



WORLD SHIPPING COUNCIL
PARTNERS IN AMERICA'S TRADE

Remarks of

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Before the

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Global Container Line Security Workshop**

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I would like to express my appreciation to the Danish Ministry of Defense for the invitation to address this workshop on the Proliferation Security Initiative (PSI) and the containerized shipping industry.

The World Shipping Council is a trade association representing the international liner shipping industry. WSC member carriers transport roughly 93% of the containers moving in international commerce. That represents many billions of dollars worth of goods moving through the world's ports each and every day of the year. The Council's member companies, our customers around the world, and the national economies of each country represented in this room today all have a vital interest in the continued efficient, reliable, and cost effective transportation of the world's containerized commerce.

The Council's member lines have worked diligently with governments, particularly since September 11, to enhance the security of maritime commerce. There is no question that they will also try to work cooperatively with PSI governments' efforts to interdict shipments that would be used for the proliferation of weapons of mass destruction (WMD).

This morning, I would like to briefly provide some facts on the liner shipping industry and its movement of containerized cargo, discuss some of the security initiatives the industry is supporting, and offer some observations that may be of use to your deliberations regarding PSI.

I. Industry Background

The international liner shipping industry is the heart of a global transportation system that connects the world's economies, businesses, and consumers. Liner shipping is characterized by its provision of reliable, regularly scheduled service, requiring the coordination and operational integration of hundreds of strings of vessels in global trading routes. The vast majority of liner shipping involves containerized cargo.

Containerization has enabled the expansion of international trade, dramatically reduced shipping costs, and created today's reliable common carrier liner services on which the smooth functioning of the global economy depends. The provision of regularly scheduled, frequent service between fixed ports of call to the shipping public is what defines liner shipping. (And to be clear about industry parlance, a carrier's importer or exporter customers are called "shippers"). These two characteristics -- regularly scheduled services to the public and fixed ports of call -- differentiate liner shipping from irregular "tramp" services, used mainly for breakbulk cargo, and the privately chartered, specialized bulk cargo vessels used to transport products such as oil, liquefied natural gas, coal and grains.

Providing a regular, fixed schedule service requires that the vessel operator carefully arrange for the loading and unloading of containers in each and every port and ensure that its vessels meet national and international safety and security requirements. Delays in port due to operational problems or issues involving regulatory requirements in either the exporting and/or importing country can throw not only the particular vessel off schedule, but the entire string of vessels required to operate a regular service in a particular trade lane. Thus, it is essential for a liner vessel operator to establish and develop a good working relationship with the government authorities in the jurisdictions where its vessels call, and to strictly abide by the rules and regulations pertaining to the movement of both the vessel and its cargo.

I am, of course, not suggesting that operators of other types of vessels are not abiding by prevailing law. But what I am suggesting is that the relationship between a vessel operator that has regularly scheduled ships calling the same port every week and the public authorities in that port state may be different from a tramp vessel that may only call once at the port in its entire economic lifetime. Such a relationship also translates into individual port states having well developed knowledge of the history of liner vessels, their operators, their owners, flag, classification societies etc. -- information that would seem relevant not only for PSI targeting and risk assessment purposes but also for the interdiction of suspected WMD shipments.

Today, 80 percent of international trade in manufactured goods moves via containers.

The success of containerization has generated many industry efficiencies and innovations, such as the development of (1) fully cellular ships with slots and guides

