2022, APHIS and U.S. Customs and Border Protection will accept only original phytosanitary certificates and forms for plant commodities," APHIS said.

## America Competes Act Passes, Now Effort to Compromise With Senate Begins

The House passed its China package, the America Competes Act, on a nearly party-line vote, with one Democrat

dissenting and one Republican voting for it. The America Competes Act and the Senate's U.S. Innovation and Competition Act both propose subsidizing American semiconductor manufacturing and both propose investing in science research to better counter China's play for technological dominance, but the House version spends far more money and includes some priorities that the Senate did not, such as \$2 billion annually for climate change foreign assistance and a generous reauthorization of Trade Adjustment Assistance. The vote was 221-210.

The two versions will need to be reconciled through negotiations between the House and Senate, Commerce Secretary Gina Raimondo, whose department would be responsible for disbursing billions under either version, said in a phone call with reporters, "I'm urging Congress in the strongest possible terms to move quickly, immediately, now to start negotiations and work out the differences between the House and Senate bills, focus on areas of common agreement, find the landing zone, start negotiating and move as swiftly as possible to get a final version of the bill to President Biden's desk for his signature." She later added, "There is no reason that they should drag on for months."

Sen. Todd Young, the Indiana Republican who is likely to be one of the negotiators, has estimated that a compromise could be reached by Memorial Day.

Raimondo said, "I think it's fair to say that the trade title portions of both of these bills is the most contentious, is the area where there's the least bipartisan agreement. And while trade is, of course, an incredibly important part of our competition strategy, we have to find common ground, however limited that might be, and not let those controversial pieces of the trade title bog down this whole negotiation."

President Joe Biden said he was pleased the House passed the bill Feb. 4, and said, "I look forward to the House and Senate quickly coming together to find a path forward and putting a bill on my desk as soon as possible for my signature."

House Ways and Means Committee Chairman Richard Neal, D-Mass., <u>said</u>, "This package contains critical trade provisions authored by the Ways and Means Committee, including the long-overdue reauthorization and modernization of Trade Adjustment Assistance programs. I look forward to advocat-

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ing for that policy and our other priorities—several of which are bipartisan—when we conference with the Senate."

Young, who was one of the original authors of a bill that is the heart of USICA, <u>said</u> that he is disappointed that the House did not move its bill through committees in a way that could draw bipartisan support. "As we head to a conference process, my hope is that the final legislation will reflect the Senate bill and give House Republicans a much better option to support," he said.

Rep. Stephanie Murphy, D-Fla., was the sole Democrat to vote no, and she <u>said</u> her no vote was because of the trade portion of the bill. Murphy, who is retiring, is a pro-trade voice on Ways and Means. She said she hopes the trade language "will be substantially improved when the House and Senate reconcile their bills, so that I can vote for a bipartisan bill that strengthens America's economy and enables us to successfully compete globally."

The Competes Act includes many proposals that affect trade—the renewal of the Generalized System of Preferences benefits program and Miscellaneous Tariff Bill; excluding China from de minimis entries; the Inform Consumers Act and Shop Safe Act, both of which require online platforms to do more to stop sales of counterfeit goods; sweeping changes to antidumping and countervailing duty laws and enforcement of circumvention of those duties; and the Ocean Shipping Reform Act, which tackles some complaints exporters have had with carriers during the supply chain crunch of the last year.

The Senate bill has a different version of GSP and MTB, does not tackle antidumping and countervailing duties or de minimis, and doesn't include the e-commerce language or the shipping sections. It does direct the Office of the U.S. Trade Representative to restore lapsed Section 301 exclusions and to reopen an application process for exclusions, though it gives the agency wiggle-room to say no if officials deem that more exclusions would undermine the administration's leverage with China. — *Mara Lee* 

### House Ways and Means Republicans Ask for Consultations on Phase One With China

House Republicans on the Ways and Means Committee <u>told</u> U.S. Trade Representative Katherine Tai that she needs to

provide "a detailed analysis" of how China did or did not live up to the phase one trade deal. "We have great confidence in your abilities to address the many challenges China presents to the United States and other market economies, and we hope you will expand detailed communication on these matters so that Congress and the Administration can be partners in developing effective U.S. responses," they wrote Feb. 24.

As part of that analysis, the Republicans said, they would like more information about the structural changes, not just the purchase commitments. "It will be particularly important to identify areas in which China is in compliance with the letter of the commitment (such as by enacting a new law or regulation) but out of compliance with its spirit insofar as the responsive measures have not been applied or enforced. It is also important that USTR provide evidence of actual improvement in the market conditions that U.S. companies face to the extent such evidence is available."

They said that there should be retaliation for not living up to the agreement. "If the Biden Administration is committed to enforcing the Phase One Agreement on its terms, then it must be willing to invoke the Phase One Agreement's enforcement mechanism. We fear that if this mechanism is not utilized, the value of any future trade agreement with China will be seriously compromised," they wrote.

The administration should negotiate a robust, enforceable trade agreement with new countries in Asia "to greatly expand markets for our exporters and their workers as we work to recover from the COVID-19 pandemic," they said.

— Mara Lee

## China Says Again It's Prepared to Make Changes to Join TPP

"China has conducted a full, comprehensive and in-depth study and evaluation of the content of the agreement. China is willing to make efforts to fully meet the CPTPP rules and standards through reforms, and to make a high-level commitment to opening up in the field of market access that exceeds China's existing contracting practices, so as to provide members with market access opportunities with huge commercial interests," a Chinese spokesperson said at a press conference, according to a translation from Professor Henry Gao. CPTPP is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Gao said this

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shows "the Chinese application is serious and its accession is closer than many people might think."

