



GLOBAL IMPACT



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Dear Friends:

Our Ocean Marine Division is proud to announce its Marina Composite Policy. It builds on our already successful products with new enhancements and a seamless package. Learn more on page 3.

U.S. imports are estimated to double by 2020. Increases in freight traffic threaten to overwhelm already congested railroads and highways. One solution: short sea shipping between domestic ports. Although there are hurdles to overcome, it can make a significant difference for American supply chains (p. 1-2).

Finally, read more about the much-discussed technology of radio frequency identification, which had a big year in 2005 (p.4).

We hope you enjoy this issue and welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

WATERWAYS VS. HIGHWAYS

Is Short Sea Shipping the Solution to Freight Congestion?

U.S. imports will double by 2020, according to government estimates. And while evaluations of America's readiness have focused largely on its ports, the nation's surface transportation system has received less attention. That is beginning to change. As U.S. railroads and highways already face troublesome capacity problems, particularly in urban areas, the resulting supply chain delays are forcing federal and industry officials to look to the water for solutions to the approaching onslaught.

About 12,000 miles of the U.S. waterway system are capable of handling commercial traffic, although to date such transport has been limited to lower-value, less time-sensitive bulk cargo. Transport of commercial freight between domestic ports using inland and coastal waterways—known as short sea shipping (SSS)—carries less than 10 percent of the nation's freight tonnage, mostly by barge.

But the U.S. Department of Transportation and its Maritime Administration believe the waterways are underutilized and have identified SSS as a high-priority option for enhancing freight mobility—even for higher-value containerized cargo usually carried by truck.

Developing an efficient, cost-effective SSS system is no easy task, however, particularly given the intermodal nature of the transportation system and the variety of ownership and financial responsibility among both public and private entities. A July 2005 report by the Government Accountability Office recommended that the DOT should have a better understanding of key issues before it spearheads a federal effort and spends millions to jumpstart SSS. "DOT does not yet appear to have a sound basis for identifying SSS as a high-priority component of the national freight transportation strategy," the report said.

WEIGHING PROS AND CONS

Advocates for expanded use of SSS cite potential benefits that include improved freight mobility, better air quality in urban port areas and reduced government spending on large roadway projects. SSS cargo from New York to Miami, for instance, could reduce traffic and related new construction on Interstate 95. A single barge can, after all, carry as much as 58 trucks.

Short sea shipping is already widely used in Europe, where EU policies have encouraged it, but direct comparisons with the U.S. are tricky. Shipping by road and rail in Europe is less efficient than it is in the U.S., which often makes

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water the best way to move between industrial centers that have depended on waterways for centuries. Nevertheless, some in the U.S. want to take a page from Europe's book. The Port of New York and New Jersey, for example, has responded to impending cargo increases with its Port Inland Distribution Network, which over time could include barge links with ports such as Albany, N.Y.; Camden, N.J.; Bridgeport, Conn.; Providence, R.I.; Wilmington, Del.; and Boston. In time, faster self-propelled SSS vessels could take on higher-value, time-sensitive cargo and compete with trucking using coastal routes that parallel high-traffic interstates, proponents say.

The GAO report, however, identifies several major hurdles to implementation, including regulations such as the Jones Act and the Harbor Maintenance Tax that could put a damper on startup

operations in the private sector. Port facilities also may require physical modifications

to accommodate SSS traffic, such as small vessels that use trucks instead of cranes to move containers on and off.

The GAO also cites a general reluctance among shippers to try new transportation modes based on concerns about speed and frequency of service. For instance, New York's initial "Albany ExpressBarge" service, designed to move cargo upstate, has not met the port's expectations for volume of cargo shipped, despite the fact that it used public subsidies at the outset to set a shipping price lower than trucking rates. The service is currently suspended.