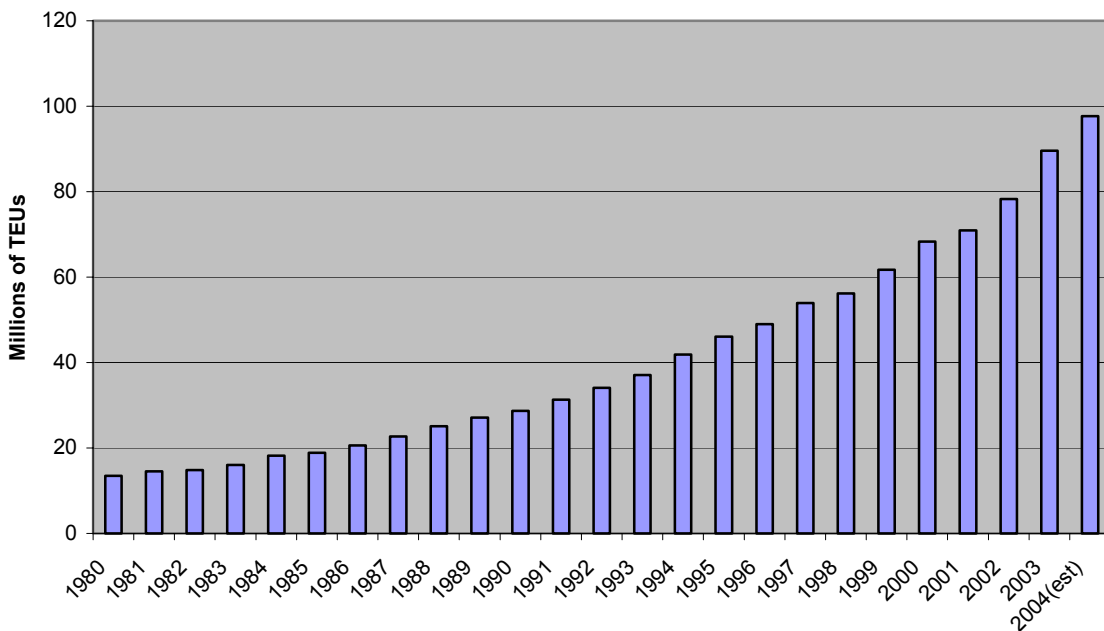
designed for quick, efficient, and stable stowage; (2) specialized temperature controlled containers that make it economically feasible to ship sensitive products, such as chilled meats, fresh vegetables and fruits, and frozen foods; and (3) specialized container cranes and handling equipment that make loading and unloading vessels -- and the inland distribution of cargo by rail or truck -- relatively fast, efficient, and inexpensive.

Ocean containers – typically 20, 40 or 45-feet long -- serve, in essence, as packing crates and in-transit warehouses for the door-to-door movement, from the exporter’s premises to the importer’s inland receiving facility, of virtually every variety of general cargo moving in international commerce, from computers to wine, from auto parts to lumber, from chemicals to wastepaper, from pharmaceuticals to clothing, from frozen fish to footwear, from furniture to coffee. The volume of containerized cargo is measured in “TEUs” or twenty-foot equivalent units – a measure based on the 20-foot containers that were standard in the early days of containerization. So, for example, one forty-foot long container of cargo, the most common size currently used in the major East/West trades, is counted as two TEUs.

To give some perspective on container cargo: One forty-foot container can hold 500 computer monitors, or 3,600 men’s suits on hangers, or 6,000 pairs of shoes, or 6,600 dresses on hangers, or more than 20,000 toy dolls.

