Compliance changes for Hazardous Materials regs

Change is everywhere, and Hazardous Materials descriptions, labeling, and training are no exception. The following recently announced hazmat changes are important to all departments within your company and will affect shipments from the time they leave your company until they are delivered to your customer's door.

- July 1, 2001, International Air Regulations took effect; and
- January 1, 2002, International Ocean Regulations will take effect.

Hazardous Materials regulations in the U.S. are controlled by Title 49, Code of Federal Regulations, ICAO Technical Instructions for the safe transport of Dangerous Goods by Air, and the International Maritime Dangerous Goods Code (IMDG).

Major hazmat compliance changes

International Regulations

- Labeling – the Subsidiary Hazard Label must now display the Hazard class number in the lower corner of the label, e.g. corrosive is class 8, and dangerous when wet is 4

Air Regulations

- New Radioactive Material regulations
- Proper shipping Names, e.g. "inhibited" is now "stabilized"
- Classification criteria have changed to reflect changes in the United Nations Recommendations

Ocean Regulations

- Completely revised IMDG Code (1/1/02)
- New Hazardous Materials Table:
  - Table is in numerical order
  - Class 3, Flammable Liquids
  - Limited Quantities
- New Packing Instructions
- Training requirements

Consequences of hazmat regulations violations

- Severe penalties and fines:
  - Civil penalties up to $27,500 per violation/day of violation
  - Criminal penalties up to $500,000 and or up to five years' imprisonment

For more information on the new and proposed Hazmat regulations changes or any issue related to hazmat compliance, contact Torsten Helk, BDP's Hazmat Manager, at (215) 629-8263, or helkt@bdpnet.com.

(Regulatory Watch continued from page 7)

composition of the non-regulated packing materials on the bill of lading or the invoice.

What will the USDA do to facilitate compliance with the EU emergency measures?

USDA is working with the American Lumber Standards Committee (ALSC), the lumber grading agencies and the National Wooden Pallet and Container Association to develop a voluntary program for heat-treated wood prior to the October 1 implementation date. This program will cover new and used pallets and will require NMWP produced in this program to be manufactured wholly of heat-treated or kiln-dried/heat-treated wood or will require the participating facility to heat treat existing NMWP. For a list of NMWP facilities participating in the program, contact an ALSC Affiliated Grading Agency.

The EU emergency measures have provisions for fumigation and for chemical pressure impregnation (CPI). Will these options be available?

Currently the program that APHIS and the U.S. NMWP industry is developing does not include fumigation or CPI wood because (1) methyl bromide is being phased out in the United States under the Montreal Protocol, and (2) because of the environmental and disposal problems associated with CPI wood.

For more information, check out the APHIS website at: www.aphis.usda.gov/ppq/swp/, or contact BDP's Regulatory Compliance at (215) 629-8924.

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COSTLY RED TAPE SABOTAGING "FREE TRADE" SAYS EX/IM EXPERT

While the national consensus backing free trade has trimmed tariffs significantly, lingering regulatory bureaucracy and red tape cost U.S. consumers as much as 17 percent extra for imported goods like fresh produce and manufactured items.

That was the message delivered by John P. Simpson, President of the American Association of Exporters and Importers, at a gathering of importers and exporters who attended BDP's recent seminar "Survival in a Changing Trade Climate" in Philadelphia. Simpson, the former Deputy Assistant Secretary of the Treasury for Tariff and Trade Enforcement, called on corporate resources for an all-out battle against needless paperwork. "If you believe you're involved in free trade (with Mexico or Canada)," he declared, "it's only because your bad accounting system does not compute the cost of regulation."

According to Simpson, when corporate jets left Washington, D.C., over the last decade, carrying home executives successful in lobbying for elimination of import tariffs in the NAFTA and Uruguay Round agreement, a battle was only won. Regulatory duplication and bureaucratic intransigence remain unchecked. For example, the U.S. Census Bureau refuses to expedite cross-border shipments to Mexico by sharing basic export data with Mexican Customs. U.S. officials cite concerns about confidentiality yet Mexican officials routinely gather this same information but only after several item-by-item inspections that raise shipping costs and delay delivery for days, he said.

