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Dear Friends:

This month we examine two pieces of legislation—one signed into law last fall and another currently before Congress—that promise to impact the way intermodal trade moves around the world (pages 1-2).

On page 3, we share the exciting news of our recently updated cargo policy, to be introduced later this year.

And on page 4, we cover Poland: a growing country in transition. The Eastern European country—one of America's strongest allies—has come a long way. And so have 9 million Americans of Polish ancestry.

We hope you enjoy this issue and welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

Cargo Security Reality Check

Recent legislation proposes a lot, but can it deliver?

A trend has developed in Congress in recent years: If you want to look tough on issues concerning homeland security, throw around the words "ports" and "containers," whether or not you understand how either cog in America's economic wheel actually works. But until recently, despite criticism of flaws in the Department of Homeland Security's (DHS) cargo security measures, lawmakers had done little to improve the systems put in place after 9/11.

In the run-up to last November's election, members of both parties and the president upheld new legislation said to address lingering concerns about supply chain security. The Security and Accountability for Every Port (SAFE Port) Act of 2006, which President Bush signed into law last October, certainly sounded revolutionary on the surface.

"Today marks the beginning of a new approach to the way this country protects its ports, its economy and its people," said Sen. Patty Murray, D-Wash., a co-sponsor of the original version of the bill. But calling the Act the "beginning of a new approach" may be a bit of a stretch, since it largely embraces existing programs but with more congressional oversight. What's more, its bolder proposals may be years away from implementation. Now the new Congress has proposed another initiative that would enact the recommendations of the 9/11 Commission, including strict requirements for securing containers before shipment to U.S. ports. The costs and technological realities of that proposal, however, may prove to be more than industry can bear.

What SAFE Means for Shippers

The SAFE Port Act does have some novel provisions, such as establishing an Office of Cargo Security within DHS to coordinate all policies related to supply chain security and to consult with industry—a much-needed improvement in channels of communication.

Other provisions of the Act build on existing security programs. It establishes a timeline for the issuance of Transportation Worker Identification Credentials (TWIC) based on port risk, with an implementation deadline of January 1, 2009. After several delays, the TWIC program already is well-underway toward implementation (see *Global Impact*, 4Q '06). The Act also puts into law the existing Container Security Initiative (CSI) and Customs-Trade Partnership Against Terrorism (C-TPAT) programs. C-TPAT will remain voluntary.

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In addition, it also attempts to address industry calls for higher levels of federal port security funding by requiring the allocation of port security grants based on risk. It authorizes appropriations for the grants through FY 2011 in the amount of $400 million a year. In its latest budget request, however, the Bush administration proposed only $210 million for port security grants—the same amount Congress appropriated in fiscal 2007. Industry officials say the funding level is still too low.

Container Scanning: The Next Level

The Act does mandate significant action toward scanning containers for radiation and other potentially dangerous contraband. First, it requires that all containers entering the U.S. through the 22 highest-volume ports now be scanned for radiation—a process that was already underway with the deployment of scanning equipment to major ports. The Act stipulates that radiation scanning must expand to all other ports of entry no later than December 31, 2008.

The SAFE Port Act requires that, "as soon as possible," *all* containers bound for the U.S. be scanned using imaging and radiation-detection equipment before leaving foreign soil.

With sufficient funding for equipment, maintenance and additional personnel, ports can use radiation portal monitors to accomplish this task as containers leave ports by truck or rail, but a slowing of commerce flow is an almost unavoidable certainty.

At present, as part of CSI, containers bound for the U.S. at participating foreign ports are screened for risk and scanned or inspected if a risk is determined. But the SAFE Port Act requires that, "as soon as possible," *all* containers bound for the U.S. be scanned using imaging and radiation-detection equipment before leaving foreign soil. This idea, which depends entirely on the cooperation of foreign port and customs personnel, is a taller order. The Act specifies that the scanning should not "significantly impact trade capacity and flow of cargo at foreign or United States ports," which leads to the obvious question given the exploding volume of trade worldwide: Can it ever be done?

Sealed and Delivered?

Furthermore, the *Implementing the 9/11 Commission Recommendations Act of 2007*, which passed the House and now awaits action in the Senate, not only welcomes the SAFE Port Act's foreign container scanning requirement, but also would impose an ambitious timetable for implementation. The bill would require that within three years all containers loaded in countries originating more than 75,000 20-foot-equivalent containers be scanned with imaging and radiation-detection equipment *and* be secured with an approved seal. The requirement would expand to all other countries in five years.

According to a recent U.S. Congressional Budget Office report, the cost to the federal government of container scanning would be $160 million over five years, on top of the current $140 million annual cost of the CSI program. Foreign ports would have to provide and maintain the scanning equipment as a cost of doing business with the United States.

The container sealing requirement would be most problematic, considering that the industry still lacks a

proven standard for "smart seal" technology that could detect breaches in containers after they have been sealed and scanned. The sealing requirement would be phased in over the next five years, with best estimates of costs to shippers ranging from $30 to $45 per container. Approximately 10 million maritime containers that would require such seals are projected to enter the U.S. in 2010. "Imposing such a mandate could affect the efficiency of the international transportation system and thus have broad economic implications," the CBO report says.

Industry observers are taking a wait-and-see attitude. "As we are learning with the TWIC program, technology development cannot be legislated," wrote attorney Dennis L. Bryant of Holland & Knight LLP in his industry newsletter. "Only time will tell if the scanning equipment and e-seals will work as anticipated. Second, Congress has a propensity for enacting sweeping legislation and then failing to provide necessary funding. We will have to wait for the various appropriations bills before knowing if Congress is now serious about these homeland security enhancements." ■

Renowned Great American Cargo Policy Gets Better

Ocean cargo insurance is one of the oldest forms of marine insurance, dating back centuries, but it will soon have a new look at Great American with the rollout of a revamped policy later this year.

