



GLOBAL IMPACT



A Publication of the Ocean Marine Division of Great American Insurance Group

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Dear Friends:

We're proud to release our 40th issue of *Global Impact*, a publication designed to help you reduce your risks and improve your business.

On pages 1-2 we cover dangerous cargo. From 1998 through 2006, the mislabeling of dangerous cargo may have been responsible for major ship casualties. Read about some of the problems and solutions.

On page 3 learn about our exciting new above and underground storage tank policy for marinas. For the first time in the industry, this storage tank policy comes as part of a marina package.

And on page 4, we reveal the impact of China on U.S.-Mexican trade and investment.

We hope you enjoy this issue and welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

DANGEROUS CARGO—AN EXPLOSIVE ISSUE

IDENTIFYING DANGEROUS CARGO HAS BECOME VITALLY IMPORTANT

In the early afternoon of March 21, 2006, the *MV Hyundai Fortune* after loading cargo in Singapore and several ports in China, steadily steamed about 60 miles south of the Yemen coast on its way to the Suez Canal, then to ports in Europe. Suddenly a violent explosion below deck propelled 60 to 90 containers over the side into the sea. The blast blew out a large chunk of the hull below deck but above the waterline on the port side. Immediately below deck an intense fire roared through the entire ship and within minutes the flames ignited fireworks packed in seven containers stowed on the deck near the stern.

The fast-moving fire forced the 27 crew member to leave the ship who were then rescued by a Dutch destroyer, which happened to be in the area. Two days later, firefighting tugs arrived and extinguished the fire. General average was declared and a close inspection later revealed that the blaze and explosion resulted in the loss of over 500 containers. The combined cost of the damage to the ship and the lost cargo is now estimated at nearly \$300 million. Though the cause for the explosion has yet to be determined, it will most certainly involve a container or containers stowing dangerous or hazardous cargo. Unfortunately, the hazardous material

may not have been identified as such by the shipper, thus it might not have been properly stored by the ship's crew.

IDENTIFYING DANGEROUS GOODS

Even with 95 percent of dangerous cargo in containers being rightfully declared each year, the five percent remaining represents more than half a million containers that are not so labelled. This mislabelling could have been the culprit in 16 major container ship casualties between 1998 and 2006 — an average of two per year. These disasters left the insurers paying losses of millions of dollars for damaged cargo and ships.

A report by the International Maritime Organization of inspections carried out in seven countries in 2006, including the U.S., Italy and Korea, found of the 25,284 containers inspected, almost 8,000, or 32 percent, had some deficiency. Alarmingly, almost 1,000 of which contained hazardous cargo had no dangerous goods documentation.

IMDG CODE IMPLEMENTED

Governing the transport of dangerous goods by water is the International Maritime Organization's International Maritime Dangerous Goods Code (IMDG Code). The Code provides detailed instructions for the safe trans-

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portation of hazardous materials by vessel, protecting crew members and preventing marine pollution. Implementation of the Code is mandatory in conjunction with various governments' obligations under the International Convention for the Safety of Life at Sea and the International Convention for the Prevention of Pollution from Ships. The U.S. is signatory to these two conventions.

Today, at least 150 countries whose combined merchant fleets account for more than 98 percent of the world's gross tonnage use the Code as a basis for regulating sea transport of hazardous materials. The Code is currently updated every two years.

IMDG CODE CLASSES

Within the Code, dangerous goods are grouped into nine classes, and some classes are further subdivided to define and describe characteristics and properties of the substances, materials and articles which would fall within

each class or division. The classification of the hazardous cargo is made by the shipper/consignor or by an appropriate competent authority. The classes include Explosives, (6 subdivisions); Gases (3 subdivisions); Flammable Liquids; Flammable Solids (3 subdivisions); Oxidizing Substances (2 subdivisions); Organic Peroxides; Toxic and Infectious Substances (2 subdivisions); Radioactive Material; Corrosive Substances, and Miscellaneous Dangerous Substances and Articles. The order of the classes and divisions does not denote the degree of danger.