# FMC Official Says There Will Be Further Guidance on Proper Detention and Demurrage Charges

Federal Maritime Commissioner Carl Bentzel says that audits have already led to investigations at the FMC, but that the agency is underpowered, with about 115 employees and just six investigators. He said there have been billions of dollars worth of detention and demurrage charges, and that the FMC will be issuing a notice of proposed rulemaking to create further guidance about proper detention and demurrage charges.

Bentzel, who was speaking to the National Association of Foreign-Trade Zones legislative <u>conference</u> Feb. 15, said the FMC is working on a marine data transmission information project, and they intend to have a package of recommendations in June.

He said there's a lot of focus on automation at ports as the solution to congestion, but, he said, "We don't really need better automation, we need a better intermodal system." He said there is not enough data-sharing among vessel operators, CBP, multimodal transport operators, logistics management companies, railroads, beneficial cargo owners, distribution centers and so on. He said the American system of getting goods from ports to stores is more complex than it is in other countries. "It's an intricate ballet and the ballerina's being dropped right now," he said.

He also said that 24/7 operation has been oversold as a solution to the ship backups on the West Coast."Until we know there's a place to deliver that cargo, it really doesn't matter if you're going to have your [terminal] gates open."

Consulting firm ICSM President Sean Lydon said that truckers would not agree that lack of availability is the biggest problem, but rather, the problem of getting appointments to either pick up goods or return empty containers. He said a trucker might be told "today they only want 20-foot reefers," using the slang for a refrigerated container. If the trucker doesn't have that empty, then he can't drop off.

Bentzel agreed that while there are challenges on the vessel side and the terminal side, the biggest problems are in trucking. He said each of the 11 terminals in the LA/Long Beach port complexes has its own appointment system, and only 20% to 30% of the appointments are adhered to.

He also said that all containers are made in China and the vast majority are made by state-owned Chinese companies. He suggested that is an economic vulnerability for the U.S., and said this simple piece of corrugated metal is more critical to keeping trade and commerce going than even semiconductors. He suggested that countries like Vietnam and Thailand are not going to get enough containers from China, and their ability to export on time will suffer. — *Mara Lee* 

## FMC to Seek Feedback on Detention, Demurrage Billing Regulations

The Federal Maritime Commission plans to request comments on the possibility of new demurrage and detention billing requirements, which would seek to address unfair charges and billing practices faced by shippers. In a <a href="mailto:pre-rule">pre-rule</a> set to be published "soon," the <a href="mailto:FMC">FMC</a> will request feedback on whether it should require carriers and terminal operators to include "certain minimum information" with their billings and whether they should be issued to shippers within a certain time frame.

The proposed changes stem from Commissioner Rebecca Dye's fact-finding mission that began in March 2020, sparked by a range of complaints from lawmakers and shippers that said ocean carriers have been unfairly imposing detention and demurrage fees (see ITT 11/20/2020). Dye issued a set of recommendations in July 2021 to address fees and other problems in the international ocean freight delivery system that have been exacerbated by the COVID-19 pandemic (see ITT 07/29/2021).

The pre-rule, which was released by the FMC this month but not yet published in the *Federal Register*, asks for public comments on a new set of rules to regulate the billing practices for fees imposed by common carriers and marine terminal operators. The FMC said the rules would broadly apply to "any charges" assessed by carriers or terminal operators "related to the use of marine terminal space or shipping containers," regardless of whether the charges are called "detention," "demurrage" or "per diem." The commission will request comments on whether the rules

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should apply to both vessel-operating common carriers and non-vessel-operating common carriers or should "differ based on the type of entity involved."

One potential regulation could require demurrage and detention bills to contain certain minimum information. Although the FMC said the bills already include some required information, more may be needed to ensure the charges are accurate and clear. This could help all parties better understand whether the bill is "being issued to the correct party" or "identifying the appropriate time period for which demurrage and detention charges are being assessed," the FMC said. It may also help provide more "concise" information in the event of a disputed bill, the commission said, and include information on how to access the dispute resolution process. "Requiring such information may ultimately lead to fewer disputed bills and therefore streamline the demurrage and detention billing process," the FMC said.

The commission will request comments on the type of additional information that should be included in the bills, including how the charges are calculated. The FMC, for example, could require the bills to include "clear and concise container availability dates" for imports and earliest return dates and the availability of return locations and appointments for exports. It may also require the bills to include information on any "events" that would "justify stopping the clock on charges"—such as lack of containers or return locations or other force majeure circumstances—and information identifying all the parties receiving the bill, why the party receiving the bill is the "proper party-in-interest" and the source of the charge.

Another potential requirement could regulate the timing of detention and demurrage billings. The FMC said it received some complaints about a lack of "clearly defined timeframes" for the bills—especially after it issued its May 2020 guidance on detention and demurrage practic-

es—and has "continued to receive anecdotal examples" of delays in receiving the bills, which can make it difficult for a shipper to "validate the accuracy of the charges."

Under a new regulation, the FMC could require that all demurrage or detention bills be issued within 60 days of the charge, similar to the Uniform Intermodal Interchange Agreement, a standard industry contract between trucking companies and equipment providers. The FMC will seek feedback about whether that agreement is effective and whether it should impose a longer or shorter time frame.

The FMC will also seek comments on whether it should impose similar timing requirements on detention and demurrage fee refunds. The commission said it has heard refunds sometimes take "several months" to be issued.

The pre-rule, once published, will include a 30-day comment period. A spokesperson for the World Shipping Council, which represents many of the world's top ocean carriers, didn't respond to a request for comment. — *Ian Cohen* 

### Senate to Hold Hearing on Ocean Shipping Reform Act

The Ocean Shipping Reform Act, which has both passed the House and was included in the House version of a China package, is <u>scheduled</u> for a hearing in the Senate Commerce Committee next month. The hearing will be March 3.

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