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PBB GLOBAL LOGISTICS – IN THE NEWS

## STAY OUT!

### In the aftermath of September 11<sup>th</sup>, 2001, the emphasis in recent months has turned to container security

By Mike Scott

#### U.S. helps secure global trade against costly terrorism

It has been nearly a year since September 11<sup>th</sup>, and the casual observer might be tempted to believe that it's business as usual in the logistics industry. Border wait times for commercial traffic between Canada and the U.S. are no more frequent or lengthy than they were before the terrorist attacks. Airfreight has witnessed some rate increases due to rising security costs-around 10 percent on average. However, much of this has been offset by the elimination of fuel surcharges.

Some may wonder if there will be any long-term repercussions on supply chain management. The answer is clearly "yes". In reality, the smooth sailing experienced on the shipping front masks a tremendous amount of policy debate about measures to secure global supply chains. Championed by the U.S., and supported by countries with a vital interest in protecting their trade with the world's largest economy, a number of security proposals are being discussed.

Many details need to be finalized and no doubt there will be challenging implementation issues to be overcome. However, some major themes are taking shape, emanating mainly from the U.S. As a result, it's important for shippers to keep informed of developments.

#### Container Security Initiative

In the aftermath of September 11<sup>th</sup>, 2001, the emphasis in recent months has turned to container security. Moving 90 percent of the world's cargo, containers are ubiquitous in global trade, and easily accessible to terrorist networks. Last fall, European secret-service agencies uncovered 20 vessels owned or chartered by Al-Qaeda. Italian police even discovered a suspect stowed away in a Halifax-bound container, equipped with a laptop, bed, food, water, airport plans and airport mechanic credentials, among other suspicious items.

To address this threat, the U.S. Customs Service (USCS) is



spearheading the Container Security Initiative, in close conjunction with the Department of Transportation and other key U.S. government agencies. Recognizing that it is impossible to physically search all 50,000 containers that land in U.S. ports every day, the emphasis instead is placed on targeting high-risk containers.

For this to happen, the USCS must rely on two things: technology and information. Advanced X-ray and

radiological detection systems are one part of the technology solution. Another is the development of "smart" boxes: secure containers with electronic seals and sensors that will notify U.S. Customs if any tampering has taken place.

Advance information is critical for good targeting, and the USCS is seeking to obtain complete knowledge on every container before it actually leaves the foreign port. The Container Security Initiative seeks to pre-screen high-risk containers at the port of origin, and for efficiency in implementation, it proposes focusing on the world's 10 largest seaports. These "mega-ports" account for nearly half of all ocean containers imported into the U.S.

Mandatory advance shipping information represents a significant change from heretofore-voluntary submissions. It also exerts pressure on shippers to refrain from common freight practices, such as Order of Shipper and Freight All Kinds (FAK) shipments. The former doesn't disclose the actual name of the consignee on the bill of lading, while the latter, doesn't provide an accurate description of all goods involved. These instances would certainly raise "red flags" during targeting and potentially lead to physical inspection.

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The Container Security Initiative has the potential to shift global trade routes, concentrating traffic through the mega-ports. Some observers question their capacity to cope with increased traffic and pre-screening responsibilities. In an effort to protect their shipping volumes, look for other major ports to voluntarily comply with U.S. pre-screening standards.

#### Smart Border

In December of last year, Canada and the U.S. signed the 30-point Smart Border Declaration to harmonize security measures between the two countries and work towards a North American "perimeter". The agreement was multi-faceted, covering the flow of goods and people, infrastructure improvements and information sharing.

Container targeting of in-transit shipments was among the points discussed, and the language used here was very similar to the Container Security Initiative. Other items include clearance away from the border at large ports and joint facilities at smaller ones. Shared customs data and harmonized commercial processing, including audit-based programs, were among other points of relevance to transborder shippers.

These measures really aren't new to the policy arena and the same stumbling blocks must be overcome: budget, bureaucracy and conflicting standards. The Smart Border Declaration, however, should help accelerate these proposals, many of which have been advocated by the business community for some time.

Early progress is being realized. An announcement was made on March 25<sup>th</sup>, 2002, that Canada and the U.S. will exchange customs officers at the ports of Vancouver, Montreal, Halifax, Seattle-Tacoma, WA, and Newark, NJ, to target marine containers destined for either country at their first port of arrival into North America.

#### Partnership Against Terrorism

The USCS recognizes that close cooperation with importers and the logistics industry can pay many dividends in the quest for security. Through its new Customs-Trade Partnership Against Terrorism (C-TPAT), the USCS is asking businesses to review their entire supply chains and adopt practices to enhance security.

Participants (importers, carriers, brokers, warehouse operators or manufacturers) must conduct a comprehensive self-

assessment of security practices throughout the supply chain. Companies not currently registered as low-risk importers must also pass an evaluation process. Compliance with security standards will require administrative resources and could involve expenses to upgrade security systems. Overall, however, the guidelines aren't too onerous.

Reduced inspections and resulting delays are a major benefit of participating in the program, as well as other advantages, such as eligibility for account-based processes. In general,

C-TPAT lends itself better to larger companies with international supply chains and just-in-time operations. Small and medium-sized businesses would be wise to approach the program using a cost-benefit analysis.

The Container Security Initiative, the Smart Border Declaration and C-TPAT are all in the stages of infancy. Some features may eventually be watered down for purposes of practicality. However, it would be a mistake to underestimate the resolve of governments, particularly the U.S., to impose stricter measures affecting security of international supply chains.

Shippers need to keep informed of new developments and their potential impact, which will likely include increased transportation costs related to enhanced security systems, higher insurance premiums and more container inspections. These will be some of the lasting effects of September 11<sup>th</sup>, 2001, on the supply chain.

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