But even with the Code in effect almost universally around the world, non-compliance with identifying dangerous cargo can be from lack

of experience and training, volume pressures, the complexity of the rules for different modes of transport, and the lack of effective controls and enforcement. Of further concern are the deliberate reasons for non-compliance, including cost cutting and lack of a safety culture, a desire to avoid dangerous goods surcharges and increased insurance premiums, limited sources of some products, and the necessity to ship cargoes that some lines ban.

PRESSURE TO LOAD

The vast majority of shipments are properly identified by shippers, but this compliance means training personnel to enable them to master a series of very complex rules for dangerous goods classification, packaging, labelling, stowage, and segregation in the container, and documentation. "It is a time-consuming task in a fast-moving process," said Ken Burgess, director of Exis Technologies. His company has been

Compliance means mastering a series of very complex rules for dangerous goods classification, packaging, labelling, stowage, and segregation in the container and documentation.

behind the computerization of the IMDG Code. "The last check before a container goes on board is the shipping line's 'hazdesk.' Under the pressure of sailing deadlines, booking staff work through shippers' faxes, e-mails and documentation as each manifest is built, mindful that rejected shipments may involve a conversation with the commercial department."

"In almost every investigation of problematic, dangerous cargo, the major source of non-compliance is shipper/packer incompetence," Burgess continued. "Enforcement is lacking. Right now, there is no 'reach' ashore to make any standard



of competence mandatory for the shore-side staff who consign and pack dangerous goods in containers. That's the gaping hole in the fence and there will probably be a move to plug it soon."

Labelling is not the only problem. "Incorrect packaging and, very importantly, incorrect or no segregation of incompatible chemicals within the container are a big worry," he added.

Captain James McNamara, president of National Cargo Bureau Inc., noted that the shipper

who declares the cargo has the responsibility to declare hazardous cargo. "The problem is that the ship's crew has no sure idea what is in the box," he said, "unless it is opened and inspected."

He said one method of gaining greater control over the declaration of dangerous goods is for "insurance companies to be much more rigid and demand that a greater number of inspections be done and more thoroughly." He further urged all parties in the supply chain to understand enough about their customers' business activities to identify whether dangerous goods may be involved. ■

GREAT AMERICAN INTRODUCES STORAGE TANK POLICY

NOW PART OF MARINA PACKAGE

Great American's Ocean Marine Division has introduced a new policy covering above and underground storage tanks in marinas. What makes this product even more exciting is the fact that it's not a stand alone product. For the first time in the industry, this storage tank policy comes as part of a marina package policy.

This Great American policy allows marina owners to place all necessary and required coverages for a marina with one insurance company, which makes sound business sense from a buyer's perspective. Named the *Pollution Liability Coverage for Above/Below Ground Storage Tanks*, the policy covers environmental claims due to seepage from an above or below ground fuel storage tank on marina property, including clean-up costs, bodily injury and property damage up to \$1 million per occurrence. It will be rolled out for sale on August 1, 2007.

Importantly, this Great American storage tank policy satisfies the regulation now in force across more than 30 states and the District of Columbia that requires marina owners to meet strict financial requirements for storage tanks holding gasoline or diesel fuel. With minor changes, the regulations are much the same for each state. These financial requirements have the purpose of certifying that someone will pay for the costs of cleaning up leaks and compensating third parties for bodily injury and property damage caused by leaking storage tanks.

COMPETITIVELY PRICED

Capt. Ed Wilmot, vice president of Great American's Ocean Marine Division, explained that the storage tank policy is part of the company's marina package policy that covers property, commercial general liability, marine operating legal liability, equipment travel lifts, etc. "Basically any coverage that a marina might need is now within a marina package," said Wilmot, adding that the storage tank policy is competitively priced.

This Great American storage tank policy not only meets financial responsibility requirements, but also gives marina owners peace of mind if a tank should spring a leak, result-

This policy covers environmental claims due to seepage from an above or below ground fuel storage tank on marina property, including clean-up costs, bodily injury and property damage.

ing in high cleanup costs or lawsuits brought by third parties. It is a claims-made policy, meaning a claim is deemed to occur on the date the claim is made known, even though seepage may have been occurring for some time prior to its becoming noticed. Claims made is an industry standard for this kind of policy.