To reach Mexico, U.S. goods first are hauled to a U.S.-based warehouse, unloaded, counted, and reloaded on another truck for the short border crossing.

Then they are unloaded at a Mexican warehouse, counted, and finally reloaded on a third truck for shipment to the final destination.

For strawberries from Mexico to reach grocery shelves here, shippers must file seven separate declarations and deal separately with U.S. inspectors from Customs, Immigration, the Federal Motor Carrier Safety Administration, the Federal Drug Administration, the Department of Agriculture, and elsewhere, Simpson added.

Customs alone spends approximately $200 million annually. While U.S. policy during the past several decades has pushed companies into a global economy, policy-makers have "neglected to deal with issues that cause a global economy to become dysfunctional." The result, he added, is additional costs ranging from 14 to 17 percent, including transportation inefficiencies, and from four to six percent for government-required documents alone.

"I think in the next few years, tackling this is going to be the challenge for all of us," he concluded.

The *E*-conomy

- **The value of the B2B online freight market in 2000 was $9 billion. Future growth estimates that the value in 2005 will be $192 billion. Currently, the U.S. freight industry is a $372 billion-per-year market. Source: American Trucking Association/Jupiter Communications.**
- **Expect a continuing wave of outsourcing to support Internet-driven B2B and B2C business models, says the consultancy IDC. It predicts that the U.S. market for outsourcing of e-logistics will climb from $12 billion in 2000 to $72 billion in 2004.**
- ***EC Technology News* reports that Purchasing managers do not want more software that just automates indirect procurement. What they really need—and what the e-commerce market is wrestling to give them—are applications that integrate much farther into back-end ERP and supply chain systems that automate the purchasing of direct goods.**
- ***InformationWeek* reports that installations of E-business supply chain applications and enterprise portals have dropped from 61 percent and 65 percent in December 2000, to 55 percent and 59 percent in June 2001. Two-thirds of companies surveyed are taking a wait-and-see approach to e-marketplace adoption.**
- **AMR Research says that several online marketplaces, such as ChemConnect, are actually bucking the odds, and even prospering by offering value-added services and catering to suppliers rather than squeezing them on price.**

G-Log and BDP Collaborate in Next Generation International Logistics Application

The recently announced agreement between BDP and G-Log, the leading provider of collaborative logistics management solutions, is a major step in the development of next-generation technology that will help streamline the entire global logistics lifecycle.

"This is an exciting time for both companies," says BDP President Richard Bolte. "Through this strategic agreement, our combined capabilities and strengths will enable us to develop broader solutions for our customers. It will take logistics to the next level."

Customers will benefit from the companies' combined strengths through reduced costs, superior customer service, greater access to shipment information and delivery schedules, and increased system customization.

"This BDP/G-Log relationship will enable us to elevate our commitment to information technology as a complement to our core services," adds Bolte.

"G-Log's system combines domestic and international transportation components into a single end-to-end system. Our new, web-enabled functionality will empower BDP personnel around the globe to provide a virtual stream of logistics information."

European Union's Emergency Measures for Solid Wood Packing Material from the U.S.

(Excerpted from the Government's APHIS website.)

The Commission of the European Communities has adopted emergency measures requiring the treatment and marking of all new and used coniferous (e.g. pine, spruce, fir) non-manufactured wood packing material (NMWP) originating in the United States, Canada, China, or Japan beginning October 1, 2001, to prevent the introduction of the pinewood nematode (a microscopic eelworm which has caused extensive mortality in pines in Japan and China.) European concern over the possible introduction and establishment of the nematode has heightened over the past couple of years after an outbreak in Portugal and interceptions of the nematode in NMWP from the United States, Canada, China, and Japan. Packaging material is thought to have been the likely pathway.

The United States has chosen to utilize the heat treated or kiln-dried mitigation option to eliminate this pest on NMWP. The International Plant Protection Convention, which is recognized by the World Trade Organization as the official plant protection body, will likely adopt measures very similar to those of the EU in April 2003 for all NMWP (softwoods and hardwoods). The American Lumber Standard Committee (ALSC), at the request of USDA's Animal Plant Health Inspection Service (APHIS), has agreed to develop and oversee the United States' program, which will require on-site inspections of NMWP manufacturing facilities to verify compliance. Inspections will be done by agencies accredited by ALSC.

