Global Trade Management Solutions (GTMS)

Securing the International Supply Chain

Creating Standards for Supply Chain Security and the Customs-Trade Partnership Against Terrorism (C-TPAT)

Confidential

February, 2003

Prepared by:
Global Trade Management Solutions, LLP

Copyright 2002, Global Trade Management Solutions, all rights reserved (091902A)

"Our Nation faces a new and changing threat unlike any we have faced before -- the global threat of terrorism.

No nation is immune, and all nations must act decisively to protect against this constantly evolving threat."

George W. Bush
June 18, 2002

Background

On September 11, 2001, the world, and particularly that of international trade, changed forever. The attacks have been confirmed to be opening salvo of a well coordinated and financed war. We now know that the objective of the terrorists was more than just to destroy property and innocent lives, but to topple the economies of the United States and those of her trading allies.

Today, the U.S. Customs Service remains at Alert Level One (its highest status), due to the tremendous concern over the approximately 50,000 air, ocean, truck and rail containers that enter this country ***daily***. This container traffic has been recognized as a prime target for terrorists as an excellent conveyance for delivering a Weapon of Mass Destruction/Disruption (WMD) for detonation within a major shipping port, which would have devastating consequences on world commerce.

To combat this threat, the U.S. Customs Service has initiated three (3) new programs as a proactive, front-line deterrent: the **"Container Security Initiative" (CSI)**, the **"Customs-Trade Partnership Against Terrorism" (C-TPAT)**, and the **"Sea Cargo Targeting Initiative" (SCTI).** Each program operates on the strategy of 'pushing the borders out', that is, affecting procedures for ensuring container integrity at their point of origin/export. Not only are these programs designed to thwart container compromise, but are needed to ensure that legitimate shipments of "dual use" cargo reach their intended point if delivery after arrival.

The New Order of Supply Chain Security

Why Traditional Cargo Security Falls Short

The concern over securing trade in today's environment is not over thwarting cargo theft, which has historically been the focus and charter of traditional cargo security organizations. Rather, the concern is with thwarting a terrorist objective of disrupting the commerce of the United States and of its trading partners. Targets of opportunity within the international supply chain will include not only the shipping conveyance itself, but a company's personnel, its buildings, data and information systems, as well as those of its suppliers, vendors and intermediaries -- in essence, a company's very ability to conduct trade.

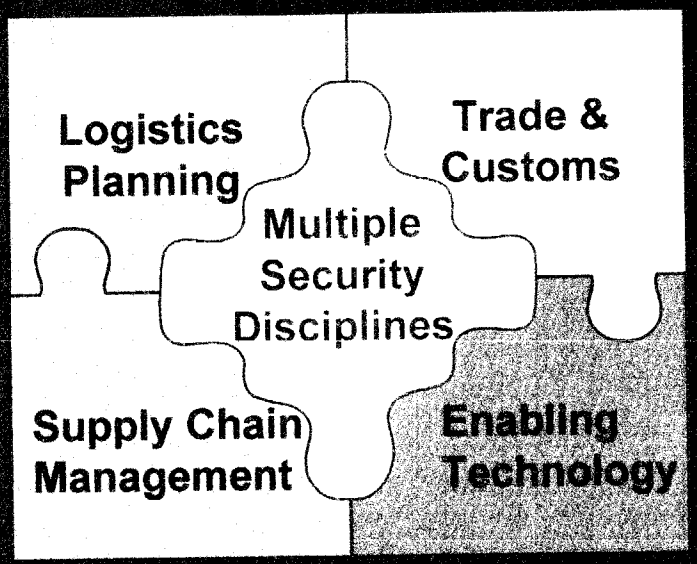
But as the required supporting elements of International Trade Anti-Terrorism Security (ITATS) began to emerge, it became increasingly clear that the capabilities of cargo security services alone, as well as traditional logistics/supply chain management consultants, would not be sufficient. Instead, the demands of ITATS would require the combined insight and expertise from a broad array of disciplines, which GTMS has identified to include the following:

- Counter-Terrorism and Security
- International Supply Chain Management
- Procedural Standards and Certification
- Trade and Customs Operations
- International Logistics
- Information and Cyber Security
- Personnel Security
- Physical Security and Access Control
- Enabling Technology and Hardware
- Change Management

The New Order of Supply Chain Security

"Don't Secure a Weak Supply Chain" And while many companies are now offering services in Supply Chain Security, GTMS realized that no existing company held all of the necessary pieces required to provide a comprehensive Supply Chain Security solution. This is particularly evident of traditional security companies, professional services and legal consultants who may hold a piece of the puzzle, but can only approach the problem from a single perspective. This can lead to missed issues / opportunities, which will ultimately produce a poor solution.

