

Testimony of  
**Capt. William G. Schubert**

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Good Afternoon Madam Chairman and members of the Subcommittee. I am Captain William G. Schubert, Maritime Administrator. I am pleased to be here today to address the important issue of seaport security on behalf of the Department of Transportation.

The Department of Transportation (DOT) has always sought to maintain secure transportation within every mode. We continue to do so with a greater sense of urgency and with more focus through the newly created Transportation Security Administration.

My own agency, the Maritime Administration (MARAD), has always played a critical role in port security. One of our duties is to provide port security guidance to the commercial ports in the United States and to coordinate government and commercial port stakeholders in their security efforts. MARAD Co-Chaired the Presidential Commission on Crime and Security in U.S. Seaports, and, as Chair of the National Port Readiness Network, plays a lead role with the military in assuring port security and protection of critical infrastructure during mobilization. We have developed an Inter-American Port Security Training Program in which nearly 300 port personnel have been trained in the Western Hemisphere, and the Merchant Marine Academy at Kings Point provides security training to industry. We have also been working with the port community to advance uses of technology that have positive security benefits both within the port and through its landside intermodal connections. I welcome the opportunity to continue our efforts to improve port security.

Today, I would like to address several recent developments led by Secretary Mineta in the area of port security in which DOT has been actively involved - grants for the improvement of port infrastructure, cargo and container security, credentialing for transportation workers and the availability of maritime insurance against terrorism-related losses. Admiral Venuto will then brief the Committee on specific Coast Guard initiatives to secure our ports and protect shipping. Grant Program for Improvement of Port Infrastructure

As you know, the Department of Defense Appropriations Act for FY 2002 (Act) appropriated \$93.3 million to the Transportation Security Administration (TSA) to award competitive grants to critical national seaports to finance the cost of enhancing facility and operational security. Such grants are to be awarded based on the need for security assessments and enhancements as determined by the Under Secretary of Transportation for Security, the Administrator of the Maritime Administration, and the Commandant of the Coast Guard (USCG).

Discussions among TSA, MARAD, and the USCG resulted in agreement that MARAD and the USCG would work cooperatively, on behalf of TSA, to administer the emergency seaport security funding contained in the Act. MARAD and the USCG have met, and we expect final approval of our implementation plan very quickly.

MARAD and USCG will act as "agents" of TSA for the distribution of grants from the \$93.3 M appropriation. The final grant approval body will be a board consisting of the Under Secretary of Transportation for Security, myself as Administrator of the Maritime Administration, and the Commandant of the Coast Guard, or our representatives. Determination of grant awards will be based on consideration of the most urgent needs from a homeland security perspective. It is anticipated that initial awards will commence in June 2002. We are moving very quickly to put this money to work.

We intend to use a small amount of this money to fund "proof of concept projects"; we will focus on critical seaports. Preference will also be given to ports that have already begun port security enhancement through some demonstrated action.

### Cargo and Container Security

An analysis of our transportation system in the aftermath of the events of September 11, 2001 clearly laid bare the susceptibility of container shipments as a delivery system for an enemy's weapons, with over 12 million TEU's/year arriving at our shores. Prior to September 11th, from a DOT perspective, our primary concern was the efficient movement of these containers through the transportation system. The advent of just-in-time business processes and the use of the transportation system as a rolling inventory tied the transportation system even more integrally into the economic vitality of this country.

In order to address the security issues surrounding the movement of marine cargo containers through the international, intermodal transportation system, an interagency Container Working Group was established in December 2001. The effort is co-chaired by the Departments of Transportation and Treasury (U.S. Customs). The Container Working Group's activities are focused in four subgroups: Information Technology, Security Technologies, Business Practices, and International Affairs. Just this month, the Working Group provided recommendations to the Office of Homeland Security on Ensuring the Security of Cargo Container Transportation. Recommendations addressed improving the coordination of government and business efforts as they relate to container security; enhancing data collection; improving the physical security of containers; initiating activities on the international front; and considering all possible uses of advanced technologies to improve the profiling of containers and to increase the physical security of containers.

Even with our best efforts, our current transportation system is groaning under capacity constraints and congestion in many ports is increasing. To further complicate matters, container traffic, even with the current economic slowdown, is predicted to double in the next twenty years. Improving efficiency is one of the key ways to help solve these capacity and congestion problems. Yet efficiency improvements must now be looked at through a security lens. Our transportation system will need to operate both efficiently and securely. These twin goals of efficiency and security need to be addressed simultaneously.

We are working jointly with U.S. Customs, exporters, importers, carriers, and governments to establish business and security practices which will push the nation's virtual borders outward to the point of loading of the containers. Security must be established before the vessel carrying the container or cargo begins its international travel. Technology and information are also essential

to container security. For that reason, we strongly support the accelerated implementation of the U.S. Customs ACE and Integrated Trade Data System (ITDS) to bring it online as quickly as possible.

### Credentialing for Transportation Workers

Security background checks and credentialing of all who move or have access to cargoes has never been more important. This includes everyone from facilities and conveyances to the destination warehouse. Thus, the Department established an interagency "Credentialing Direct Action Group" (CDAG), co-chaired by MARAD, to examine the feasibility and process for conducting background checks and issuing an identification card for all transportation workers and other persons who require access to secure areas of transportation facilities.

The primary goal of the CDAG is to fashion a nationwide transportation worker identity solution that verifies the identity of transportation workers, validates their background information, assists transportation facilities in managing their security risks, and accounts for personnel access to transportation facilities and activities of authorized personnel. The CDAG is primarily concerned with private-sector transportation workers, and has held numerous meetings that have included many representatives from the transportation industry and transportation labor. Such outreach efforts are necessary. They are experts in transportation, and we have found they are anxious to contribute their knowledge to solving the difficult issues surrounding personnel identification. We are building industry buy-in at the front end to ensure the success of this effort.

