



GLOBAL IMPACT



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Dear Friends:

We are deeply saddened by the suffering and loss of life caused by Hurricane Katrina. Our hearts and support go out to the victims. To help our readers better understand and prepare for the long-term impact on the maritime industry, our next issue will feature special analysis.

In this issue, you'll read about China and the opportunities and challenges it presents (p1-2). As mandated by Congress, the Coast Guard is taking steps to establish a safety management and inspection program for the towing industry (p3).

And finally, our legislative update spotlights several bills making their way through Congress, addressing both ship-based pollution prevention and tsunami preparedness on U.S. coasts (p4).

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

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

CHINA: LAND OF OPPORTUNITY... AND RISK

Due to Hurricane Katrina recovery efforts, Chinese President Hu Jintao's scheduled visit to the White House in early September has been put on hold. However, when President Bush and President Hu Jintao do meet, several thorny issues are sure to be discussed. They include surging U.S. imports of Chinese textiles and apparel, China's recent revaluation of its currency, which many believe is not enough, and intellectual property violations, among other issues. However, during the upcoming meeting, many opportunities also will be discussed—opportunities that may benefit our readers.

U.S.-CHINA TRADE AND THE DEFICIT

Last year, U.S. exporters shipped \$34.7 billion worth of merchandise to China. As a result, China became the United States' fifth largest export destination. If Hong Kong were included, China would be in fourth place. From 1999 through 2004, U.S. exports to China grew nearly 10 times faster than U.S. exports to the rest of the world.

China, with a population of 1.3 billion people and 200 to 300 million consumers with considerable purchasing power, is continually increasing its appetite for U.S. products. This has presented much opportunity to U.S. producers. U.S. sectors with strong exports to China include agrochemicals, air traffic control, telecommunications and construction equipment, auto components, equipment, education and training,



franchising, integrated circuits and semiconductors, medical equipment and software.

But with rising exports have come fast-rising Chinese imports. The benefits of these imports include low U.S. inflation, access to inexpensive components that make U.S. manufacturers more globally competitive, and low priced consumer goods that stretch the income of U.S. families. However, the downside—a U.S.-China trade deficit of \$162 billion in 2004—has received a great deal of attention, especially with regard to U.S. trade policy involving Chinese textile and apparel imports.

UNDER THE TEXTILES AND APPAREL ISSUE

The Multifiber Arrangement (MFA), established under the General Agreement on Tariffs and Trade, now the World Trade Organization (WTO), provided for the elimination of quotas on textiles and apparel over the decade ending January 1, 2005. As

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a result, U.S. and European buyers are now narrowing their purchases to large vertically-integrated Asian suppliers. And China, in particular, is gaining an increasing share of textile and clothing production. Why is this occurring?

One reason is that China offers several competitive advantages its neighbors cannot match, including large numbers of workers at extremely competitive wages. Plus, previous U.S. quotas on Chinese apparel imports had the equivalent effect of a 34 percent tax—much higher than other suppliers, according to

the WTO. By eliminating this tax, China's share of the U.S. apparel market is estimated to rise from 5.4 percent to 22.5 percent.

Since early 2005, textile and apparel producers in the United States, as well as in the European Union (EU), have lobbied hard to erect new barriers against surging Chinese imports. Dubbed as the "bra wars," the EU first slapped quotas on Chinese imports of sweaters, then men's trousers, then bras. Recently, however, an agreement between China and the EU appears to have been reached. Nevertheless, the issue continues to rage in the United States.

THE CURRENCY REVALUATION

On July 21, 2005, China announced a shift in its exchange rate regime, from the fixed rate of about 8.28 yuan to the dollar to a managed float based on a basket of currencies. This was based on many factors, including pressure from the United States to allow the yuan to reflect a higher, more accurate value. As a result of the revaluation, however, the yuan, also known as the renminbi, is only expected to rise slightly. This is unlikely to prevent U.S. calls for a free floating yuan.

