Wine and Spirits Shippers Association Inc.

WSSA GRAPEVINE

VOLUME 8, ISSUE 1 SPRING 2018

Director's Corner

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Director

It has been a busy few months at WSSA, and there is a lot going on in the industry to report. Probably the biggest news of 2018 is the new Tax Reform Bill and its impact on wine, spirits, and beer importers and exporters. We will feature a summary of the changes as a primary topic of this newsletter and have already hosted an event in Napa, California, covering details and answering questions about the new law.

We had a big crew attend ProWein in Dusseldorf, Germany, the largest wine trade show in the world. By the amount of exhibitors and foot traffic at the event, it appears that the industry is booming. With 6,740 exhibitors and over 200,000 attendees, ProWein can be overwhelming, and we thank all of you who welcomed us at your stand, shared your new products, discussed logistics, and attended our risk management seminars. It was our second year at ProWein, and we had thirteen personnel from WSSA and Albatrans, representing nine countries. We will continue to expand our presence at this important event, and we are already looking forward to next year.

Prior to ProWein, I spent time in multiple countries negotiating our annual ocean freight contracts. Starting in Prague for our annual Transatlantic meeting, I moved on to Santiago for South America contracts, then to New Zealand and Australia to complete the circuit. As we have reported in our informational emails and previous newsletters, the steamship line industry has gone through massive consolidation over the past two years, and we are dealing with the results and continuation of this trend. While we are not expecting dramatic changes in rates and service in the upcoming year, we are seeing the fuel increase and the supply/demand gap closing have an impact on rates. However, more important than the ocean rates is the issue of the USA trucking crisis, exemplified by back-ups at many ports, an extreme lack of truck power and drivers, and rail congestion in certain locations. Steamship lines are implementing emergency surcharges for inland deliveries, and some are completely eliminating their door delivery service. It has been a perfect storm of events that have contributed to this crisis—the implementation of the ELD (electronic logging device) for truckers, a non-stop series of winter storms in the Northeast and an uptick in inbound cargo. This newsletter will provide more information on the trucking crisis, along with updates of our 2018 insurance policy, the growth of our InterEuropean trucking and short-sea business, and recent events including WSWA, our Napa gathering, and plans for a London event.

As always, thanks to all of you for your membership and support of WSSA. If there are topics you are concerned about, please let us know!

INSIDE THIS ISSUE

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USA Trucking Crisis Brings Challenges to Shippers

The start of 2018 has brought about severe trucking shortages for the transportation industry. With new government regulations, severe winter conditions, an aging population of truck drivers, increased operating costs, and high service demand, the industry is seeing a drastic decline in truck availability. Challenges are mounting and wait times to move containers off ports via truck can be from days to weeks. The same issues are also affecting intermodal and rail moves, with waiting time of up to two weeks to move intermodal cargo from USA ports to inland locations.

As a result, USA deliveries continue to be a problem and the following statements provide a good summary of the situation. Ari Ashe, of the *JOC* points out, "US beneficial cargo owners (BCOs) scrambling to manage their supply chains amid intermodal rail delays and rising truck prices are paying an extra $300 per container under existing contracts with some ocean carriers seeking to recoup their higher costs in the tight surface transport market. The truck capacity pressure, exacerbated by the federal electronic logging device (ELD) mandate, is trickling down to all modes of inland cargo transportation: railroad, drayage, and transloading and long-haul truckload. Ocean carriers are responding with a mixture of actions consisting of emergency surcharges, raising tariffs, and suspending or restricting store-door deliveries in the United States."

At WSSA, we are taking a multi-pronged approach to provide solutions for all customers shipping with WSSA and Albatrans. We will see the percentage of steamship line-managed door deliveries dramatically decrease as we plan for utilization of a variety of delivery services. We are also planning focus group meetings with our shippers and truckers to work on creative and effective solutions and contingency plans for the sporadic surges or weather events that create logjams. We continue to expand our network of trucking companies to manage the needs of customers in all locations, but it is important for all shippers to be aware of the current ongoing situation and potential delays. The crisis is not going away soon. Per Greg Ritter, Chief Customer Officer at XPO Logistics, one of the largest USA trucking companies with over 16,000 tractors and 39,000 trailers, the problem is not the equipment. He stated, "We are going to be short some place in the neighborhood of around 100,000 drivers by 2020."