As a leader in the industry, Great American has underwritten cargo coverage for more than half a century – helping to protect one of the engines of the global economy. “Everything has to be shipped someplace,” said John Gambino, Ocean Marine divisional vice president. “We’re there to insure the risks if for some reason the shipping doesn’t go smoothly.” Today cargo remains a central part of the Ocean Marine division’s broad product line, representing more than 20 percent of its national writings, Gambino said. Several clients, in fact, have been with Great American consistently for 40 years.

With extensive experience, you know the right questions to ask and what to listen for when assessing the needs of a particular insured.

Over time, ocean cargo insurance has evolved from port-to-port protection, to warehouse-to-warehouse coverage, and finally to seamless coverage of the entire supply chain. Great American has been center stage during that evolution and today — despite a crowded field of less-experienced providers – maintains the same high standards as always. So what sets Great American’s product apart?

First, its underwriters have an unparalleled level of experience. “Over the years, you see so many different scenarios,” Gambino said. “You end up knowing the right questions to ask and what to listen for when assessing the needs of a particular insured.” That kind of attention to detail allows Great American to tailor its products to meet customer demands, such as special valuations, deductibles or insuring conditions. Ocean Marine also delivers timely, accurate policy issuance and error-free billing.

Very importantly, Great American policies include the backing of one of the most experienced claims teams in the industry, standing by on both coasts in New York and Walnut Creek, Calif.

A Superior New Look

After a recent rewrite of the policy by a cargo committee chaired by Tom Clune and Gambino, and made up of representatives from Ocean Marine’s offices nationwide, Great American is able to take its coverage to the next level, Gambino said. Because Ocean Marine will now write and issue cargo policies through its TIGERS policy issuance system, the division can provide a more consistent product nationwide, capture more internal data, speed up the policy issuance turnaround time, and significantly increase its volume. The product also will become more accessible and understandable for agents of all kinds and all levels of experience in ocean cargo insurance, Gambino said.

In addition, the new policy will include clauses that in the past had to be specially requested by the agent. Examples include:

- **Shortage from containers:** Pays the difference between packing list quantities and quantities actually delivered when there is no physical evidence of theft from the container;

- **Concealed damage:** Extends coverage so the insured has a set time period after delivery to file a damage claim;
- **Expediting expense:** Allows the insured to move crucial parts by air freight to keep an operation running in the event of marine shipment damage;
- **Fraudulent bills of lading:** Protects the insured against theft of goods by a party using fraudulent documentation;
- **Payment on account:** Restores an insured’s cash flow by paying 75 percent of the lowest agreed-upon claim value before a claim is completely processed;
- **Extra expense due to insolvency of vessel:** Pays for cargo shipment to its final destination in the event a vessel is detained at a port en route.

The new and improved policy is only the latest chapter in Great American’s long-term commitment to both agents and policyholders, Gambino said. “We’re in this business to stay,” he said. “We want our clients to be with us for the long haul. At the end of the day, they will walk away with a superior product and superior service.” ■

Poland: A Growing Country in Transition

Poland is becoming an increasingly attractive foreign direct investment (FDI) destination. Its inexpensive yet skilled labor force, growing economy and geographic gateway to the European Union (EU) have positioned the country well.

And there are added benefits: 9 million Americans claim Polish ancestry — the fifth highest ancestry among European descendents, the Census Bureau says. This familiarity has helped establish solid bilateral business relationships. Plus, Poland has become one of the United States' staunchest allies — an important fact in a volatile world.

Trade and Investment Growing

With a population of nearly 39 million, the U.S. trade relationship with Poland is relatively small—but growing. In 2006, U.S. exports and imports totaled $2 billion and $2.25 billion, respectively, according to the Census Bureau. During the same year, Poland's global goods exports reached $110.7 billion, the Central Intelligence Agency reports. Primary export markets, which include Germany, France, Italy, UK, Czech Republic, Russia and Netherlands, received mainly Polish machinery and transport equipment, intermediate manufactured goods, and food and live animals.

Poland's world imports reached $113.2 billion in 2006 and primarily included machinery and transport equipment, intermediate manufactured goods, chemicals, minerals, fuels, lubricants, and related materials from Germany, Russia, Italy, Netherlands and France.

On a historical-cost basis, From 2000-2005 U.S. FDI in Poland rose by almost 50 percent to reach $5.55 billion, the U.S. Bureau of Economic Analysis says. That year, total world FDI stocks in Poland totalled $93 billion, according to the United Nations.

Problems Remain

Poland's current government, lead by the Kacznski twins — Lech the president and Jaroslaw the prime minister — has encountered severe political problems. Plus, infrastructure deterioration remains a concern, especially highway and educational systems. Additionally, since joining the EU in May 2004, Poland remains ineligible for certain benefits due to its budget deficit and lack of finance reforms.

A Country in Transition

In 1989, Poland ousted its Communist government and began dismantling its command economy. Since then it has steadfastly pursued a policy of economic liberalization, and today stands out as a success story among transition economies.

In recent years Poland has experienced solid growth. Last year it achieved a Gross Domestic Product growth rate above 5 percent, the Organisation for Economic Co-operation and Development (OECD) reports. Unemployment also has improved, from 19.9 percent in 2002 to a projected 12.6 percent this year and 11.3 percent in 2008, the OECD says. ■

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