Why is this a major issue? An artificially weak yuan makes Chinese products more competitive in global markets. In the United States, many believe this is the primary cause of the U.S. global trade deficit. But Federal Reserve Chairman Alan Greenspan does not agree. In his June 23, 2005 testimony before the U.S. Senate Committee on Finance, Greenspan said, "An increase in the exchange rate of the renminbi, relative to the dollar, would likely redirect trade

within Asia, reversing to some extent the patterns that have emerged during the past half century. However, a revaluation of the renminbi would have limited consequences for overall U.S. imports, as well as for U.S. exports that compete with Chinese products for third markets."

THE YING AND THE YANG

With the ying, comes the yang. And with opportunity, comes risk. China is no exception. As more U.S. manufacturing shifts to China, workers fear for their jobs, especially those in positions requiring little education and skill. This is understandable. But surprising to many, the overall decline in the U.S. manufacturing industry has much to do with the introduction of new technologies and skyrocketing productivity, and little to do with international trade. This process, which is not new to the U.S. agricultural sector, does indeed cause pain to those losing their jobs. On the brighter side, however, it continues to result in a higher standard of living for most Americans.

This process also is largely responsible for the growth in overall U.S. jobs. From 1970 to June 2005, the number of U.S. jobs rose from 78.7 million to 141.6 million, according to the Bureau of Labor Statistics' Household data. And the U.S. Labor Department projects another net gain of 21.3 million new jobs from 2002 to 2012. The vast majority of these jobs will be in the service sector—a sector that has become increasingly sophisticated and has matched the average hourly earnings of those in the manufacturing sector.

The U.S. has the most productive and flexible workforce in the world. Our ability to create and adapt continues to give us the leading edge. And although there are many economic risks ahead, we believe America will remain strong—continuing to provide opportunity well into the future.

WE'VE BEEN HERE BEFORE

In the 1970s and 1980s, Japan was the most feared economic threat. In the 1990s, Mexico replaced Japan. This decade, China and India have become the latest economic monsters. Is this justified? The United States has the most productive and flexible workforce in the world. Our ability to create and adapt continues to give us the leading edge. And although there are many economic threats and risks ahead, we believe America will remain strong—continuing to provide opportunity well into the future. ■



COAST GUARD WEIGHS TOWBOAT INSPECTIONS, SAFETY

In an effort to raise marine safety and environmental protection to the next level, the towboat industry has thrown its support behind what one leader calls “judiciously deployed, effectively targeted governmental oversight.” Getting new federal regulations in place, however, may take two years or more.

As part of the Coast Guard and Maritime Transportation Act of 2004, Congress directed the Coast Guard to add



towboats to the list of vessels subject to inspection. It also charged the agency with establishing a safety management system for the entire industry. In response, the agency held a series of public meetings earlier this year and solicited comments.

Quick to support the call for a safety management and inspection program was the American Waterways Operators (AWO), the trade association for the U.S. tugboat, towboat and barge industry, as well as other industry and government groups. Each year some 4,000 tow vessels move more than 800 million tons of domestic cargo, according to the AWO, whose members operate 80 percent of industry equipment.

The association views a federal safety management system as the logical outgrowth of its Responsible Carrier Program (RCP), formed a decade ago and today required among member companies. The RCP has resulted in significant reductions in injuries, vessel damages and environmental mishaps since its introduction, the AWO says, and such a system applied to the entire industry could result in even greater safety gains.

“While AWO members are proud of the role we have played in raising the bar of safety in the towing industry, we are keenly aware that it is not enough to *reduce* crew fatalities, oil spills and serious vessel casualties,” said Thomas A. Allegretti, AWO president and CEO, in his written comments to the Coast Guard. “We know that we have an obligation ... to *eliminate* these occurrences altogether.”

COMPREHENSIVE COVERAGE

While the exact details of a new inspection program based on a safety management system will remain unknown until later in the regulatory process, the Coast Guard’s initial project announcement issued last December does

identify a number of specific issues it is considering in forming the rule. In addition, the agency will rely heavily on comments from the AWO, with which it has a long and successful safety partnership, as well as a “Strawman Towing Industry Safety System” developed by a Coast Guard-industry working group two years ago.