Steamship Line Consolidation

While the three major alliances created over the last two years remain in place, there have been a few more shifts in ownership and continued consolidation in the business. We are now working with three major steamship line alliances and twelve major lines. ONE (Ocean Network Express), the merger of the three Japanese lines—Kline, NYK, and MOL—commenced full operations on April 1st, and we have finalized our contract with the new entity and have begun bookings. Unfortunately, the roll out of this new entity has not been a smooth one! ONE will be shipping with "THE" Alliance (Hapag, ONE, and Evergreen). The 2M continues to operate with Maersk and MSC, and Maersk is working through the acquisition of Hamburg Sud, providing slots on some vessels. The Ocean Alliance is operating with CMA-CGM, Cosco, and OOCL, while Cosco works through their acquisition of OOCL. ACL, Zim, Yang Ming, Hyundai, ICL, Eimskip, and a few other players, continue to operate, and the niche players remain essential to our portfolio. There have been a few updates in the Transatlantic strings, but minimal changes from South America and Oceania. What does this mean for service? The jury is out on this question as we still see all lines struggling to respond to pain points, whether it be a mistake on a bill of lading, notification of delays in transshipment points, or managing deliveries.

New PierPass Program Announced for Ports LA/LB

PierPass announced a major overhaul of the program—PierPass 2.0. After eighteen months of meetings and analysis, the new program was rolled out. The goal is to continue to mitigate congestion and "peak" hour truck traffic at the Ports of Los Angeles and Long Beach, but with a more flexible approach. The new program is pending final approval but is expected to go into effect in August of this year. The current program offers a lower cost for weekday nighttime users of the ports and charges daytime (peak) users a TMF (Traffic Mitigation Fee) of $72.09 per TEU (twenty-foot unit). The new program will be based on a flat fee charged for all containers—at a lower rate of $31.52 per TEU, and $63.04 for all other container sizes. The goal is to lower the per-TEU cost while still paying for the extended gate hours and a two shift structure at the ports. The new program also stipulates that assigned appointments will be given for gate moves within a two shift period with the goal to spread the appointments evenly throughout the shifts. No fee will be charged for empty containers.

Mario Cordero, Port of Long Beach Executive Director, spoke about this change at a logistics conference recently attended by WSSA. Mr. Cordero stated, "We, as well as the trucking community and all of our stakeholders, look forward to increased cargo velocity and customer responsiveness at port facilities."

Port users and those in the industry are eager to see how this system will improve truck traffic at the ports. We at WSSA will monitor the impact of this new system and keep you informed of any changes that take place surrounding its implementation.

New Insurance Offerings for 2018!

WSSA is excited to announce that we have expanded our insurance offerings for our members in 2018! We now have multiple deductible and rate options as well as increased coverages for Mexico trucking! Some of our new features include a lower deductible for OTC shipments, a $0 deductible coverage option, and enhanced clauses on airfreight replacement, atmospheric conditions, brands, consolidation/deconsolidation, concealed damage, control of damaged goods, debris removal, and much more! If you are interested in taking a more in-depth look at our new coverage options, please contact us!

Review of WSSA's Annual Insurance Webinar

Over twenty companies attended our annual risk management and cargo insurance webinar. This year we focused on contingency/difference in conditions (DIC) insurance and warehouse and trucking coverages. For all suppliers selling on an ex-works basis, we focused on the fact that there is no knowledge as to the insurance coverage of the buyer. Should damage occur along the way, and should the buyer not have proper coverage, the DIC insurance can kick in. The same goes for importers buying on a CIF basis. The "I" in CIF stands for insurance, but legally it is only required to be "de minimus" insurance, covering for total loss only. Once again, contingency insurance is the answer should the insurance on a CIF move be inadequate to cover a particular loss or damage. It is a very inexpensive safety net, and we encourage all EXW sellers and CIF importers to review this option. For more information on the webinar topics discussed, or to obtain a copy of the presentation, please contact us!

