



GLOBAL IMPACT



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SHIFTS IN THE VALUE OF THE U.S. DOLLAR THE IMPACT ON YOUR BUSINESS

Dear Friends:

Risks often creep up without notice, then cause various degrees of damage. For example, in February 2002, the value of the U.S. dollar climbed to highs not seen in years.

But, in November 2002, the dollar began to slide downward. Read how these fluctuations have affected U.S. companies and what you can do to minimize risks (pages 1-2).

Maritime security is undergoing more and more changes that will impact every supply chain that stretches across borders. Numerous new legislation and security actions seem to become effective daily.

Read what one expert in the field has to say, and prepare for a different future (pages 3-4).

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

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

In March 1973, the Federal Reserve's Nominal Major Currencies Dollar Index was set at 100. To date, the U.S. dollar reached its highest level in March 1985, at 140.35, while its lowest point came about 10 years later in April 1995, when it fell to 77.68.

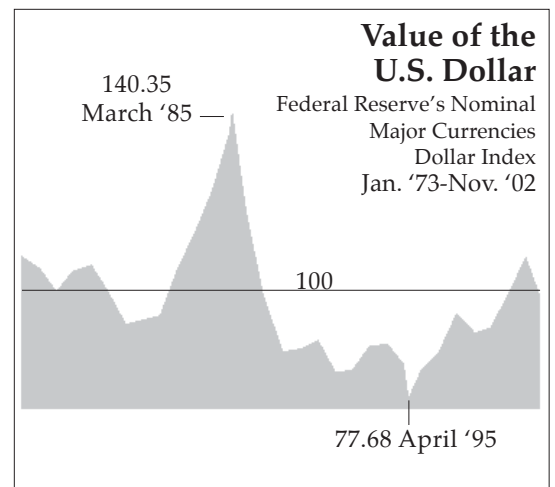
Last February, the index climbed to 108.82, as compared to major currencies. However, since then, it slipped to 99.54 in November 2002. Although the dollar's value is considerably lower than its all-time high, it's still well above its mid-1990s level. What is responsible for this shift? And what impact will this have on your business?

THE IMPACT OF A STRENGTHENING DOLLAR

The change in value of the dollar has a substantial impact on trade and investment trends. For example, because the value of the U.S. dollar rose by 40 percent from April 1995 through February 2002, the cost of a \$1 million American machine sold abroad increased by \$400,000. Not surprisingly, this resulted in lost export deals.

To compensate for the stronger dollar and higher priced exports, a number of U.S. producers attempted to increase productivity in order to remain internationally competitive. Many were successful, and U.S. productivity outpaced most other countries. However, many manufacturers who did not increase productivity or resort to lowering prices watched their products lose marketshare abroad, as well as in the U.S.

But the rise in the value of the dollar benefit-



ted U.S. companies purchasing foreign products and assets. In fact, they were able to get 40 percent more for their money.

According to Fred Bergsten of the Institute for International Economics, every 1 percent rise in the U.S. dollar's trade-weighted value boosts the U.S. current account deficit by at least \$10 billion. A rising current account deficit perceived as unsustainable could negatively affect confidence in the U.S. economy, and in turn, accelerate downward pressure on the dollar.

THE IMPACT OF A WEAKENING DOLLAR

From February to November 2002, the value of the dollar decreased by 8.5 percent. Consequently, the cost of U.S. exports, in terms of importers' currency, has become more attractive, allowing foreign importers to obtain more for their money. The result: over time, U.S. exports in the global marketplace will become more competitive as compared to foreign country exports.

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THE DRIVING FACTORS

During the 1990s, foreign investment flowed into the United States at an unprecedented pace. The longest U.S. peacetime expansion on record, strong productivity gains and a stock market with exceptional returns attracted capital from all corners of the globe. Additionally, after the Asian



crisis and uncertainty over the value of the euro, investment looking for a safe haven poured into the U.S.

These factors largely contributed to the rise in the dollar's value. But by the end of 2001, many economists predicted the U.S.

dollar was due for a correction, and they were right. The U.S. current account deficit (which is the largest of any nation), less investment from abroad, a still-volatile American stock market, and a decline in U.S. consumer confidence have contributed to the dollar's decline since February 2002. However, the dollar has not dropped against every major currency.

