



GLOBAL IMPACT



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THE U.S.-CHILE FREE TRADE AGREEMENT

WHAT DOES IT MEAN TO YOU?

Dear Friends:

Welcome to another issue of "Global Impact," a publication designed to help you seize new opportunities and mitigate risks.

In this issue, you'll read about the U.S.-Chile Free Trade Agreement (pages 1-2). If all goes well, the deal will be sent to Capitol Hill this spring for consideration, with a vote by year's end. If passed by Congress, many companies will benefit. Read what may be in store for you.

The 24-Hour Manifest Rule is designed to reduce terrorist vulnerability in America's trade and transportation systems. Now that the phase-in period has passed, non-compliance will not be tolerated (pages 3-4). Make sure you know the rules.

We hope you enjoy this issue, and as always, we welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

Two years after intense negotiations, the United States and Chile have completed the U.S.-Chile Free Trade Agreement. Unlike several previous trade agreements, this FTA is unlikely to face extensive opposition in Congress. As a result, it is anticipated to be sent to Capitol Hill for consideration this spring, with a final vote by the end of the year.

If passed, Chile will join Israel, Canada, Mexico and Jordan to become the United States' fifth free trade partner. As the first comprehensive trade agreement between the United States and a South American country, this FTA is anticipated to boost U.S.-Chilean trade and investment, and encourage progress on the Free Trade Agreement of the Americas (FTAA), anticipated to be completed by 2005. What will the impact be on your business?

CHILE HAS NEGOTIATED NUMEROUS FTAs

Chile, the most free trade-oriented economy in South America, has negotiated several FTAs without U.S. involvement. In fact, in 1997 alone, Chile implemented an FTA with Mercosur (the Southern Cone Common Market which includes Argentina, Brazil, Paraguay and Uruguay), Mexico and Canada. And primarily due to the European Union (EU)-Chile 1996 Framework Agreement, which covers political, trade and economic cooperation, the EU became Chile's largest supplier of goods in 2001. The EU-Chile Association Agreement, concluded in April 2002, is projected to enhance the EU-Chile relationship even more.



IMPROVING THE U.S. POSITION

As a result of U.S. non-involvement, U.S. companies have been put at a competitive disadvantage. In many ways, the U.S.-Chile FTA will level the playing field with countries that already have Chilean FTAs, and give the United States a competitive advantage over those countries that don't. But until the U.S.-Chile deal is passed by Congress and implemented, the costs will continue to mount.

In October 2001, the National Association of Manufacturers released a study on the losses in American exports to Chile since 1997, the year Chile established an FTA with Canada. The report indicated that U.S. companies had lost \$800 million a year — that's more than \$2 million a day — as a result of not being involved in that agreement. Consequently, Canadian goods have entered Chile duty-free, putting U.S. goods at a competitive disadvantage.

Until 1997, U.S. products were highly competitive in Chile and captured a growing share of Chile's import market. However, after 1997, the U.S. share of Chile's import market suddenly began to

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decline. In fact, according to the National Association of Manufacturers, it dropped from 24 percent to approximately 18 percent. This loss did not occur in other Latin American markets.

On the upside, a study published by the University of Michigan and Tufts University estimates that a U.S.-Chile FTA will expand U.S. gross domestic product (GDP) by \$4.2 billion, and Chilean GDP by \$700 million annually.



CHILEAN COMMITMENTS

Stated by U.S. Trade Representative (USTR) Robert

Zoellick, the U.S.-Chile FTA “not only slashes tariffs, it reduces barriers to services, protects leading-edge intellectual property, keeps pace with new technologies, ensures regulatory transparency and provides effective labor and environmental enforcement.”

Upon implementation of the U.S.-Chile FTA, more than 85 percent of bilateral trade in consumer and industrial products will become tariff free. This includes agricultural and construction equipment, autos and parts, computers and other information technology, medical equipment, and paper products, according to the USTR. Additionally, more than three quarters of U.S. farm goods will enter Chile duty free within four years, with all tariffs phased out within 12 years.