Exporters need to be aware of the emergency measures and be sure that their shipments utilizing coniferous NMWP comply with these measures.

What is Non-Manufactured Wood Packing?

Non-Manufactured Wood Packing (NMWP), also called solid wood packing material or SWPM, is defined as "wood packing other than that comprised wholly of wood-based products such as plywood, particle board, oriented strand board, veneer, wood wool, etc., which has been created using glue, heat, and pressure or a combination thereof." NMWP includes coniferous pallets, crating, packing blocks, drums, cases, load boards, pallet collars, skids, etc., but not dunnage.

Will you be affected?

EU imports from the United States were valued at $169.2 billion in 1999. We expect that a significant portion of U.S. export will be affected by the measures since most goods are transported using NMWP (e.g. pallets, boxes, crates). It is estimated that upward of 30 percent of the 450 million new pallets produced annually and a higher percentage of the new pallets used for exports are made entirely of or partially of coniferous lumber. A significant proportion of the pallets and containers already in circulation are affected.

What happens if your NMWP does not comply with the EU's requirements?

The EU has indicated that any coniferous NMWP that does not comply will be refused entry, destroyed, or treated to eliminate the risk of the pinewood nematode prior to entry. This will likely necessitate off-loading of any cargo from the NMWP, and may cause considerable delay. The EU member states will enforce the regulation.

What are the emergency measures adopted by the European Union?

New and used NMWP originating from the four countries must be:

- Heat-treated or kiln-dried to a minimum core temperature of 56° C for at least 30 minutes in a closed chamber or kiln which has been tested, evaluated and approved officially for this purpose;
- Pressure treated with an approved chemical in accordance with an officially recognized technical specification; or
- Fumigated with an approved chemical in accordance with an officially recognized technical specification.

All coniferous NMWP must also display a mark (stamped, branded, labeled, etc.) enabling the identification and location of the treatment facility. In the case of heat-treated coniferous NMWP, the use of the mark will be limited to NMWP manufacturers participating in the APHIS-ALSC program. (FYI: this is not a heat treatment certificate like the one used for China.)

Will other documentation (certificates, statements on bills of lading, etc.) be required for movement of NMWP to Europe?

No other documentation is required. This is designed to be a "paperless" system.

The EU countries do not require documentation to identify non-regulated packing materials, such as pallets manufactured of hard wood, oriented strand board, plastics, etc., but companies may include a statement about

(Continued on back page)

BDP gateway

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Protecting rights of subrogation

Although ocean cargo insurance may involve subrogation against intercoastal, rail, barge, air, truck and parcel post carriers, as well as action against stevedores, warehousemen, silo operators, etc., the most frequent claims involve action against air and ocean carriers. It is imperative that claims for loss or damage be filed immediately, holding all potentially responsible carriers or other parties liable. Failure to do so may impair the insurance company's rights under the policy to collect from the responsible carrier. If the assured fails to file promptly, payments by the company for loss or damage may be reduced.

Merchandise moving in international trade usually involves more than one mode of transportation. Therefore, there is no one rule establishing the period of time in which a claim must be filed. Requirements for notice of claim and time limits for filing suit against common carriers are as follows:

Ocean transit

As prescribed in the Carriage of Goods by Sea Act (COGSA) and Canada's Carriage of Goods by Water Act (COGWA), suit must be filed within one year from the date the merchandise was delivered, or should have been delivered, by the ocean carrier. However, it is important to inspect the contents of shipping packages promptly and immediately notify the carrier of loss.

The Carriage of Goods by Sea Act is the name given to the Hague Rules (1924) when ratified by the United States in 1936. Not all bills of lading are subject to the COGSA or the Hague Rules. Other conventions such as the Hague-Visby or Hamburg Rules may be applicable. In general, however, suit must be filed against ocean carriers within one year as stated above.

It should also be noted that claims involving concealed damage at the time of delivery must be filed in writing with the ocean carrier within three days of delivery.