Wilmot stressed that often with leaks from underground tanks, but sometimes with above ground tanks too, seepage may have been going on for some time before it is discovered. "Therefore, it is extremely important that stopping the leak and repairing or replacing the tank be done as quickly and efficiently as possible to avoid further pollution."

He said the cleanup of seepage from a tank is not a lengthy process if the right teams of contractors are on call. "We are one of the leading insurers of marine pollution from vessels," he said, "so, we have teams of contractors who are prepared to do remediation work at any time. We also have environmental teams on board prepared to deal with a leak in a professional manner immediately. With this kind of support, we're not fumbling around hunting up a contractor to fix the problem."

PRACTICE LOSS PREVENTION

His advice for marina owners that have above or below ground storage tanks is to practice loss prevention, especially to keep them free from external impacts. A basic measure to prevent damage to above ground tanks is to surround them with concrete stanchions. This will prevent trucks or cars from backing into them. For all kinds of tanks, maintaining careful records of how much fuel is pumped in and out, and reconciling the balances from time to time are a sure means of determining if there is a leak. If there is a negative balance, "a marina may have a problem with a serious loss of fuel," Wilmot noted.

To apply for *Pollution Liability Coverage for Above/Below Ground Storage Tanks*, call a Great American insurance agent and complete a questionnaire about the tank to be insured. And remember, this coverage comes with the Great American Marina Composite policy, one that has the most comprehensive marina coverage available. ■

THE CHINA-MEXICO-U.S. PUZZLE

The North American Free Trade Agreement helped to strengthen regional competitiveness. But with the economic rise of China, some believe this advantage has been lost. A look at Mexican and U.S. output provides some answers.

MEXICAN STRENGTHS AND WEAKNESSES

The U.S. continues to import goods from Mexico, relative to China, that:

- Have a high ratio of weight to value (motor vehicles, large screen televisions, major household appliances),
- Are quality rather than price intensive (medical goods and process control instruments),
- Require inputs for industries on a just-in-time basis, customized production or frequent design changes (auto parts), and
- Are intellectual property rich and require sound protection.

In sectors where Mexico is least competitive with China, there is little remaining U.S. production, and consequently little demand for Mexican cost-reducing assembly. Much of this

involves lower cost goods which tend to move to the next lowest cost producer. However, Mexico and China continue to compete head on in various categories, including computer hardware and telephone equipment.

China has a clear advantage in products that require long production runs and infrequent style changes, plus those that are not hindered by lengthy ocean delivery times.

AMERICAN OUTPUT STRONG

Although the United States continues to run a huge trade deficit with China, America's manufacturing sector remains strong.

New technologies and increases in productivity continue to make American manufacturing more competitive. Over the last 10 years, this has resulted in an annual increase in U.S. manufacturing productivity of 4.5 percent, which is much faster than the 2.7 percent annual growth in overall business productivity. Consequently, fewer workers can turn out more



products faster than ever. The result: as American manufacturing output continues to rise, the number of manufacturing jobs continues to fall. Thus, from 1979, the year of highest U.S. manufacturing employment, through 2006, the number of manufacturing jobs fell from 19.8 million to 14.1 million. Concurrently, the value of U.S. manufacturing shipments rose from \$1.7 trillion to nearly \$4.8 trillion.

Last year, U.S. merchandise imports from China totaled \$288 billion. Although this number is tremendous, the ratio of Chinese imports to U.S. manufacturing output only was 6 percent—suggesting Chinese imports have less impact on overall U.S. manufacturing activity than popular opinion would suggest. ■

The descriptions of the storage tank coverage provided on page three are summarized due to space limitations. The loss prevention information presented in this newsletter is of a general nature and is not intended to comprehensively address all hazardous conditions associated with marine storage tanks. 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 © 2007 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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