REGULATION AND INDUSTRY GROWTH

Most of the American public learned of the Jones Act for the first time following Hurricane Katrina, when the Department of Homeland Security



suspended it to allow foreign-flagged ships to transport fuel between U.S. ports temporarily. The requirement that inter-port commerce must use vessels that are American-built, owned and operated could limit the expansion of SSS because of the limited number of U.S. ships on the market, some advocates say. Building new SSS vessels domestically also may be more expensive. On numerous occasions, however, the U.S. fleet has said it is more than capable of handling domestic waterborne

In the end, the best federal role may be to eliminate regulatory barriers that prevent industry and market forces from building an efficient SSS system that coexists with other modes.

transportation requirements. And the cost per shipment over time for new vessels, such as faster self-propelled ships, is probably not a significant factor in restricting growth.

MORE PROBLEMATIC IS THE HARBOR

Maintenance Tax, which is a general levy on the value of cargo moved through a port, can make SSS inherently less competitive with other modes. In July 2005, Rep. Dave Weldon (R-Fla.) introduced the Short Sea Shipping Tax Exemption Act of 2005, which would exempt certain cargo shipped between mainland ports. The American Association of Port Authorities expressed its support for the bill and further encouraged the House Ways and Means Committee to add the provision to the Tax Technical Corrections Act of 2005. Both bills are awaiting action in committee.

INDUSTRY AND FEDERAL INVOLVEMENT

Meanwhile, interest in SSS continues to grow. On April 18-20, 2006, the U.S. Maritime Administration will team up with Transport Canada to present the North American Conference on Short Sea Shipping. Canada has had more success in implementing SSS operations, and the Canadian government has shown increasing interest in expanding SSS both within Canada and between Canadian and U.S. ports. The conference is the result of collaboration between Canada, the

U.S. and Mexico following the signing of a Memorandum of Cooperation on Short Sea Shipping in 2003.

Companies interested in the future of SSS should become more engaged with the issue now, possibly by joining industry groups such as the Short Sea Shipping Cooperative (www.shortsea.us), formed in 2003 to promote U.S. transportation mobility. One major issue that requires industry direction is the degree of direct federal involvement in developing SSS. Should the DOT be able to use Highway Trust Fund revenues, for example, for nonhighway freight projects? Should the agency spend millions to promote one mode of transportation in preference over other modes?

In the end, the best federal role may be to eliminate regulatory barriers that prevent industry and market forces from building an efficient SSS system that coexists with other modes. ■

GREAT AMERICAN OFFERS NEW MARINA COMPOSITE POLICY

Did you know Great American Ocean Marine is one of the largest underwriters of marinas and boat dealers in the country? Now the market leader offers its marina and commercial lines policies as one seamless package through the same underwriter.

“At a lot of companies, you have to go to the marine department for your marina policies, then to the commercial property side for the package part of it,” said Capt. Ed Wilmot, Ocean Marine vice president. “We offer through the same underwriter one complete package. We’ve taken all these forms and composite-rated them to provide maximum benefit and protection to the insured at a reasonable price.”

The broad Marina Composite Policy includes boat dealers inventory; marina operator legal liability; protection and indemnity (for all covered operations and scheduled, owned watercraft); general liability (including endorsements for hired and nonowned auto, employee benefits liability and other additional coverages); owned watercraft and equipment; and other available coverages such as docks and yacht brokers legal liability.

The policy is scalable and applicable to marinas of any size. “We write everything from small marinas to extremely large marinas with hundreds of slips,” Wilmot said.

MANY COVERAGE ENHANCEMENTS

Carolyn Neumann, divisional assistant vice president, said Ocean Marine has made a lot of enhancements to the

traditional ways it serves marinas and boat dealers. “We’re very excited about it,” said Neumann, who ran the project to create the composite policy. “I think it’s a departure from what some other companies may have done and from how we’ve handled these policies in the past.”

For boat dealers, the policy changes the vessel definition from “private pleasure craft” to “watercraft” to cover commercial vessels sold by the insured. It expands to 500 miles the territorial coverage for boats in transit under their own power (up from 100 miles), and it expands coverage to include boats at exhibitions and trade shows within 500 miles of the insured’s premises. The policy also removes the flood exclusion, and

it offers a blanket limit of liability at all locations specified in the policy.

Enhancements to marina owner legal liability coverage include a blanket limit at all locations and an expanded 100-mile radius from the insured’s premises (up from 25 miles), including any location where the insured is performing repairs. In addition, the policy has changed the vessel definition from private “pleasure craft” to “watercraft,” recognizing that some marinas repair commercial vessels such as charter boats and fishing boats.