The most difficult issue is to define the appropriate levels of security for the broad spectrum of transportation facilities and operations and how these should be applied. There have also been some concerns regarding the anticipated background check process. Various models are being investigated by several groups to try and improve responsiveness, lower cost and improve consistency over present practices for credentialing. We also face the privacy issues presented by the collection and maintenance of databases containing personal information.

The CDAG has already developed a functional requirements document, which identifies the principal attributes that a credentialing system must have to achieve the interoperability necessary to reach across the transportation industries. This document has been shared with many of the major transportation industry associations. They have begun to provide their comments.

Under a maritime cooperative program called the Ship Operations Cooperative Program (SOCP) that is administered by the Maritime Administration, industry, in partnership with multiple government agencies, is currently working to evaluate and test a Mariner Administrative Smart Card credentialing system to reduce fraud, track mariner training, facilitate shipboard sign on/ sign off and enhance shipboard security. The Smart Card Administrative Project started in October of 2000 and is a 50/50 cost sharing initiative between the 43-member SOCP and the Maritime Administration.

As a result of the September 11, 2001 events, added emphases within the project are being placed on the potential of smart card applications for addressing security concerns. Members of the cooperative including MARAD and USCG are engaged internationally with the International

Maritime Organization, International Labor Organization, International Transport Workers' Federation and others to discuss security and credentialing issues. In addition, SOCP is coordinating with DOT entities that are currently working maritime security issues to ensure the project is in line with currently discussed directions. SOCP is working closely within DOT, and with other agencies including the General Services Administration, to ensure interoperability through standardization. This project has the potential for demonstrating the effectiveness of smart card technology to improve efficiency, reduce fraud and increase security in the maritime industry.

### Insurance Against Terrorism-Related Losses

The Merchant Marine Act, 1936 (Act), authorizes the Secretary of Transportation to ensure the availability of adequate insurance for vessels engaged in the waterborne commerce of the United States. This authority, delegated to MARAD, provides coverage for vessels, their cargoes, crews, and third-party liabilities against war risks, including acts of terrorism, if commercial insurance is not available on reasonable terms and conditions. The insurance may be made available to both U.S. and foreign flag vessels.

There are two basic forms of war risk insurance. Section 1202 of the Act addresses commercial vessels in commercial trade while, Section 1205 pertains to vessels that are under charter or in the employ of the Department of Defense. Recently, President Bush authorized DOT to provide war risk insurance under Section 1202. The insurance is available for areas currently excluded in commercial war risk trading warranties: the Persian or Arabian Gulf and adjacent waters, Israel, Lebanon, Gulf of Aqaba and the Red Sea, Yemen, Pakistan, Oman, Syria, and Egypt. Authority under Section 1205 for the Middle East has remained in effect since it was authorized by Then-President Bush in August 1990. Since February 20, 2002, MARAD has written Section 1205 insurance on five vessels in the employ of the Military Sealift Command.

Although the combined losses arising out of the attacks of September 11th are estimated in the tens of billions of dollars, we are seeing an excellent response all across the insurance industry in responding to the coverage of these losses. While the losses are of catastrophic proportions, the industry is financially sound and most property/casualty insurers are highly reinsured with major reinsurers with excellent reserves.

The insurance industry has taken a major hit as a result of September 11th events and what we are seeing is a major restructuring of terrorism risks. Many primary property/casualty insurance coverages, which would include port infrastructure, had reinsurance renewals on January 1st of this year and it appears that most reinsurers have excluded terrorism risks from their renewal coverage. A few major primary insurers are offering to write terrorism risks on fixed property, but with very limited cover (up to \$50 million on some risks) at very, very high premiums. As a result of this, we have been advised by a number of insurance brokers and underwriters that upon insurance renewal many companies and properties are underinsured or uninsured for terrorism risks.

The situation is somewhat better with regard to vessel insurance, where terrorism risks are generally covered under the war risk policy. Terrorism coverage is still available for vessels and cargoes, but the cost has increased significantly. For example, war risk underwriters issued

cancellation notices on war risk policies on all vessels worldwide on September 19th, (which they were permitted to do under their seven-day cancellation clauses). They reinstated these policies on September 26th with increases of annual premium of 200 to 300 percent on most fleets, except for cruise vessels, which we understand faced a 1,000 percent increase in annual premiums. In addition, war risk underwriters published new excluded zones, extending from Egypt to Pakistan, where vessels and cargoes may not enter without paying thousands or even hundreds of thousands of dollars of additional premium. Marine war risk/terrorism insurance is still available from the commercial market, although at much higher premium rates and with much more limited coverage on the liability side since September 11th. The Protection and Indemnity Clubs, a mutual arrangement of shipowners, which provide vessel liability coverage, now limit coverage for terrorism risk as of February 20th to \$200 million per vessel--an amount far lower than previously. Vessels and cargoes are still moving worldwide, but the cost is higher and the terms more limited. In addition, we understand that one of the mutual clubs that provides insurance for terminals, stevedores, port authorities and transport and logistics companies for handling equipment and property was able to reinstate terrorism cover as of February 1st, but it is not clear on what terms or cost.

In summary, insurance covering risks of terrorism is still in a state of flux and we expect this to continue for some time to come.

## Conclusion

The Department of Transportation does not need to be convinced that port security is a good idea. We have recognized it as a critical component of our maritime industry and our national security for many years. Nevertheless, achieving appropriate levels of security in our seaports and seeking to educate our international partners as to the need and benefits of seaport security is no small undertaking. DOT is aggressively pursuing all aspects of transportation security in all modes utilizing our own resources and tapping the best minds in the industry and labor.

I would be happy to answer any questions you or the other Committee members may have.

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