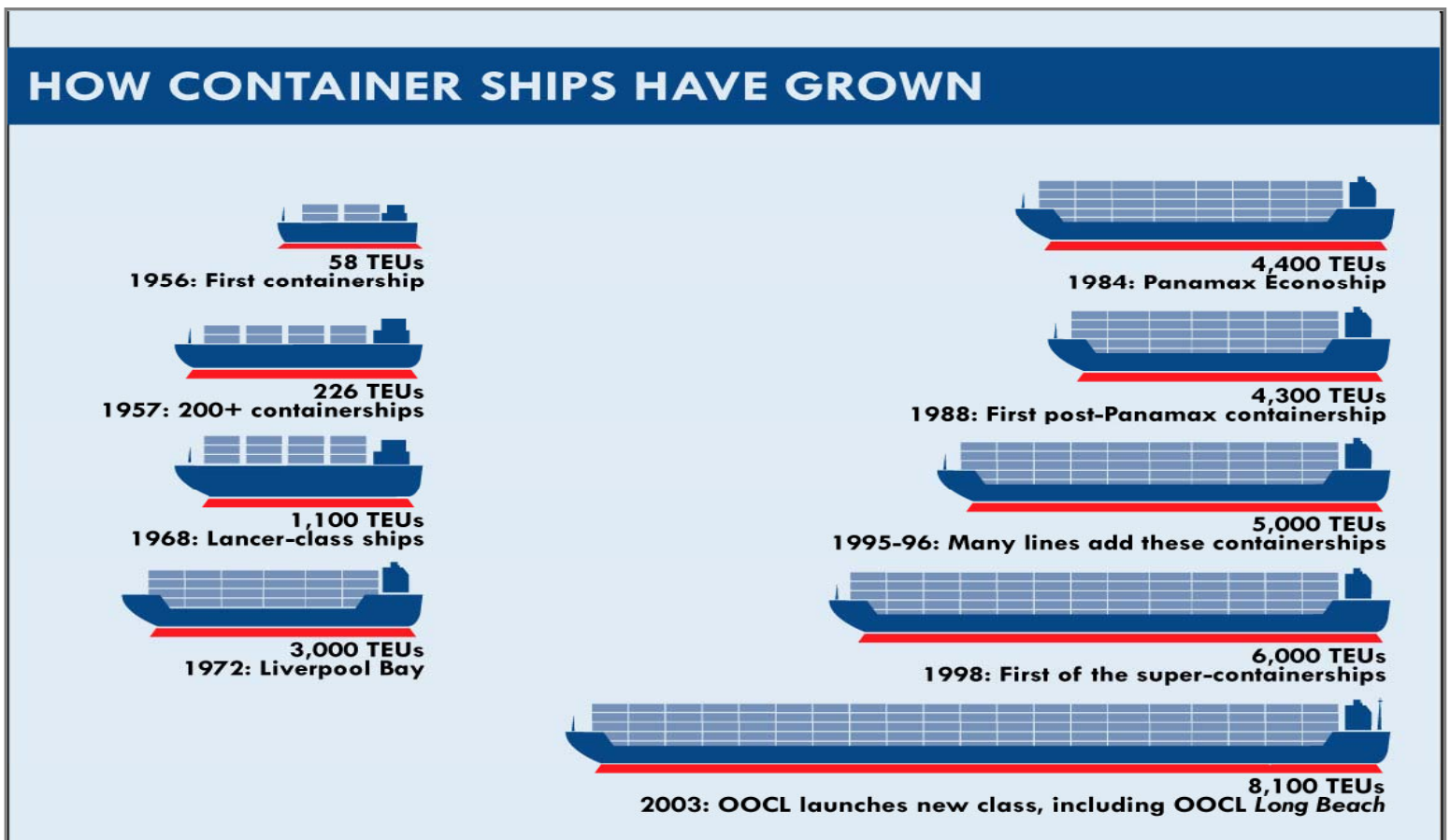
In 1980, ocean borne containerized trade accounted for 13.5 million TEUs of cargo. Recent estimates put this year’s likely world container trade totals at about 98 million TEUs. Containerized trade volumes will have virtually doubled in the seven years since 1996 – with continued rapid growth expected for the foreseeable future, especially in the Asia-based trades.

World Container Trade (in TEUs)



Not only does the industry move containers from their inland points of origin (e.g., Nanjing, China) to their ultimate inland destination (e.g., Frankfurt, Germany) under tight deadlines, but carriers also offer their shipper customers electronic tracking and tracing of goods and the expected delivery times. Indeed, liner shipping schedules are now integrated into the planning and supply chain processes of literally hundreds of thousands of importers and exporters. The on-time delivery of everything from manufacturing components to retail goods, critical to the operations of a broad range of businesses across the globe, is highly dependent on liner vessels meeting their announced schedules.

Furthermore, today's modern container vessels are now far larger and more efficient. In 1956, the first container-carrying vessel, operating in the U.S. domestic trades, handled only 58 TEUs of cargo. By 1984, vessels of 4,300 TEUs were being introduced in the international trades. Today, the largest vessels in operation carry in excess of 8,000 TEUs, and orders have already been placed for new containerships designed to handle 9,500 TEUs.



(Source: Port of Long Beach)

When one considers that a single vessel can carry 4,000 forty-foot containers, some of which will hold the consolidated shipments of various different shippers, it is readily apparent that thousands of importers' and exporters' businesses are affected when a vessel fails to meet its schedule.

The continued efficiency and reliability of every trading nation's supply chains require that security risks regarding containerized cargo be identified whenever possible at ports before loading, and not after they have been loaded aboard a ship. When a container is detained at a port of loading for inspection, the transit of a single box is stopped. When a ship is detained for security reasons, thousands of shippers' cargo shipments are adversely affected.

Liner services are multi-vessel and multi-national ventures requiring precision planning to develop and maintain reliable schedules. And, since liner schedules aim to minimize a vessel's time in port -- and maximize its sailing time to ensure that these costly assets are profitably utilized -- schedule disruptions can have a "knock-on" effect at multiple ports and on the other vessels in a given service string.