Containerization presents some special problems that can lessen the chance of successful subrogation action against carriers. Carriers often contend that a container is a package, and as such they are liable only for $500 per container regardless of the number of individual packages within the container or their actual value. Therefore, it is imperative that all documents pertaining to shipments in containers, especially the Ocean Bill of Lading, clearly show the number of packages within the container and a description of the packages themselves. When containers are delivered to the consignee, a careful inspection of the container should be made, noting holes or other defects that could give rise to damage to the contents. A record should be made of the seal number and its condition at the time of delivery. If possible, the ocean carrier's delivery receipt should be noted to show the condition of the container, if damaged, and the seal number and its condition. A copy of this receipt should be retained by the consignee.

International shipments by air

As soon as one receives a shipment from an airline, a thorough inspection should be made. If damage or shortage exists, a *written* letter of claim must be filed against the delivering or originating air carrier *within* seven days of delivery from the custody of the air carrier in cases of damage, and *within* 120 days in cases of shortage. As prescribed in the Warsaw Convention, unless these time limits are strictly complied with, subrogation action will be prohibited. If these requirements are met, suit can be filed within two years after the date of the occurrence that gave rise to the claim.

To ensure prompt notification of loss to air carriers, the assured or other consignee should instruct receiving personnel to make a thorough inspection as soon as the shipment has been delivered by the air carrier. The amount of the merchandise and the condition of the packages should be checked, and a bad order or shortage receipt obtained. A formal claim should be filed against the air carrier. In cases of potentially large losses, surveys by underwriters and air carriers should be conducted at the airport so that an agreement as to the measure of damage and the disposition of damaged merchandise can be reached.

If general business practices delay the opening of packages beyond statutory limits, a consignee may automatically issue letters of claim to the airlines in order to avoid loss of recovery potential. These letters would be withdrawn or confirmed after the eventual inspection of the contents.

If the shipment was handled by a freight forwarder at the point of origin, a House Air Waybill (H.A.W.B.) may have been issued. To ensure proper subrogation potential, the receiver of the merchandise also should file a written claim against the freight forwarder. When presenting claim documents to the company, the originating air carrier's Air Waybill (the Master Air Waybill), as well as the H.A.W.B must be submitted.

Overland U.S.

Written notice of claim must be filed *within nine months* after delivery of the merchandise, or in the event of non-delivery, *nine months* after a reasonable period of time has passed. After meeting this requirement, suit may be filed *within two years* after written declaration by the carrier.

The chart below shows the time limits for filing a claim against steamship companies and airlines.

RIGHTS OF SUBROGATION

Carrier	Loss or Damage	Concealed Damage	Non-delivery
Steamship (COGSA) (COGWA)	1 year from delivery or scheduled delivery	3 days of delivery	1 year from scheduled delivery
Airfreight (Warsaw Convention)	7 days from delivery	7 days from delivery	120 days from scheduled delivery

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(“Going South” - continued from page 3)

Brazilian economic growth in 2000 was about four percent, and was expected to be no less than 4.5 percent in 2001, until an energy-saving program was introduced and which is expected to affect the country’s growth. Inflation is still low, the government deficit is under control, and employment is increasing. Another reason to believe that foreign investment will continue to increase is that many key industrial segments already are operating very close to full capacity.

As far as the logistics expenses are concerned, we foresee a substantial decrease in all such costs as the result of current investments in railroads, roads, and ports, and as new investors, most of them international organizations, enter the market. In the past, the large international companies in Brazil would handle their own logistics and often had their own warehouses and trucks. However, once inflation rates were reduced, companies had to concentrate on their core business and could no longer sustain the additional expenses associated with those assets.

BDP South America is part of BDP’s Global network of door-to-door operations.

For more information, contact Thomas Rittscher, BDP-South America at TRittscher@bdp.com.br, or tel. 011-55-11-5034-9845.

(Nirvana - continued from page 1)

those companies that embrace operational excellence as an ongoing core value. “Partners that believe in and have implemented operational excellence programs throughout their organizations should be high on your list of candidates,” says Michael Ford, Vice President of Regulatory Compliance and Quality at BDP. “Within your own organization, you should consider the following steps. Be sure:

- Your company’s operational excellence process is understood by all staff members;
- You have quick access to your information in order to effectively evaluate costs and performance of those elements of the supply chain for which you have control;
- Your logistics process is being managed in “real-time” in delivering goods to your customers and not stuck in an old time zone; and
- You are able to heighten awareness of the value of customer service throughout the entire supply chain.

