



GLOBAL IMPACT



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SMALL BOAT OPERATORS FEEL THE EFFECTS OF MARITIME SECURITY

Dear Friends:

As Homeland Security expands its coverage, security zones around sensitive vessels and facilities will be monitored to a greater extent. Recreational and small commercial boaters are not exempt. On pages 1-2, read about the impact on small boat operators and the related benefits.

On pages 3-4, read how smart container technology is becoming even smarter. But in addition to enhancing security, it will improve supply chain management. Greater visibility and predictability in managing the flow of goods will result in reduced theft, improved customer service, smaller inventories and accelerated passage through Customs.

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

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

It's the kind of story that's more common since September 11th: a yacht is boarded by the U.S. Coast Guard while cruising San Francisco Bay. Unbeknownst to the yacht's skipper that particular afternoon, just before Christmas, the vessel had traveled too close to the security perimeter around a refinery and bridge abutment.

"If you read our notice to skippers, it says, 'Don't meander around sensitive areas,'" said Randy Trudeau of the Pacific Inter-Club Yacht Association. "So of course the yacht got boarded. That's exactly what the Coast Guard has told everyone it's going to do."

The yacht's course was an honest mistake, but the incident stands as a good example of how recreational and small commercial boaters are no longer insulated from world events. New federal maritime security rules can and do affect small boat operators, especially in times of unease.

COAST GUARD IN CONTROL

Final regulations implemented last fall under the Maritime Transportation Security Act (MTSA) apply directly to large commercial and passenger vessels, but not to fishing, recreational and other vessels under 100 gross tons. Similarly, the rules focus on waterfront facilities that serve the larger vessels—such as refineries—but not public access facilities used for recreation or tourism. Under the law, large vessels and facilities already have submitted detailed security plans to the Coast Guard for approval and implementation by July 1 of this year.



But smaller entities exempt from direct requirements under the MTSA still feel the law's effect indirectly. That's because small vessels and facilities fall under a broader part of the rules that addresses Area Maritime Security (AMS). These AMS measures apply not only to high-profile boating venues like Puget Sound, Chesapeake Bay and Boston Harbor, but also to much smaller waterways—especially those that host high-risk facilities such as power, chemical and petroleum plants.

Nationwide, each Coast Guard Captain of the Port presides over an AMS committee of port area stakeholders, which can include representatives of small businesses and recreational boaters. The committees develop regional security plans that may, by law, affect all waterway users in an effort to prevent injury or property loss—and to prevent or respond to acts of terrorism.

STAYING OUT OF THE ZONES

"Since September 11th and the MTSA, there have been a lot of safety and security

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measures that have been employed that affect small boating traffic, though not adversely in most cases,” said Lt. Diana Cranston of the Coast Guard’s Marine Safety Office in San Francisco Bay. “They are usually periodic measures, such as security zones around vessels and bridges.”



On any given day, San Francisco Bay is home to virtually every kind of large commercial traffic, including cargo vessels serving the Port of Oakland, the nation’s fourth-largest container port. It’s also one of America’s premier recreational boating venues, says

Trudeau of the Pacific Inter-Club Yacht Association (PICYA), which represents 100 clubs and more than 22,000 boaters in northern California.

The Coast Guard depends on such local groups to keep their members informed about changes to local security. The PICYA, for example, has distributed a security summary and other bulletins through a large e-mail network. The association also participates in a Coast Guard Bay and Delta Guardian Watch Program, whereby area boaters can report suspicious activity to local authorities.

In February the Coast Guard published a permanent security zone extending 100 yards around and under so-called high interest vessels anywhere in the San Francisco Bay area. The vessels include cruise ships, tankers and any other craft deemed by the Captain of the Port to require protection. By law, mariners entering the zones without authorization are punishable by civil penalties (up to \$27,500 per violation), criminal penalties (up to 10 years in prison and \$250,000), and seizure and forfeiture of their vessel.

The Coast Guard acknowledges that the zones could affect small pleasure craft in everyday situations, although San Francisco Bay does leave ample room in most places for vessels to maneuver around security zones. Even when access is blocked completely, vessels can petition to the Captain of the Port for permission to pass through, Cranston points out.

LOOKING AHEAD TO TOUGHER TIMES

But, not surprisingly, AMS plan measures become more strict and far-reaching as the Maritime Security Level rises to 2 or 3, corresponding to the Department of Homeland Security’s “Code Orange” and “Code Red” alerts nationwide. That’s when the mood on the water could get especially tense. The Coast Guard, however, doesn’t discuss specific plan measures, leaving the average boater with the uncertain possibility of restricted access following a security incident anywhere in the world.

Most weekend mariners would agree that reasonable waterway restrictions are a small price to pay for national security. And small vessels and marinas have yet to incur any new costs related to security, at least in the Bay area, according to Trudeau. “All boaters care about is the cost of fuel,” he joked.

But as September 11th proved, all that could change quickly. If a future maritime security incident were to involve a small boat departing from a public marina, Congress would be quick to impose new regulations. Security measures such as perimeter fencing, increased lighting, armed guards and access control—now required at commercial ports—could become part of every local marina. And that surely would translate to higher vessel costs and user fees.

SAFETY A VALUABLE BYPRODUCT

Until that day comes, however—if it ever does—the heightened awareness on the water and the Coast Guard’s increased presence are still



having profound effects on the way people behave on the water.