P&I enhancements include added coverage for collision with another vessel, optional crew coverage and optional rental boat buyback coverage. General liability provisions have



extended the insured’s liability while an owned watercraft is on the premises of others, such as at exhibitions or repair facilities.

Optional coverage endorsements not already mentioned include a limited pollution coverage endorsement; a false pretense extension (\$25,000 limit); truth in lending (\$100,000 limit); title errors and omissions (\$25,000 limit); coverage for signs and electronic data processing equipment; and stop gap employers liability (available in select states only).

To top it off, the entire package is now easier for consumers to read

and understand because all the information appears on the declarations page, Neumann said. “It is also more easily rated by the underwriters and issued locally, thereby providing better service to our customers,” she added.

STAYING PREPARED

After last year’s devastating hurricane season, the importance of being adequately insured has become apparent to everyone, Wilmot said. One prominent forecast predicts another very active storm season in 2006. “The fact that we have a dedicated marine claims staff who is experienced in handling marina and catastrophe claims from hurricanes means that claims are settled quickly, fairly and efficiently,” Wilmot said. ■

MORE SUPPLY CHAINS ADOPTING RFID

Although the technologies are nothing new, 2005 proved to be a pivotal year in the implementation of radio frequency identification (RFID) for shipment tracking and other supply chain management uses.

RFID allows remote data readers to capture product information written to electronic tags on pallets or boxes—all without human intervention—before sharing that information among various entities in a supply chain. In the ideal implementation, it offers the promise of vastly improved shipment tracking and, as a result, reduced inventories and substantial savings.

While those ideal benefits may be years away, a 2005 survey of 500 companies by AMR Research found that 69 percent were planning to evaluate, pilot or implement RFID last year. A separate survey commissioned by the Computing Technology Industry Association (CompTIA) showed that more than half of the respondents either have completed RFID implementation or plan to do so by late 2006. The automotive,

consumer goods, and transportation and logistics industries are leading the way, the study indicated.

Why all the sudden attention to a technology decades old? Quite simply: Wal-Mart. In early 2005, the giant retailer required its 100 largest suppliers to attach RFID tags to shipments destined for certain distribution centers and stores. In January of this year, the company required 200 of its second-tier suppliers to begin tagging selected cases and pallets.

The CompTIA study, in fact, indicated that 46 percent of consumer goods makers, 34 percent of food and beverage makers, and 24 percent of textile and apparel manufacturers it surveyed are implementing RFID programs because of Wal-Mart's mandate alone. Other significant market drivers with similar mandates include the U.S. Department of Defense and the U.S. Food and Drug Administration.

FINDING A RETURN ON INVESTMENT

While some developments such as the expansion of the Internet have made RFID more viable in recent

years, the cost of the technology still hinders its adoption. Tracking goods in open supply chains from one company to another essentially requires disposable RFID tags. Experts say the cost per tag needs to be as low as 5 cents, yet today they cost four to eight times that amount.

Until more companies adopt the technology and bring more tags into production, most users will struggle to find a return on investment that justifies RFID expenditures, particularly shippers of high-volume, low-value products. A lack of developed standards also continues to be an issue as the technology rapidly expands.

Companies not currently facing a mandate may soon if RFID compliance begins to be "passed along." In addition to scrambling to meet immediate requirements from large customers, supply chain managers should develop a long-term strategy for this evolving technology. For more information, consult the RFID Journal (www.rfidjournal.com) and the Association for Automatic Identification and Mobility (www.rfid.org). ■

The descriptions of coverages provided under the Marina Composite Policy are summarized due to space limitations. Please refer to the policy form and declarations page for a complete description of all applicable terms, conditions, exclusions and limits. Not all coverages are available in every state. Policies are underwritten by Great American Insurance Company, Great American Alliance Insurance Company or Great American Insurance Company of New York. Copyright © 2006 by Great American Insurance Company. All rights reserved. The following service marks are the property of Great American Insurance Company: Great American® and Great American Insurance Group®.

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