“A thorough review of internal operations will enable growth-oriented companies to pinpoint efficiencies that truly make a difference,” says Ford, “helping those companies select the most appropriate elements to strengthen their supply chains.”

(Maritime Reform - continued from page 1)

things with transportation and logistics management today. It’s a matter of looking beyond a single transportation rate between point A and point B, to enjoy the real value. The savings come from within the negotiating power shippers and their agents now enjoy, to impact equipment cycle times, internal staff costs, single-source management of end-to-end information, and yes, price.”

Individual versus conference contracts

An OSRA status report was recently released by the Federal Maritime Commission (FMC). The most visible result is the demise of the conferences and their stranglehold on contracts. While carrier groups still get together, their effect is measurably less than in the old days.

Shippers and shipping lines that have embraced full or partial confidential contract arrangements are clearly the major beneficiaries of this change. An increase in the number of individual contracts between shippers and lines is on the upswing.

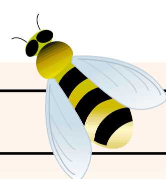
Although rates initially took a dip prior to and following deregulation, they have been on the move upwards for some time. Pressure on rates to continue their climb remains a concern. This, in turn, puts pressure on shippers to be more vigilant.

“While the mechanics of negotiating may not have changed a great deal, the absence of easily available market data requires a certain creativity in trying to determine adequate pricing levels,” says Bolte.

“I think everybody can benefit from deregulation, small and large shippers alike,” adds Bolte. The playing field is now more level and it allows small shippers to negotiate relationships that previously would not have been possible and that were the domain of only the larger shippers. Time will tell if that fully translates into better service and reduced costs for small and medium shippers but there are positive indications that it will.

A full impact report on OSRA by the Federal Maritime Commission is expected soon.

MARKET BUZZ



- ✔ **Societal values are changing rapidly. Society will increasingly take its cue from Generation X and dot-coms, rather than the baby boomers who have dominated its thinking for most of four decades. That demographic shift will provide a return to the appreciation of self-reliance and cooperation. Self-reliance because the traditional safety platforms, as we currently know them, such as Social Security and pensions. will no longer exist; and cooperation because it involves group action that, in turn, is the optimal strategy for the use of scarce resources. Source: “50 Trends Now Changing the World” - the World Future Society.**
- ✔ **Vantage Partners says that seventy percent of business alliances fail, most often, because of lack of trust and a breakdown of communication between the partners. The Meta Group stats that even a partnership that starts off well may erode over time, as each partner inevitably vies to push its own value to the customer—emphasizing the need to sit down regularly and agree on how each side will act and how they will share information, people, and intellectual property.**
- ✔ **By 2005, it is projected that more than half of the Internet’s users (57 percent/198 million) won’t be native speakers of English (vs 43 percent/147.5 million). Source: Computer Economics, Inc.**

SHIPPERS' PAYMENT RISKS

This is the first of two articles detailing letter of credit issues of which exporters should be aware. Thanks to Glen A Dooley, Vice President, First Union National Bank (glen.Dooley@funb.com) for providing this information.

Understanding payment risks from foreign buyers

Potential pitfalls of Letters of Credit

One of the common methods for ensuring payment for a sale to a foreign buyer is to require a letter of credit (L/C), which is an instrument issued by a bank that obligates the bank to make payment, up to a specified amount, upon receipt of documents that comply with the terms and obligations of the L/C. The benefit the L/C provides to the seller is the transfer of payment obligation from the buyer to a bank, which will usually represent a stronger repayment source.

Exporters must minimize the likelihood of discrepancies

A letter of credit will commonly be required where the buyer's ability or willingness to pay is in question or where the size of the transaction is large. It acts as a form of insurance to protect against untimely payment, where the exporter has performed in accordance with the underlying sales agreement. Compliance is determined solely on the documents presented by the exporter, and not by any merchandise or services. An exporter's failure to meet the exact terms and conditions of the L/C subjects the firm to delayed or non-payment of its invoice, the specific reason the L/C was required in the first place. Exporters must take every precaution to minimize documentary discrepancies.