THE DOLLAR AND THE YEN

In 1995, one U.S. dollar could buy 93.96 yen, according to the Federal Reserve. However, by October 2002, one dollar was worth 123.92 yen, reflecting an increase in the dollar's value or a decrease in the yen's value, depending on your perspective.

To a large degree, Japan depends on exports to generate economic growth. A weakening yen means more Japanese exports; a strengthening yen makes Japanese products more expensive and less attractive abroad. And, as the yen increases in value compared to the dollar, Japan's Asian competitors gain an export price advantage. As a result, the strengthening yen has been a major concern for Japanese policy planners. To compensate for the declining dollar, on several occasions the Japanese government has intervened in world currency markets in an attempt to prop up the dollar and push down the yen.

THE EURO REACHES PARITY WITH THE DOLLAR

Over the past several years, investors repeatedly

expected the single European currency, the euro, to gain against the dollar. But, the euro entered each new year with high expectations that never materialized. However, following a smooth transition to euro notes and coins at the beginning of 2002, markets reacted positively. Months later, some analysts predicted the euro eventually would challenge the dollar for world dominance. On July 16, 2002, and continuing through July 23, the euro average daily rate hit the \$1 mark for the first time in several years. And, on November 6 through November 21 (date of this writing), the rate again hit \$1.00.

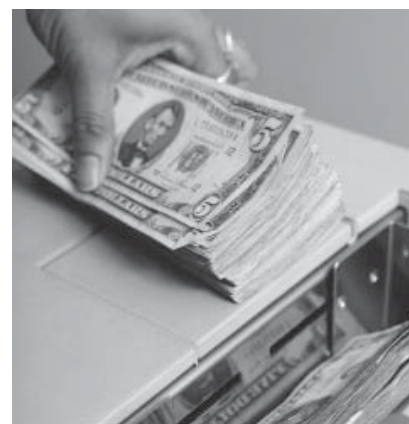
According to the Conference Board, a research organization, 60 percent of world trade is currently denominated in dollars. In the event that the greenback falls from first place, a position it's held since usurping the British pound after World War I, more global business will be conducted in euros. But regardless of this unlikely situation, more and more European companies will request that their suppliers conduct business in euros.

HOW HAVE OTHER CURRENCIES FARED?

Represented in currency units per U.S. dollar, the average October 2002 and 1995 U.S.

exchange rate for the Canadian dollar was 1.578 and 1.372; the Singapore dollar, 1.784 and 1.417; and the Mexican peso, 10.094

and 6.446, according to the U.S. Federal Reserve. These and other currency swings can have a major impact on international business.



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THE NEXT STEP

Fluctuations in the value of the U.S. dollar, as compared to other currencies, will no doubt increase or decrease your level of international competitiveness. As a result, it is essential to constantly monitor the value of the greenback, and adjust your trade and investment strategies accordingly. ■

THE CHANGING FACE OF MARITIME SECURITY — WHAT DOES IT MEAN FOR YOUR BUSINESS?

The unfortunate events of September 11, 2001 forced America to face its vulnerability to terrorism. As a result, the issue of national security is one that makes the headlines daily. From the passage of both the Homeland Security and the Maritime Transportation Security Bills, to increased security at airports and land borders, Americans are beginning to look closer at who and what is entering our country and how.



SEA PORT VULNERABILITY

Although many improvements have been made to secure our

country, one significant vulnerability is our major seaports. America's 361 sea and river ports, which handle 95 percent of U.S. international trade, are responsible for the transfer of more than 2 billion tons of freight annually. Shockingly, less than 2 percent of the containers that arrive by sea are inspected by customs or law enforcement officials. As such, our seaports represent a key piece of America's security pie — a piece that needs to be sliced up and served very carefully. So, what is being done to address maritime security?

PLANNING FOR SECURITY

According to Dennis L. Bryant, Senior Maritime Counsel, Haight Gardner Holland & Knight, Washington DC, anyone involved in the shipping industry must improve security plans, as well as factor in security as a significant piece of his/her business operations.