Under the FTA, greater access is expected for U.S. banks, insurance companies, telecommunication companies, securities firms, express delivery companies and professionals. Plus, greater protection will be accorded to digital products, such as U.S. software, music, text and videos; protection of U.S. patents and trade secrets will surpass all previous agreements. In addition, the deal will establish a secure, more predictable legal framework for U.S. investors operating in Chile, according to USTR.

U.S.-CHILEAN TRADE AND INVESTMENT ARE RISING

Chile is one of Latin America’s most dynamic markets. And although its population is only 15 million, it’s

also considered one of the region’s most promising markets. The country’s GDP growth, which averaged 7 percent during the 1990s, began to slow in 1998 and contracted in 1999 before recovering in 2000. Since Chilean growth is primarily driven by exports, which are concentrated in copper, fresh fruit, forestry and fishery products, reduced global economic activity and a decline in commodity prices negatively affected the country’s growth projections.

Chilean GDP registered slightly under 2 percent in 2002, but is expected to climb to about 3.5 percent this year and exceed 4 percent in 2004. Chile adopted market reforms almost 30 years ago and has increasingly diversified its economy. This has contributed to greater stability.

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U.S. exports to Chile increased to \$3.5 billion in 2000, but decreased slightly to \$3.1 billion in 2001 due to slower global growth. U.S. imports of Chilean goods continued to rise, reaching \$3.5 billion in 2001. And the U.S. direct investment position in Chile on a historical-cost basis also continued to climb, reaching \$11.7 billion in 2001. With a U.S.-Chile FTA on the horizon, Chile is anticipated to import more U.S. goods and services, and attract greater investment from the U.S. and other countries.

The top prospects for U.S. exports to Chile include pollution control, telecom, medical, mining, computer, construction, electric

power, security, air conditioning and refrigeration, and food and processing equipment. In addition, travel and tourism, and franchising are in strong demand.



CONSIDER DOING BUSINESS IN CHILE

In anticipation of the U.S.-Chile FTA, many American companies are working on strategies designed to enter the Chilean market through trade or investment. As the agreement nears and opportunities increase, conduct the necessary research, understand the risks, and seriously consider this market. ■

24-HOUR MANIFEST RULE GETS INTO FULL SWING

WHAT IS THE IMPACT TO YOUR BUSINESS?

The events of September 11, 2001 jolted the United States into a new reality that now recognizes the vulnerability of our systems of transportation and trade. Today, the maritime sector knows that if a similar attack occurs in its arena, the negative impact to global trade could be enormous. Why? Waterborne cargo contributes more than \$738 billion or 7.5% to the U.S. gross



domestic product and U.S. ports and waterways handle more than 2 billion tons of both domestic and foreign commerce per year, according to U.S. Customs.

As a result, new safeguards are being put into

place to protect U.S. ports and waterways. One such safeguard is the U. S. Customs 24-hour manifest information rule. On December 2, 2002, Customs first introduced the 24-hour rule, which requires sea carriers or non-vessel operating common carriers (NVOCCs) to electronically provide detailed descriptions of sea container contents bound for the U.S. 24 hours before being loaded.

The rule allows U.S. Customs officers to analyze the container content information and identify potential terrorist threats before the U.S.-bound container is loaded at the foreign seaport, not after it arrives in a U.S. port. Sea carriers and NVOCCs were given a 60-day phase-in period.

FULL IMPLEMENTATION

On February 2, 2003, U.S. Customs began fully enforcing the 24-hour advance manifest regulation. In fact, U.S. Customs Commissioner Robert C. Bonner said, "Compliance with the 24-hour rule is a matter of national security, and essential to help secure the global supply chain." Bonner further noted that kudos should be given to all parties who have taken implementation of the rule seriously, but for those who have not, U. S. Customs is giving notice that non-compliance will not be tolerated.