Be aware of compliance problems

Let's review a transaction in which documents do not strictly comply. The negotiating bank in the U.S. will typically identify these discrepancies and advise the exporter accordingly. At this point, the goods are already en route to the buyer.

If the discrepancy is curable, e.g. a missing signature or other error that can be corrected and resubmitted within the permitted timeframes, all that is lost is some time in getting the payment claim initiated.

However, if the discrepancy cannot be cured, e.g. late shipment or presentation, payment is sure to be delayed and may be in jeopardy, in this scenario, documents may be forwarded to the issuing bank to seek approval from the buyer to waive the discrepancies. Alternatively, the U.S. bank can be instructed to hold the documents and telex the issuing bank for approval before the documents are forwarded to them. In either event, the payment is held up pending agreement from both the buyer and the issuing bank to accept the discrepancies and make the payment.

Often, the buyer may delay this approval until the shipment is scheduled to arrive in port, figuring there is no urgency to pay earlier. Presuming the buyer does not consider the discrepancies material and they still want the goods, the exporter still receives payment under the L/C, but this might be delayed several weeks compared to having complying documents presented originally. Additionally, both the examining bank in the U.S. and the issuing bank in the buyer's country will usually assess discrepancy fees to compensate for the extra handling involved in these situations, and this can increase the cost of the transaction to the exporter by as much as $200.

In a worst-case scenario, the buyer may consider the discrepancy material and decide not to pay under the L/C. If the exporter has properly consigned the title document, it still has control over the goods but now must seek payment outside the L/C, find another buyer, or incur the expense of shipping the goods back. The exporter essentially has a documentary collection rather than a letter of credit, which it considered important at the origination of the transaction.

Exporters should also be aware that there have been situations in which the issuing bank has used discrepant documents to withhold payment notwithstanding the buyer's preference to waive discrepancies and pay. This usually only occurs where the buyer is weak financially and the issuing bank itself has repayment concerns. If the title document was consigned to the buyer, it is even possible for the buyer to have possession of the goods without paying under the L/C.

An exporter holding a letter of credit should not have the mistaken impression that this equates to automatic payment. Extreme care needs to be exercised to minimize the likelihood that documents presented under letters of credit are discrepant or the exporter risks incurring higher fees, significant cash flow losses, and potential non-payment.

COLLABORATION is alive and well

An E-Business agenda survey just released by *InformationWeek* shows that that while collaboration with partners, suppliers and customers continues to proceed, companies are doing so with caution: 71 percent say it increases competitive challenges; 47 percent note it can lead to complex and confusing processes, and 20 percent report security problems.

However, 73 percent of respondents report that collaboration helped boost revenue, 79 percent say it increased customer satisfaction, 55 percent reported reduced costs, more than 50 percent say it contributed to higher profit margins. And 67 percent of participants say they have increased the level or degree of collaboration in their supply chains in the last 12 months.

How times change

Customs operations in South America

The Customs and regulations of the countries in this region are fairly comparable, with some developing their capabilities faster than others. The degree of development actually depends upon how quickly each country accepts the globalization process as they seek to integrate into the international community.

For example, beginning 20 years ago, Chile developed the fastest in terms of import regulations, Customs and privatization, partly because of its relatively small economy. Argentina was next. While Brazil was still discussing privatization opportunities, Argentina actually began privatization of its ports, railroads and roads.

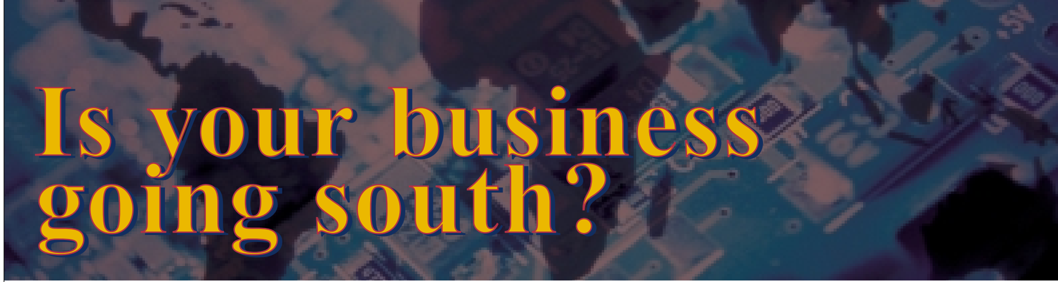
Since Brazil opened up its economy in 1990, it has implemented its own privatization process. Of all the logistics-related infrastructures, only airports are state-owned, and they may be privatized soon. The country's Customs operations have slowly improved, moving from a bureaucratic, people-dominated process to one that is systems driven. Imports clearance now takes 24-48 hours. However, Brazil's Customs often request more documentation than is necessary. If import documentation—process as well as content—is not exactly as required in the regulations, it can be a major problem, resulting in fines and delays. This is also a problem in Argentina.