As for measures being taken by the U.S. government to improve maritime security, Bryant explained that the U.S. Customs is currently focusing on three general categories. "The categories are inspections, risk reduction and container security, and they impact shippers, intermediaries and carriers, so what happens to each of them is important to everyone in the supply chain," he remarked.

CHANGES IN CARGO INSPECTION

In the past, U.S. Customs used physical inspection as its primary means of identifying what was being brought into the country and often relied on the good faith of shippers to ensure that all documentation was accurate. Since only 2 percent of cargo is routinely inspected, leaving 98 percent to chance, what's being done to improve the inspection process?

Bryant explained that today, technological inspections are increasing. "Not only does the technology — such as x-ray and gamma ray machines — make

the inspections faster, but technology is better able to detect dangerous substances and/or suspicious materials," he noted, adding that technology is not without fault and can produce some false alarms.

For example, last summer in Miami, a random x-ray examination of a container from Israel indicated that it was filled with explosives. A bomb squad was called in to open the container, whose contents turned out to include two metal flower pots made from an artillery shell and a piece of an exploded test missile. "The port was shut down during the inspection, which caused delays in terms of time and money," Bryant said.

INSPECTIONS AT HOME AND ABROAD

To address suspicious cargo entering the U.S., a new program called the Sea Cargo Targeting Initiative is beginning to gain momentum. In short, this initiative adds new criteria to Customs automated systems, ensures that all manifests are processed through the Automated Targeting System and that Customs procedures and practices are standardized.

"All high-risk containers will be examined by non-intrusive technology and the container seal also will be inspected," Bryant explained. "Overall, the goal is

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— Dennis Bryant



to quickly separate cargo into general and high-risk categories, so general cargo doesn't experience delays."

Furthermore, two programs are now in place in regard to containers scheduled for shipment to the U.S. from foreign countries. They are the Container Security Initiative (CSI) and the U.S.-Canada Smart Border Plan. "Under CSI, U.S. Customs personnel are scheduled to be stationed at the ports of Singapore, Rotterdam, Antwerp, Le Havre, Bremerhaven, and Hamburg," said Bryant.

"These personnel, in coordination with the host country, will identify and pre-screen U.S. bound containers before they are even loaded. This should send a strong message to any potential terrorists." Although a sound approach, some smaller ports feel they will suffer if they do not have a U.S. Customs employee on site.

Since so much cargo intended for Canada enters via a U.S. port and vice versa, the U.S. and Canada have agreed to a bi-lateral approach. U.S. Customs personnel and Canadian Customs personnel are now assigned to various ports, where they inspect

the cargo bound for each others' countries. "The ports currently involved in the Smart Border Program are Newark and Seattle in the U.S. and Vancouver, Halifax and Montreal in Canada," Bryant said.

RISK AND INFORMATION GATHERING

Information gathering is quickly becoming an important piece of the U.S. Customs Service's puzzle. In fact, Customs just enacted a rule that requires carriers to electronically send detailed manifest information at least 24 hours in advance of loading cargo on a ship destined for the U.S. However, this is creating some unrest since many carriers fear that Customs will be unable to process the manifests in a timely manner, which in turn will mean costly delays.

One new program that seems to be working is the Customs-Trade Partnership Against Terrorism (C-TPAT), a voluntary program designed to increase supply chain security. "Businesses who participate agree to self-assess their supply chain security under C-TPAT guidelines, submit a supply chain security profile, create and implement a supply chain security program, and communicate C-TPAT guidelines to

other businesses with which they work," Bryant said. For doing so, participants may have fewer Customs inspections when their cargo arrives in the U.S.

IMPROVING CONTAINER SECURITY

Bryant also explained how the U.S. government, along with private businesses, is working on developing tamper-proof seals for containers. "These seals would indicate if the container were opened or tampered with after being sealed," he said, adding that new containers are also in the works. Plus, global positioning system transponders are being developed for containers in order to track them in real-time to see if they alter their original track or are delayed for an excessive amount of time.

LOOK AT THE BIG PICTURE

Bryant concluded by saying that maritime security already is rapidly changing, and that businesses must look at the big picture from now on. "The best advice I can give is to stay ahead of the curve and be proactive," he remarked. "Making changes in your security plans may mean more upfront costs, but they'll pay off in the long-term." ■

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