For example, the route of an actual single vessel service is reprinted below, showing 16 different port calls.



Delaying a ship in this service between Malaysia and Sri Lanka would affect not only cargo shipments between two ports, but a vast number of different shipments moving between North America, Asia, the Indian Subcontinent, the Middle East and Europe.

In short, liner shipping provides a critical, tightly scheduled public service upon which hundreds of thousands of businesses across the globe depend. In effect, it

provides a virtual conveyer belt for international trade worth roughly \$500 billion annually in the U.S. trades alone and an estimated \$2 trillion or more globally. The economic repercussions of unanticipated vessel schedule disruptions to those businesses, and to the national economies of which they are an essential and growing component, can be significant.

II. Maritime Security Initiatives

Since September 11, the liner shipping industry has worked closely with the governments of the United States and other trading nations to enhance maritime security in a number of different areas.

A. Ships

As of July 1 of this year, each containership operating in international commerce is required to be in compliance with the International Ship and Port Facility Code (ISPS Code), which involves the creation and implementation of detailed vessel security plans, supervised by a designated security officer. This International Maritime Organization convention offers an instructive lesson on how maritime security enhancement can be promoted by cooperative and coordinated international effort. While some sectors of the world maritime industry have encountered compliance difficulties, liner shipping has been among the best in terms of compliance.

Advance ship arrival information is governed by the rules of the arriving port's government, and extensive change has been implemented in this regard. For example, in the United States, vessels must electronically file detailed advance Notices of Arrival 96 hours before arrival in a U.S. port. These notices include information about the vessel's itinerary, its crew members, its cargo, ownership, flag, and more.

Nations have been tightening their review of vessel crew's credentials as well, both in the issuance and review of seafarer credentials. In the case of the U.S., the government is requiring earlier and complete information about each crew member, as well as – for those seafarers who wish to obtain shore leave in the U.S. – the issuance of an individual visa after personal interviews and with biometric identifiers.

B. Port Facilities

As was the case with vessel compliance, containership terminal facilities have worked assiduously to comply with the ISPS Code's requirements for enhanced facility security by the July 1 effective date. Mrs. Seet-Cheng, Director for Policy, Maritime and Port Authority (MPA) Singapore, will discuss these issues in more detail.

The world's major container ports are in compliance with the Code, but there are some ports, especially in developing countries that are not yet compliant. When an ISPS compliant liner vessel calls at a non-compliant facility, the vessel will generally operate at a higher security level and take appropriate measures as specified in its security plan to ensure the integrity of the ship and the cargo loading procedures. While verification of port facilities' ISPS Code compliance is the individual jurisdiction's responsibility, the U.S. Coast Guard has launched a special program – the International Port Security Program (IPSP) – for determining whether stated compliance translates

into verifiable compliance. In cases where the Coast Guard has documented lack of compliance with the international requirements, the port facilities may be “black listed”, and vessels bound for the U.S. that call on such facilities would have to implement additional security measures in order to be allowed entry to the U.S. port.

Both in regard to port facility and vessel compliance with the ISPS Code, the World Shipping Council and its member companies support and encourage clear, transparent and consistent enforcement of the international requirements. We have worked closely with the U.S. Coast Guard towards that objective. In addition, U.S. Customs has stated that in the near future it will incorporate foreign port ISPS Code compliance as one of the risk factors it uses for cargo screening and targeting purposes.

C. Containerized Cargo Security

Because liner shipping services literally connect tens of thousands of different businesses around the world, containerized cargo shipments present a uniquely difficult security challenge. This door-to-door transportation of goods in containers that are sealed at their point of origin by the shipper has been an immense boon to the economic health of all trading nations; however, that system was designed and constructed to achieve maximum efficiency and based on trust. Most commerce can still be trusted. The security challenge is to determine both what risk assessment criteria should be applied and what cargo shipment information should be required from whom and when for a particular shipment to continue to warrant government’s trust. For shipments that don’t conform to those criteria, container inspection is appropriate.

For more than a year and a half, ocean carriers have been submitting, for all of their vessels that transport containerized cargo shipments to the U.S., their complete cargo manifests 24 hours before vessel loading at the foreign port (the “24 Hour Rule”). U.S. Customs then screens that information for security purposes, and has a range of options available to it, from instructing the carrier not to load a particular container, to working with local customs in the load port to inspect the container prior to vessel loading, to inspecting the container upon arrival in the U.S.

