



GLOBAL IMPACT



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NORTH AMERICAN COMPETITIVENESS HINGES ON CONTINUED INTEGRATION

SUPPLY CHAIN EFFICIENCIES ARE AT RISK

Dear Friends:

With globalization comes new opportunities. But as its impact expands, new risks emerge — including higher levels of global competition.

To boost North American competitiveness, the U.S. and Canada continue to deepen economic integration. This has led to higher levels of productivity and efficiency. But if the shared border becomes a chokepoint instead of a checkpoint, economic benefits could be eroded (p1-2).

In an attempt to improve Great American efficiencies and streamline business, the Ocean Marine Division announces MyFile (p3).

Boat owners beware! If your vessel has anti-fouling paint containing Tributyltin (TBT) on its hull, you could be in violation of the Anti-Fouling Systems Treaty (p4).

We hope you enjoy this issue and welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

In this age of globalization, supply chains spanning national borders have become an increasingly important factor in both a company's and country's ability to achieve high levels of competitiveness and economic growth. And nowhere is this more true than between the United States and Canada. Long gone are the days when trucks crossing the border were filled with finished products destined for each other's retail shelves. Today, trucks are filled with components and parts heading for assembly lines, demonstrating a very high level of economic integration.

A TEAM EFFORT

In this new and dynamic global business environment, the United States and Canada don't just make goods for each other. They make goods together for world markets. Consequently, it's not uncommon for a product to begin its manufacturing process in the United States, next be shipped to a plant in Canada where valuable components are added and tested, and then be trucked back to a U.S. facility for completion and packaging.

But the speed and efficiency at which these supply chains operate — critical factors impacting product cost — are being challenged. In turn, this could

severely handicap North American competitiveness and economic growth.

REAL BENEFITS HAVE BEEN ACHIEVED

The North American Free Trade Agreement eliminated barriers to trade, investment and the movement of people across the shared border. This has greatly advanced north-south integration and stimulated the development of sophisticated supply chains. But that's not all. Economic integration also has boosted capital flows, promoted the spread of technology, increased productivity, and enhanced North American competitiveness. The result: in 2007, U.S.-Canadian merchandise trade totaled \$562 billion, the U.S. Department of Commerce says.

In addition, in 2006 bilateral trade directly supported 7.1 million American and 3 million Canadian jobs, Canadian statistics indicate. Furthermore, it caused wages and the number of product choices to rise, while keeping prices low for consumers.

BALANCING BORDER SECURITY & TRADE

Canada, like the United States, has increasingly allocated resources to border security and infrastructure. For example, since 9/11 Canada has spent almost \$10 billion on security programs. In U.S. terms,

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this is the equivalent of \$100 billion, given the relative size of the two economies. Additionally, thousands of U.S. and Canadian corporations have stepped up to the plate and invested millions of dollars to protect their supply chains. They've also complied with voluntary security programs in order to ensure expeditious passage across the 5,525 mile-long border.

WHY IS THIS SO IMPORTANT?

Border delays drive up costs while driving down productivity. Consequently, efficiencies attained through just-in-time delivery are increasingly being replaced by just-in-case procedures that demand larger, more expensive inventory stockpiles. In effect, U.S. and Canadian companies increasingly are forced to pre-ship goods ahead of schedule to guarantee timely arrival. The cumulative expenditures

are enormous. For example, it costs \$800,000 for every additional hour of inventory to cover the risk of shipment disruptions of

American parts headed to Canadian plants. Likewise, delays of Canadian components destined for American facilities cost an estimated \$432,000 per hour of inventory charges, Canadian analysts say.

Since more than 70 percent of two-way trade is carried by trucks, which cross the border every 1.5 seconds, border delays also have severe implications for the transportation industry. This can be measured in fuel costs for idling trucks, additional drivers to satisfy stringent trucking hours and service requirements, and extra trucks to account for those waiting in line. Unoccupied factory crews waiting for components represent other costs. And every day, some 300,000 people cross the common border, the Canadian government says. When delayed,

U.S. and Canadian tourism, service sectors, movements of intra-company staff, and North American research and development programs are impacted. If together the United States and Canada don't offer reasonable incentives to its industries to comply with voluntary security partnership programs, corporate participation will be lost. This is likely to put both countries at greater risk.

A GATEWAY OR CHOKEPOINT?

Over the years, the border situation has worsened. In fact, by many accounts land border delays in summer 2007 were the worst since 9/11 — up to two and three hours. Although there are several reasons, which involve infrastructure, staffing and increased vigilance, this is a cause for great concern. For the bulk of history, Canadians and Americans perceived the joint border as a gateway. However, since 9/11 the



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border has increasingly been viewed as a checkpoint — which can invariably become a chokepoint. Noted above, this has severe implications, especially for the integrated automobile and parts industry.

If border issues affecting north-south supply chains make it less expensive per unit to ship 4,000 finished cars from Asia than to truck eight at a time over U.S. bridges, the North American auto industry will be at greater risk, impacting U.S. and Canadian jobs.

PLANNING FOR THE FUTURE

U.S. and Canadian economic integration and sophisticated supply chains enhance North American competitiveness. This is highly important since global competition is on the rise. Surveys indicate that 66 percent

of Canadians and 75 percent of Americans favor stronger ties. And 72 percent of Canadians and 66 percent of Americans would like to see improved transportation links, which would involve more integrated railways, highways and air transportation. These goals, no doubt, need to be balanced with a joint need to secure the shared border. But legislation that effectively chokes traffic, needlessly slows the movement of business people and tourists,

provides disincentives to cross border investment, or inadvertently dismantles NAFTA one

piece at a time needs to be reassessed.

