Surety Bond Coverage Changes

by Robert Stein - Friday, December 21, 2018

Increased Duties in 2018:

This year has been a year of unpredictable changes in the trade industry:

Section 232: The Presidential Proclamation initiating Section 232 duties on steel and aluminum imports, at 25-percent and 10-percent respectively, was the beginning of these hefty duties that impacted importers.

Section 301: The President then invoked Section 301 and placed duties of 25-percent on some Chinese goods and 10-percent on others.

- The 10-percent duties will likely increase to 25% in 2019 although that day of reckoning appears to have been delayed until March 1st for the moment.

This turbulence has made it a difficult year for many importers, particularly those challenged with imports subject to new and very large duties.

In all the excitement surrounding these changes to trade, it appears that another key area of concern is now cropping up. The continuous Customs bonds that importers purchase to cover their importations, as required by Customs regulations, are suddenly being found to be insufficient as these new duties are sending duty liabilities for importers rocketing skyward.

Updates to Surety Bond Coverage

For importers working with their Customs brokers on their continuous bonds, the surety companies are alerting the brokers to potential insufficiencies based on current import numbers and trends. In many cases, the brokers can then try to work with the importers before Customs and Border Protection (CBP) issues any bond insufficiency notifications.

Where importers have already exceeded 90-percent of their current bond's coverage, CBP is sending out bond insufficiency notices, demanding that current bonds be terminated and replaced by larger bonds in a very short period of time. This is placing pressure on importers as they must pay additional premiums resulting from higher coverage amounts.

As if all of this wasn't difficult enough, the new bond amounts may exceed certain underwriting guidelines and require that importers provide full financials to the surety for underwriting approval. Some importers may even find that the underwriters feel that these financials indicate a need for the surety to require posting of collateral by the importer. Collateral demands may be for any amount, up to the total amount of the bond. This can really crunch an importer's cash flow or credit line.

We Can Help

Being aware of your bond coverage amounts and duty outlays is more important than ever. You should be monitoring ACE Portal reports monthly or weekly and working with your broker to understand and anticipate your current and future continuous bond needs. **Contact Mohawk for help in setting up your** ACE Portal account and training **on how to use it, especially to run reports.** We can also show you how we work with surety companies to ensure you have the proper level of coverage to avoid any supply chain disruptions.

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