U.S. Customs has built several other complementary security layers into their container screening decisions. For example, they have entered into twenty Container Security Initiative (CSI) agreements with other customs authorities for the sharing and screening of advance containerized cargo information and the targeting and inspection of high risk containers destined for the U.S.. They have established the Customs’ Trade Partnership Against Terrorism (C-TPAT) pursuant to which participating importers comply with standards that allow U.S. Customs to grant increased levels of trust to participants’ supply chains and the cargo moving in them. CSI and C-TPAT are only now beginning to emerge from their developmental stages, and we expect that they will continue to be refined and strengthened and their geographical scope broadened. Other countries have implemented, or are in the process of implementing, programs similar to C-TPAT, and we may see bilateral agreements where one customs administration recognizes participants in another administration’s program, and thus qualify for, for example, expedited customs clearance. And as also recognized in recent G-8 declarations as well as the newly signed agreement on Customs cooperation between the United States and the European Union, CSI can foster closer cooperation and more effective security screening of maritime cargoes, perhaps leading to the development of

a multilateral mechanism for addressing the security challenges to international maritime commerce.

While there are still substantial variations in how different national authorities oversee containerized commerce, the multilateral discussions at the G-8, APEC, EU, World Customs Organization and elsewhere reflect an understanding that the security of international commerce, and the continued ability to move that trade reliably in times of serious security challenge or crisis, requires more data sharing, earlier, from more parties in the commercial chain. Clearly, cargo shipment data from sources other than the carrier's bill of lading is needed to obtain greater levels of trust. The parties involved in the sale and purchase of the merchandise being transported must be more effectively incorporated into this screening process.

It is these issues and developments, together with improved intelligence, that logically should be considered as PSI governments consider how they would implement the activities envisioned by the Proliferation Security Initiative.

III. Some Preliminary Observations About PSI

Let me start by stating what I hope is obvious -- that the liner shipping industry supports the objectives of the PSI initiative and will work to cooperate with PSI governments. Ocean carriers have no interest in being used by or being victims of terrorists or proliferation facilitators.

Second, the industry recognizes that PSI is an activity of like-minded governments, and that it is not an organization, a bureaucracy or an implementing agency. Carriers know that PSI activities could thus involve interaction with multiple national authorities, and they understand that workshops such as this demonstrate that the like-minded national authorities are still in the process of building this practical and informal cooperative framework, and will want and need flexibility as this effort matures.

Having said that, let me offer some observations regarding what the industry may want or hope for from PSI governments as this initiative develops.

1. *Understand the limitations of at-sea container inspection and interdiction*

You will hear more about this issue from Mr. Lars Robert Pedersen, Director of Technical Operation, Container Vessels, with A.P. Møller - Mærsk Sealand later this morning, but national authorities must appreciate that it is not simply extremely inconvenient, dangerous, and disruptive to try to interdict a container stowed aboard a vessel at sea. In many cases, it is not physically possible to open a container stowed upon a ship, and a container may be stowed in a location which precludes access to it without shore based container cranes.

For this reason, container interdiction must logically focus on interdiction on shore before or after its transportation aboard a vessel. For this reason, liner shipping companies would encourage PSI interdicting governments to contact them directly to work through any necessary issues to facilitate, arrange and enable the shore-side inspection of any container that requires a PSI inspection.

2. *Governments' information needs should be carefully considered and coordinated*

The liner shipping industry has on many occasions demonstrated its willingness to cooperate with and assist government authorities in dealing with law enforcement and security matters. For example, every World Shipping Council member shipping line is a member of the C-TPAT program with U.S. Customs and has agreed in that context to: "Provide Customs with requested data/information about cargo or container movements, provided that the number and nature of such requests from Customs shall not be unreasonably burdensome." Such ad hoc information requests, that are made on top of the mandatorily submitted information under the 24 Hour Rule, are fairly frequently made by the U.S. and other governments and honored by carriers, and are not of major concern.

Such ad hoc requests for information do not eliminate the need for the world's trading nations to consider what information they want on a more systematic basis to enable them to more fully understand the cargo shipments moving in and out of their countries, and when they want that information. Once such a determination has been made, such information should be obtained through predictable, uniformly applicable requirements. Those rules should reflect an *internal* coordination within each government so that the needs of customs officials engaged in law enforcement and security measures and the needs of government officials engaged in PSI activities relating to WMD are integrated whenever practicable. PSI governments should also coordinate between themselves whenever possible to avoid carriers or flag states ever facing inconsistent or incompatible requests regarding PSI interdiction efforts.