INITIAL ENFORCEMENTS

According to Matthew Zehner, Vice President of Roanoke

Trade Services, enforcement efforts are currently focusing on significant violations of the 24-hour rule cargo description requirements. For example, the use of such vague cargo descriptions as "freight-all-kinds," "said-to-contain," or "general merchandise" are no longer accepted. In short, a precise narrative description of the cargo or its six-digit tariff number is required.

Overall, Customs must be able to identify the shapes, physical characteristics, and packaging of the cargo so any irregularities can be determined. The cargo's description also must be precise enough to identify any goods which may emit radiation. For example, "electronics" is not an acceptable description, but "CD players" or "computer monitors" are. "Since cargo descriptions are currently one of the most important elements Customs requires, foreign exporters must provide precise information and become compliant as quickly as possible," Zehner said.

DO NOT LOAD MESSAGES

On February 2, 2003, U.S. Customs Service ports also began to issue "do not load" messages to sea carriers and NVOCCs not in compliance with the 24-hour rule. As indicated, this message instructs the parties involved not to load a specific container that has been found in violation. Carriers and NVOCCs that disregard this order will be denied permission to unload the container at any U.S. port.



In fact, the vessel may even be denied docking rights at U.S. ports. Consequently, carriers and NVOCCs should only load cargo after Customs has given approval by telephone and/or fax or removed the do not load message.

Zehner believes the cargo descriptions and do not load messages represent the first steps in ensuring full compliance with the new 24-hour rule. "If a carrier or NVOCC is found in non-compliance, they may be fined between \$5,000 and \$10,000, their container may not be allowed to

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— Matthew Zehner, Roanoke Trade Services

be unloaded and may have to remain on ship, or the vessel may be denied access to the U.S. port," Zehner explained. "And although an error may arise because of false information provided by the shipper, Customs will still pursue the party it regulates — the sea carrier or NVOCC."

NEW REQUIREMENTS FOR SHIPPERS

As part of the 24-hour rule, shippers also are being asked to provide other details. Previously, Customs may have only received information that identified the shipper as a carrier, importer or even a bank. This information didn't provide Customs with the ability to track specific shippers, so now exact information about the shipper is required, including the shipper's full name and address.

"If shippers do not provide this type of information, they run the risk of closer scrutiny and increase the likelihood that their container will be examined," Zehner noted, adding that Customs also may be more inclined to issue do not load messages.

SHORTCOMINGS AND PROBLEMS

Due to greater details included in the manifest, shippers are concerned their

proprietary information will be subject to public disclosure, and obtained by competitors or even criminals. And, if competitors learn of a new foreign source or identify a strong U.S. buyer by reviewing this data, the shipper's competitive advantage could be lost.

But according to Zehner, shippers can request confidentiality. "Shippers should talk with their customs broker or freight forwarder so they can protect themselves from the potential misuse of information," he remarked.

ADVANTAGES OF C-TPAT MEMBERSHIP

Customs expects that its partners in the Customs-Trade Partnership Against Terrorism program (C-TPAT), will provide the required 24-hour information as a regular part of their security-related procedures.

"While C-TPAT participants will not be excluded from the advance reporting requirements, their participation in the program will be taken into account during the targeting process," Zehner stated. Furthermore, C-TPAT participation by the carrier or NVOCC may be a mitigating factor in the case of penalties.



WORK CLOSELY WITH INTERMEDIARIES

When asked exactly what companies can do to ensure successful business operations as a result of the new 24-hour rule, Zehner offered a few suggestions. "The traffic departments of shippers should work closely with intermediaries to build in the necessary lead times, as well as to prepare the necessary and accurate information," he said, noting that overall, the new 24-hour rule demonstrates the importance of a strong relationship between the shipper and the intermediary.

Zehner also said that if shippers have concerns they should voice them through their respective trade associations. "It's a new world out there and each member of the supply chain has his own concerns. That's why we all must work together," he said. Zehner further noted that other modes of transportation, such as air, rail and truck, soon will be subject to advanced notification requirements from Customs, too. ■

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