On the plus side, Brazil Customs is also trying to improve valuation data of some products coming in from certain areas, for example electronics or fabrics from China.

Customs capabilities in other countries, such as Venezuela and Colombia, are at the point that Brazil was ten years ago. Although they are beginning systems development, everything is still handled on paper.

Lack of technology still presents hurdles for many companies—especially larger companies—that want to develop any degree of sophisticated supply chain management. Until the Customs element is as up-to-date as the other parts of the supply chain, companies shipments will hit a roadblock in the middle of the process.

Excerpted from a discussion with Thomas Rittscher, Managing Director of BDP-South America.



Is your business going south?

South America, to be exact.

When Alejandro Toledo assumes the presidency of Peru on July 28, there are high hopes that it will boost economic confidence in that country. Meanwhile, Argentina, experiencing more economic woes in its three-year downturn, also hopes for a brighter future. As Chile continues to develop, to the north Colombia and Venezuela experience internal problems.

Then there's Brazil. Because of the size of its economy, a large consumer market and a population of 170 million, Brazil has the leading role in South America. Although its largest economy is also hitting speed bumps during a decade-long resurgence, including a slowdown in its gross domestic product and a recent reduction in imports, Brazil remains the driving force on the continent.

Gateway spoke with Thomas Rittscher, Managing Director of BDP-South America operations headquartered in Brazil's industrial center of Sao Paulo, in order to get an idea of the current business climate in the region for shippers.

When we talk about South America, the economics and political situation of the different countries vary greatly. This is certainly one of the main reasons why the integration process between NAFTA and Mercosur might take longer than initially planned. Mercosur (also Mercosul in Portuguese) is a trade bloc–Argentina, Brazil, Paraguay, Uruguay, and associate members Bolivia and Chile.

Brazil has a leading role in the region mainly due to the size of its economy, the potential of its domestic consuming market and, at least for now, a stable political situation. Other countries' economies are much smaller, e.g. Chile has been developing well over the last 10-15 years, but even so, its economy is equivalent to one medium-sized state in Brazil.

As development continues to increase in South America, so do opportunities for international companies in a number of industries, including gas, petroleum and chemicals. To illustrate, although Brazil's chemical imports are just 10 percent of the worldwide total at $10 billion (the U.S. share is approximately $62 billion), it is developing very fast. Investment in new power sources, such as gas from Bolivia, will speed the investment in alternative plants. Hub ports are now being created and big vessels carrying up to 4,000 TEUs are already calling at Brazilian ports. Plus, new air cargo hubs are planned.

What is happening in the region right now is playing out against the significant commitment to international globalization made by most of the countries here some 10 to 15 years ago. Privatization, foreign investment, mergers and acquisitions have begun to change the region's economic climate.

To illustrate: in 1990 the average import duty in Brazil was approximately 60 percent; by 1999 it had dropped to seven percent. In 1990 total foreign investment in Brazil was US$287 million; in year 2000 it was US$30 billion. By 1990 the international organizations in the country from the top 500 list represented 31 percent of the total; in 1999 that had risen to 46 percent.

Most of the Brazilian ports, railroads and roads already have been privatized and, as a result, attracted large amounts of foreign investment for improvement and expansion of the local infrastructure. The electric power industry still is in the process of privatization, with a substantial amount of new investment anticipated here over the next few years.

Any substantial slowdown in the U.S. economy certainly will affect the speed of development in the entire region. Yet since the performance of the Brazilian economy so far has exceeded forecasts, any impact might be somewhat offset by domestic conditions.

(Continued on page 5)