3. *Recognize that there are unavoidable limitations on voluntary, "best practices"*

As I noted earlier, the liner shipping industry has been working assiduously with governments to enhance maritime security. Sometimes that involves voluntary measures, such as ad hoc information sharing. Sometimes that must involve developing uniformly applicable requirements that all must abide by. It is not realistic to expect that any shipping line can consistently undertake measures that will inconvenience its customers, or significantly raise its costs, or disrupt its operations or services, if its competitors are not required to operate by the same rules.

An example may help illustrate this. The U.S Customs Service decided after September 11 that it needed carriers' cargo manifest information 24 hours before vessel loading in a foreign port, rather than at the time of vessel arrival in the U.S. Our industry understood this need, understood and supported the government's strategy of advance security screening of all shipments before vessel loading, and supported providing this information to the government. (We note that such advance data filing could clearly be useful to PSI government authorities in other trades as well.) But no carrier could voluntarily implement such a change on its own – as a voluntary "best practice" or otherwise, because it was a substantial business process change, was costly, and significantly affected customers. This change of practice needed uniformly applied rules requiring all carriers to implement them for all customers' shipments.

4. Liability Issues Are Complex

It would be unrealistic for a workshop such as this to identify, let alone resolve, all the liability issues that could arise from an at-sea PSI container interdiction. Suffice it to say that the added costs, damages, and other liability issues that could arise from an at-sea container detention and interdiction, would in all likelihood be much greater than those arising from a cooperative interdiction in an appropriate port. Furthermore, costs, damages and liabilities are likely to be much more substantial if the container interdiction is performed at a port facility that is not on the scheduled itinerary in comparison to a port that is on the vessel's scheduled itinerary. Thus, whenever possible, it will be in the interest of an interdicting PSI government, the carrier and all the shippers whose cargo is aboard, for a container interdiction to be performed in a port that is on the vessel's scheduled itinerary.

Finally, we would note that if an interdicting government ever intended to request a liner vessel to divert to an unscheduled port for interdiction of a container, implementing such a request through an appropriate legal order from the vessel's flag state would help provide clarity and guidance in addressing potential liabilities for the carrier, its customers and others.

IV. Summary

The liner shipping industry fully understands and acknowledges the legitimate efforts of PSI governments to address the growing challenge posed by the proliferation of weapons of mass destruction, their delivery systems, and related materials. While we see the potential PSI interdiction at sea of a container to be a very rare event, the industry will work with PSI governments towards meeting their objective, as it has worked with these same governments to enhance maritime commerce more generally against the risks of terrorism. The industry will do so with the recognition that maritime transportation of such WMD material would seem more likely to occur outside normal liner shipping container operations, where proliferators would be able to control the operation of the ship that is carrying the targeted cargo.

What the Council would like to propose to PSI governments for consideration are the following observations:

- a. PSI governments should understand the operational realities and limitations of containership operations, and the very large number of shippers and their supply chains that would be affected by a significant disruption to a containership's scheduled operation.
- b. PSI governments should in all appropriate circumstances seek the cooperation of the vessel operator and relevant port facilities to assist and

facilitate the most efficient, most effective, and least disruptive interdiction operation.

- c. PSI interdiction of suspected maritime containerized cargo shipments should, whenever possible, be done in port, preferably before vessel loading, and not at sea.
- d. In those instances where interdiction cannot be effected prior to vessel loading, the interdiction should, in all appropriate circumstances, be undertaken with a view to facilitate the early continuation of the vessel's itinerary, including through the arrangement of interdiction operations at ports included in the vessel's scheduled itinerary.
- e. We encourage PSI governments to evaluate the extent to which the use, development and implementation of uniformly applicable advance cargo shipment information and analysis systems and protocols might assist in the identification of shipments of concern at the earliest opportunity, and preferably before vessel loading. An important consideration in the use of such systems would be to ensure cooperation and coordination with other maritime trade security capabilities within the relevant PSI governments. The industry strongly urges governments not to create duplicative or uncoordinated advance cargo shipment notification systems.

We hope that these views may be helpful to PSI governments, and on behalf of our Member liner shipping companies, the World Shipping Council would like to thank you for your invitation to be here today and to offer our views on these most important issues.