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The Wine and Spirits Shippers Association (WSSA) negotiates shipping contracts on behalf of importers and distributors in the beverage industry. Our dedication to providing efficient and economical transportation by land, sea, or air, enables our members to tap into a marketplace efficiently and affordably.

WSSA was founded by the Wine and Spirits Wholesalers of America (WSWA) and the National Association of Beverage Importers (NABI) in 1976 as a shipping cooperative. Today, WSSA serves as a not-for profit shippers' association that is managed by a board of industry executives.WSSA combines the total volume of its member shipments to achieve preferential rates and service from each of its carriers and vendors. These rates improve the opportunities for our members to compete in the global wine and spirits marketplace.

Together with Albatrans, WSSA provides complete logistics management from door to door. WSSA also provides a comprehensive marine insurance program unmatched by any others in the industry. Our members can quantify the savings with each shipment and our commitment to personal service makes WSSA unique.

For more information on the benefits of a WSSA membership, contact us at info@wssa.com or 800-368-3167

WSSA and Albatrans Attend Industry Events

WSSA and Albatrans are pleased to participate in, sponsor, and host a number of industry conferences and exhibitions this spring. In anticipation of these events, we are looking forward to the opportunity to network and share ideas and discussion with some of the most knowledgeable people in the industry. Being involved in these events is always a rewarding experience, and we are eager to see old friends and meet new ones this year. We hope to see you at the following events:

- Vinexpo NY – March 5-6, 2018
- ProWein – March 18-20, 2018
- CONECT's Annual NE T&T Conference – April 10-12, 2018
- Wine & Spirits Wholesalers of America Convention & Exposition – April 30-May 2, 2018
- WSSA 3rd Annual Napa Event – May 3, 2018
- Distilled Spirits Council Public Policy Conference – May 14-16, 2018
- Alcohol Beverage Importers & Distributors Conference & Trade Tasting – May 15-16, 2018
- AgTC Annual Meeting – June 12-15, 2018
- WSSA 1st London Event – June 27, 2018
- Women of the Vine & Spirits European Summit – June 28, 2018

We make shipping affordable, efficient, and possible for all members!

The Impact of the New Tax Reform Bill

Many importers and exporters were shocked when the news rolled out about the provisions in the tax reform bill that benefit wine, spirits, and beer companies. What started as the Craft Beer and Spirits Modernization Act was reshaped by lobbyists to include all companies involved in the business. The bill itself is over 1,000 pages long, twelve of those belonging to the section covering alcoholic beverages, which details the changes that were passed into law as part of the overall Tax Bill at the end of 2017. We are happy to provide copies of the bill should anyone need it, but we are including summary charts here for your reference. At the time of writing this, the guidelines for processing the tax credits and refunds have not yet been published. Thus, while all sources indicate that the credits will be retroactive to January 1, 2018, we will work to assist and guide any interested parties once we have the guidelines. As a quick example of the dollar value of the credits, an importer of 750,000 gallons can expect to pay approximately $450,000.00 less in excise tax than in 2017.