More than 42 percent of Canadian foreign direct investment resides in the United States, and the U.S. is Canada's largest source of investment, according to the Canadian government. A breakdown in supply chains will negatively impact future investment, as well as trade, tourism and jobs on both sides of the border.

To globally compete well into the future, improve economic growth and raise standard of living, Canada and America need to continue to work together while improving — not disrupting — supply chains. And very importantly, smart policies need to be implemented that achieve joint economic goals while securing the U.S.-Canada border. ■

MyFILE Will Boost Efficiencies

THE NEW PAPERLESS SYSTEM WILL REDUCE COSTS THAT HELP KEEP PREMIUMS LOW

How does a company provide better service to its customers, introduce change to employees at all levels of the company, and remain socially conscious?

That was the challenge facing Ed Wilmot, Divisional Vice President of Great American Insurance Group's Ocean Marine Division. He, with the help of numerous staffers in the Ocean Marine and IT Services Department in Cincinnati, found a solution with *MyFile*, a paperless system designed to improve efficiency with Great American's producers, resulting in a faster turnaround of information.

LAYING THE GROUNDWORK FOR CHANGE

Beginning with an off the shelf application enabled Great American's IT Department

to develop *MyFile* on a fast track. The pilot program began in January 2008, and only two months later Ocean Marine's 10 regional

offices were using it. The staff's flexibility, forward thinking and willingness to implement new programs helped the project along.

The benefits of *MyFile* are numerous and long lasting. The system will boost underwriter productivity by expediting information sharing internally, as well as externally with our business partners. In the end, precious time will be saved by not having to search for lost or misplaced files. *MyFile* also will help satisfy compliance issues and make file

standardization simpler. "We expect to increase quality and speed of service to our agents," Ed said. "This is anticipated to save more than one million dollars annually," he added.

ADDITIONAL BENEFITS

Implementing *MyFile* is particularly important in the concrete jungle. "Rental costs in New York City are expensive," Ed said. "In the next two years we will have the New York office files cleared out, freeing up four additional spaces for personnel. This will allow for growth in cubicle work areas without incurring additional rental costs."

Equally important, it will be easier for Ocean Marine senior management to access files. In turn, this will allow

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GAIC to advise underwriters at a moment's notice. Plus, the resulting efficiencies and cost savings will help keep premiums low.

REACTION FROM GREAT AMERICAN EMPLOYEES

"The transition to *MyFile* represents a major change, and change is never easy," observed Wilmot. "Overall, I am pleased with the staff's initial reception. Most users like the idea of switching to a paperless system. Our underwriters have provided mixed feedback. Those who have grown up



with computers appreciate the flexibility that *MyFile* offers."

GREAT AMERICAN'S GREEN PHILOSOPHY

MyFile is a paperless process that has an additional important benefit — it is environmentally sound.

"John Rowney, our Ocean Ma-

rine president, is extremely socially conscious and a driving force when it comes to the importance of being a green company," Ed noted. "John and I often talk about the irony of Ocean Marine being one of the largest pollution insurers in the world."

WHAT'S NEXT FOR MyFILE

While the Ocean Marine Division already has seen a substantial improvement in efficiency, Ed realizes some fine tuning is in order. Future plans, he said, include adding e-signatures for binders and policies. ■

TREATY BANS USE OF TBT

PENALTIES CAN BE HARSH

Boat owners beware! If your vessel has anti-fouling paint containing Tributyltin (TBT) on its hull, you could be in violation of the Anti-Fouling Systems (AFS) Treaty. The treaty will be in force in all countries that have ratified it on September 17, 2008.

The AFS Treaty was adopted by the International Maritime Organization in October 2001 with the provision it would go into effect one year after ratification by 25 member countries with 25 percent of the world's tonnage. On September 17, 2007, that number was reached when Panama ratified the treaty, bringing the tonnage to 38.11 percent. This means that on September 17, 2008, the AFS Treaty will be in force in all countries that have ratified it.

In January, President Bush sent the AFS Treaty to the US Senate and wrote: "I recommend that the Senate give early and favorable consideration to the Convention (AFS Treaty)

and give its advice and consent to its ratification." The bill is still being considered by Congress.

BLACK LISTED

The Bahamas is the latest country to sign the AFS treaty and U.S. boat owners (of any size boat) should avoid sailing into its ports as they could run into real problems if their vessel has TBT on its hull. To be safe, owners of U.S. flag vessels would be wise to determine if their vessel is currently compliant even if they only sail in U.S. waters. If not they should replace their current TBT-based coating with one that is free of TBT.

While the penalty for not complying with the treaty varies from country to country, there is within the treaty itself, language that allows a country that has ratified the treaty not to allow boats or ships having TBT into its ports. Ships found in violation will be put on an international blacklist and barred by other ratifying countries.



DEADLY POISON

There are number of anti-fouling paints free of TBT on the market. Estimates suggest that using anti-fouling coatings save commercial shipping about \$6 billion a year by reducing drag, improving fuel economy and limiting time in dry dock.

TBT is a man-made compound that does not occur in the marine environment. A cheap and effective barnacle and algae killer, TBT once was used on nearly all of the world's 30,000 commercial ships. Considered the most toxic material ever added to the marine environment, it is especially harmful to filter feeding bivalves who readily accumulate it and die. ■

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