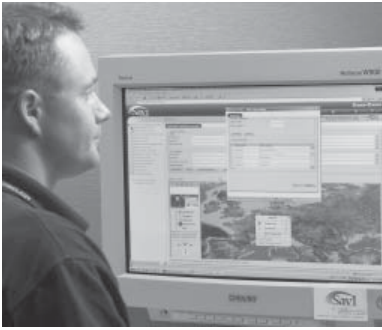
“No longer is it acceptable, for example, to come racing by a pier or dock, or go diving near a bridge. That might seem threatening today. We tell people they have to think about what they’re doing at all times, and how it’s going to be perceived by others.”
 — Diana Cranston
 U.S. Coast Guard

“No longer is it acceptable, for example, to come racing by a pier or dock, or go diving near a bridge,” Cranston said. “That might seem threatening today. We tell people they have to think about what they’re doing at all times, and how it’s going to be perceived by others.”

All of this, Cranston notes, has had a positive impact on boating safety and may, in turn, save lives. ■

MATURE TECHNOLOGIES, NEW RESEARCH MOVE SMART CONTAINERS CLOSER TO REALITY

Ten billion dollars. The annual U.S. loss to cargo theft is an impressive amount, until compared to the far greater losses that might follow a security disaster in intermodal trade. Yet, to date, the use of “smart container” technologies to supplement conventional security has been limited to tests on only a few thousand boxes, even though the technologies are largely proven and affordable.



Industry and government programs continue to test electronic container seals (e-seals) and other, more complex sensors that detect interior environmental changes or radioactivity. In the most common systems, sensors communicate with a

shipper’s software platform by way of an active radio frequency identification (RFID) network. Placed strategically at points throughout the supply chain, sensor readers relay a container’s location and any evidence of intrusion.

But leaping from test trials to the worldwide prevalence of smart containers will first require a larger communication network, standards for the technology and its use, and the perception of real business value among users.

TAKING A LAYERED APPROACH

The process also is waiting for a big push from U.S. Customs. While the agency has made clear that tighter container monitoring will be the way of the future, specific mandates are months away. Meanwhile, research from a variety of ongoing projects continues to refine the smart container idea.

Operation Safe Commerce, a government-industry partnership sponsored by the Transportation Security Administration, tests new security measures in supply chains involving the three largest U.S. load centers. The U.S. Trade and Development Agency’s STAR-BEST initiative tracks containers between Thailand and Seattle, while Customs’ own Smart Box Initiative studies the container security practices of a select group of importers.

Then there is Smart and Secure Tradelanes (SST), a private, industry-funded initiative that has become the largest of its kind, according to the Strategic Council on Security Technology (www.scst.info), which facilitates the project.

Photos courtesy of Savi Technology

In part because of its lack of bureaucratic and political restraints, SST has moved swiftly in its research. It also is more open and transparent—welcoming new partners, for example, and publishing results.

To date, more than 65 SST partners, including terminal operators, carriers, logistics providers and shippers, have built an open RFID network for commercial use at more than a dozen ports worldwide. The second phase of the program will expand the existing network into more large-volume and high-risk ports. It also will increase the number of sensor-equipped containers tracked by participating companies.

Although they work separately, the various projects take a layered approach to research problems by building on each other’s successes, said Lani Fritts, vice president of business development for Savi Technology, a prominent SST member and provider of supply chain security systems. “Any standards will be achieved through broad participation, as opposed to one entity or group pushing a particular agenda,” Fritts told *Global Impact*.

GETTING ON THE SAME PAGE

“Standards” is the key word. An in-depth report released in January by the U.S. Department of Transportation’s Maritime Administration (MARAD) tested and evaluated four RFID seals and a fifth, non-RFID seal. Although the report found the underlying technologies to be sound, it pointed out that e-seals from different suppliers use various communication frequencies, protocols, readers and tamper-detection methods.

“If there is to be any sort of interoperability of devices used by the various carriers and shippers in the industry,” the report said, “then it is critical to develop a set of standards that will allow communication between seals and readers from various manufacturers.”



The report also acknowledges that seals alone won’t solve container security problems, given the prospect that terrorists or thieves could enter a container without using the door. Other modular, standardized sensors inside a container might detect such intrusions.

As part of its own ongoing work toward intermodal

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security standards, the International Organization for Standardization joined SST in March 2003. The Geneva-based organization said it would use information gathered through its work in the project to accelerate standards development. Tying the process to industry demand should allay concerns from some groups, such as the World Shipping Council, that technology suppliers might push features that have little or no effect on security.

"It's all happening fast, relative to standards processes historically," Fritts said. "Once Customs moves closer to defining smart container requirements, industry collaboration will quickly solidify the standards."

IMPACTING THE BOTTOM LINE

Increasing security simply to meet government mandates, however, will not be enough to drive worldwide adoption of smart containers. Most

companies will have to see significant cost savings first.

A recent study of smart containers in the STAR-BEST initiative revealed that over a two-month period, importers enjoyed better visibility and predictability in managing their supply chains. That, in turn, resulted in benefits including reduced inventories, improved customer service and reduced theft, according to Bearing Point Inc., which conducted the study.

Returns could go as high as hundreds or even thousands of dollars per container, according to Fritts, depending on the contents and the supply chain processes impacted by the data. Technology costs, by comparison, range from a few dollars to \$100 or more per container.

Fritts believes that companies worried about the cost of devices should look back to the safety and quality movements of past decades, when such programs were viewed initially as

heavy cost burdens.

"Now good safety and quality programs are seen as a huge financial benefit," he said. "I think that's the way security is eventually going to be seen as well. Companies have always had loss prevention programs in place, but now those programs will have a stronger voice."

PROACTIVE FIRMS HAVE A HEAD START

Shippers and importers that might profit from smart container use should first join broader Customs programs, such as the Customs-Trade Partnership Against Terrorism, Fritts advises. Next, they should assemble an in-house process team to explore new technologies, or, better yet, join a program like SST.

Said Fritts: "Clearly the companies that have taken a proactive approach by getting involved in a program firsthand have learned a lot more than others who are on the sidelines waiting to see what happens." ■

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