TAX CUTS AND JOBS ACT – ALCOHOL EXCISE TAX CHANGES

TOPIC	OLD LAW	NEW LAW
Excise Tax Rate on Wine	Tiered rates for still wine based on ABV; flat rates for sparkling and artificially-carbonated wines and hard cider. Tiered credit system for small producers.	No change to rates, however, the credit system is now available to all producers.
Excise Tax Rate for Mead and Certain Low ABV Wines	No specific provision - no definition of "mead" or "low ABV wine."	Taxed at the lowest excise tax rate applicable to still wine – $1.07 per gallon. "Mead" is defined as: 1) containing not more than 0.64 gram of CO2 per 100 ML of wine; 2) derived solely from honey and water; 3) containing no fruit product or fruit flavoring, and 4) containing less than 8.5% ABV. "Low ABV wine" is defined as: 1) containing not more than 0.64 gram of Co2 per 100 ML of wine; 2) derived primarily from grapes or grape juice concentrate and water; 3) containing no fruit product or flavoring other than grape; and 4) containing less than 8.5% ABV.
Alcohol Content of Wine for Excise Taxation at Still Wine Rate of $1.07 Per Gallon	14% ABV.	16% ABV.
Excise Tax Credit for Wineries	Phased out based on amount of production.	Credit of between 53.5¢ to $1 per gallon allowed to all wineries on the first 750,000 gallons of production.
Availability of Excise Tax Credit for Wineries for Sparkling Wine	Not available.	Available.
General Tax Rate on Beer	$18 per barrel.	$16 per barrel for the first 6 million barrels produced; $18 per barrel for all barrels produced in excess of 6 million.
Tax Rate on Beer for Small Brewers	$7 per barrel for the first 60,000 barrels.	$3.50 per barrel for the first 60,000 barrels.
Transfer of Beer in Bond	Not permitted without payment of excise tax unless receiving brewery belongs to the same brewer.	Transfers between bonded breweries allowed without payment of excise tax.
Tax Rate on Distilled Spirits	Flat rate of $13.50 per proof gallon.	Tiered rates as follows: $2.70 per proof gallon on the first 100,000 proof gallons; $13.34 per proof gallon for all proof gallons in excess of 100,000 but less than 22,130,000; and $13.50 per proof gallon for all proof gallons in excess of 22,130,000.
Transfer of Bonded Spirits	Only bulk distilled spirits may be transferred in bond between bonded premises without payment of excise tax.	All distilled spirits may be transferred in bond between bonded premises without payment of excise tax.
Production Period for Beer, Wine, and Distilled Spirits	Brewers, vintners, and distillers required to capitalize interest with respect to aging products.	Brewers, vintners, and distillers are no longer required to capitalize interest with respect to aging products.

From the California Wine Institute, key highlights for wine include:

- **Expands the excise tax credit for all wineries.** The legislation does away with the existing phase out based on production size and allow all wineries to claim a credit of between $.535 and $1 per gallon on the first 750,000 gallons of production. The total value of the full credit is $451,700 per year, based on producing the full 750,000 gallons.
- **Allows sparkling wine to qualify for the credit.** For the first time, sparkling wine is eligible to receive the tax credits mentioned above.
- **Increases the Alcohol by Volume (ABV) allowed for the $1.07 tax rate from 14% to 16% ABV.** Wines with 14% to 16% ABV are currently taxed at $1.57 per gallon and will now be taxed at the still wine rate of $1.07.
- **Increases the carbonation allowed in certain low alcohol wines** (8.5% ABV or less) taxed at the $1.07 rate from .392 to .64 grams of carbon dioxide per hundred milliliters.

CRAFT BEVERAGE MODERNIZATION ACT
FET SAVINGS EXAMPLES

WINERY SIZE	FET PAYMENT UNDER CURRENT LAW	FET PAYMENT UNDER NEW LAW	ANNUAL SAVINGS
30,000 wine gallons* (12,600 cases)	$5,100	$2,100	$3,000 **59%**
120,000 wine gallons* (50,000 cases)	$38,400	$17,000	$21,000 **55%**
250,000 wine gallons* (105,000 cases)	$267,500	$83,300	$184,200 **69%**
750,000 wine gallons* (315,000 cases)	$802,500	$350,800	$451,700 **56%**
2 million wine gallons* (840,000 cases)	$2,140,000	$1,688,300	$451,700 **21%**

*Removed from bond annually. Assumes all wine is below 14% ABV, **additional savings would apply for wines currently over 14% ABV.**