While the Coast Guard could borrow standards from regulations that apply to other classes of vessels, the AWO has strongly encouraged unique, comprehensive rulemaking based on the Strawman model (viewable at dms.dot.gov, docket No. 19977) and the risks, casualty history and characteristics of the towing industry. The new inspection system will likely apply to any company that operates tow vessels over 26 feet in length, with few exceptions, and will cover both new and existing vessels equally within a specified period. The safety management system, likewise, should apply to all inspected vessels and will contain most, if not all, of the provisions outlined for such a system in the Strawman model.

SLOW AND STEADY MAKES THE RULE

Allegretti has urged the Coast Guard to proceed as expeditiously as possible with the rulemaking, but the federal regulatory process is almost always a protracted effort. Currently the Coast Guard is developing an internal workplan for the project that will require review from several directorates within the agency, according to Thomas Scott Kuhaneck of the Coast Guard’s Office of Compliance.

Once the workplan is complete, the agency will publish a Notice of Proposed Rulemaking followed by a period, typically 90 days, for public comment. The Notice could come by late 2006 or early 2007, Kuhaneck told *Global Impact*, adding, “but this is just conjecture at this point.” Following the evaluation of comments—also potentially a time-consuming process—the agency would then publish either an Interim Final Rule or Final Rule.



Companies already part of the RCP should find the transition to federal regulation to be easier and less costly. Those not part of the program can, at this early stage, either pursue AWO membership or familiarize themselves with the Strawman model for the best indication of what to expect. ■

LEGISLATIVE UPDATE: 109TH CONGRESS



In its first session, the 109th U.S. Congress has introduced several bills relevant to maritime industries. The following are snapshots of bills that have passed or are under serious consideration at the time of *Global Impact's* publication.

The *Energy Policy Act of 2005*, signed into law in August, reinstates a 5-cent per barrel tax on imported oil, effective April 1, 2006, until the balance in the Oil Spill Liability Trust Fund reaches \$2.7 billion. The tax which resumes whenever the Fund dips below \$2 billion, will expire at the end of 2014. The Trust Fund, set up under the Oil Pollution Act of 1990, collected most of its revenue prior to 1995 and has provided money for hundreds of cleanup operations since the early 1990s. The Coast Guard had warned that the Fund was in danger of being depleted, leaving doubts about financial responsibility for the next catastrophic spill (*Global Impact*, 2Q '05).

The *Delaware River Protection Act* (H.R. 1412) continues to move its way through Congress. Since last report (*Global Impact*, 2Q '05), the bill has

passed the House and been referred to the Senate Committee on Commerce, Science and Transportation. It would, among other provisions, increase liability limits associated with oil spills for single-hull and double-hull tank vessels.

Multiple bills in this Congress address the issues of aquatic invasive species and ballast water management (*Global Impact*, 3Q '04). One that has passed favorably through committee, the *Ballast Water Management Act of 2005* (S. 363), would phase in ballast water treatment standards and require vessels to use ballast water exchange until standards are in place. According to the bill's sponsor, Sen. Daniel Inouye, D-Hawaii, the legislation is consistent with the convention adopted by the International Maritime Organization in February 2004. "Importantly, the international agreement includes a provision assuring that parties can adopt more stringent measures than those included in the agreement," Inouye said on the Senate floor. "In light of this provision, the bill includes a standard for treatment that is more effective than that adopted by the

international community to ensure that the impacts in the United States are adequately prevented."

Passed by the Senate with broad support and awaiting action by the House is the *Marine Debris Research, Prevention and Reduction Act* (S. 362), designed to address the occurrence and adverse impacts of marine debris on the environment and navigation safety. Among other provisions, the bill authorizes appropriations for the National Oceanic and Atmospheric Administration (NOAA) and the Coast Guard for improved enforcement of laws designed to prevent ship-based pollution.

Finally, bills in both houses are addressing the issue of tsunami detection and warning in the U.S. The *Tsunami Preparedness Act* (S. 50), passed by the Senate and slated for House action, directs the NOAA to operate tsunami detection and warning systems for the Pacific, Atlantic, Caribbean, and Gulf of Mexico regions to provide "maximum detection capability for U.S. coastal tsunamis." The bill would appropriate \$40 million a year through 2012. ■

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