For example: Companies who have implemented "lean manufacturing" or "just in time" (JIT) inventory strategies may likely need to re-think their position on holding days of safety stock. Additional inventory, however, can create a potential ripple effect of new warehouses / distribution centers, additional transportation, delivery routes, personnel, system links, etc., – all creating new demands on Security planning. But if your consultant does not have an understanding or awareness of these drivers, critical issues may be missed, resulting in a less than optimum solution.



In contrast, GTMS is the first company to coalesce all of these required disciplines into a single resource, and is pleased to announce the creation of the new discipline of Supply Chain Security -- ***SUPPLYSEC™***.

SUPPLYSEC™ (Supply Chain Security)

SUPPLYSEC™ was created out of the need for a single, comprehensive discipline of Supply Chain Security Management, to address the threat of terrorist attacks upon international commerce, its supporting infrastructure, and the conveyance of cargoes.

An extensive analysis of the elements which support Supply Chain Security led us to identify **four (4) key disciplines** that captured 100% the requirements of the entire program. They are:

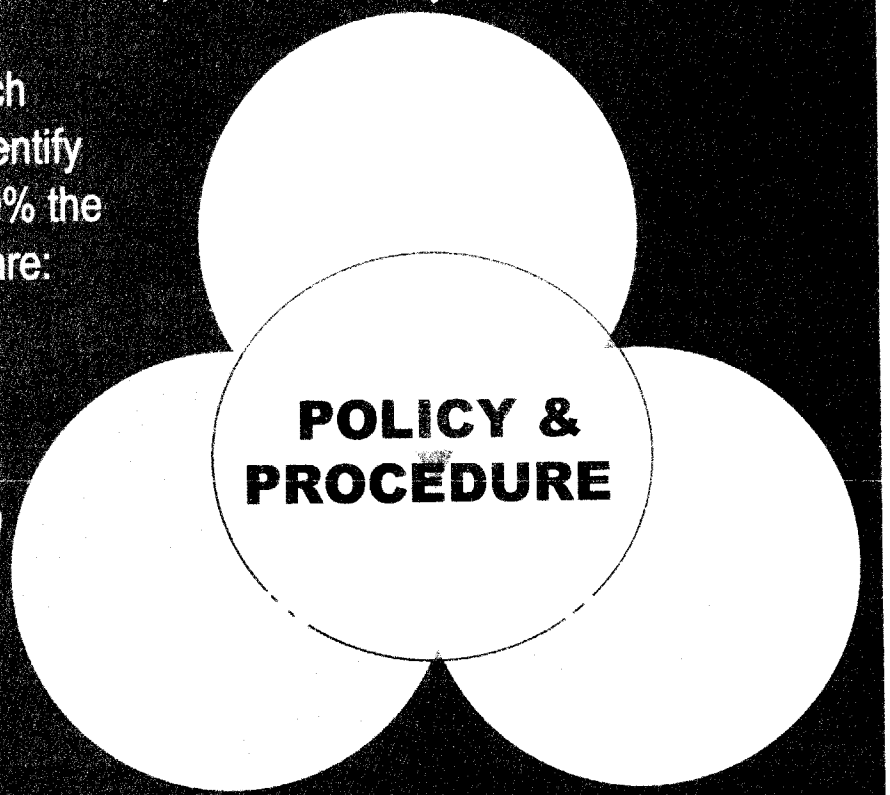
1. PHYSICAL SECURITY

2. PERSONNEL SECURITY

3. INFORMATION SECURITY (INFOSEC)

which are all tightly woven within a binding fabric of

4. POLICY AND PROCEDURE



*The **SUPPLYSEC™** standard presently currently exceeds U.S. Customs' C-TPAT requirements, which does not require a company to address Information Security.*

SUPPLYSEC™ Disciplines

POLICY & PROCEDURE

- HIRING AND TERMINATION
- BUILDING, PERIMETER, CONVEYENCE, AND 3PL
- DATA SECURITY & SYSTEMS ACCESS
- CORPORATE EDUCATION & TRAINING PROGRAMS

PERSONNEL SECURITY

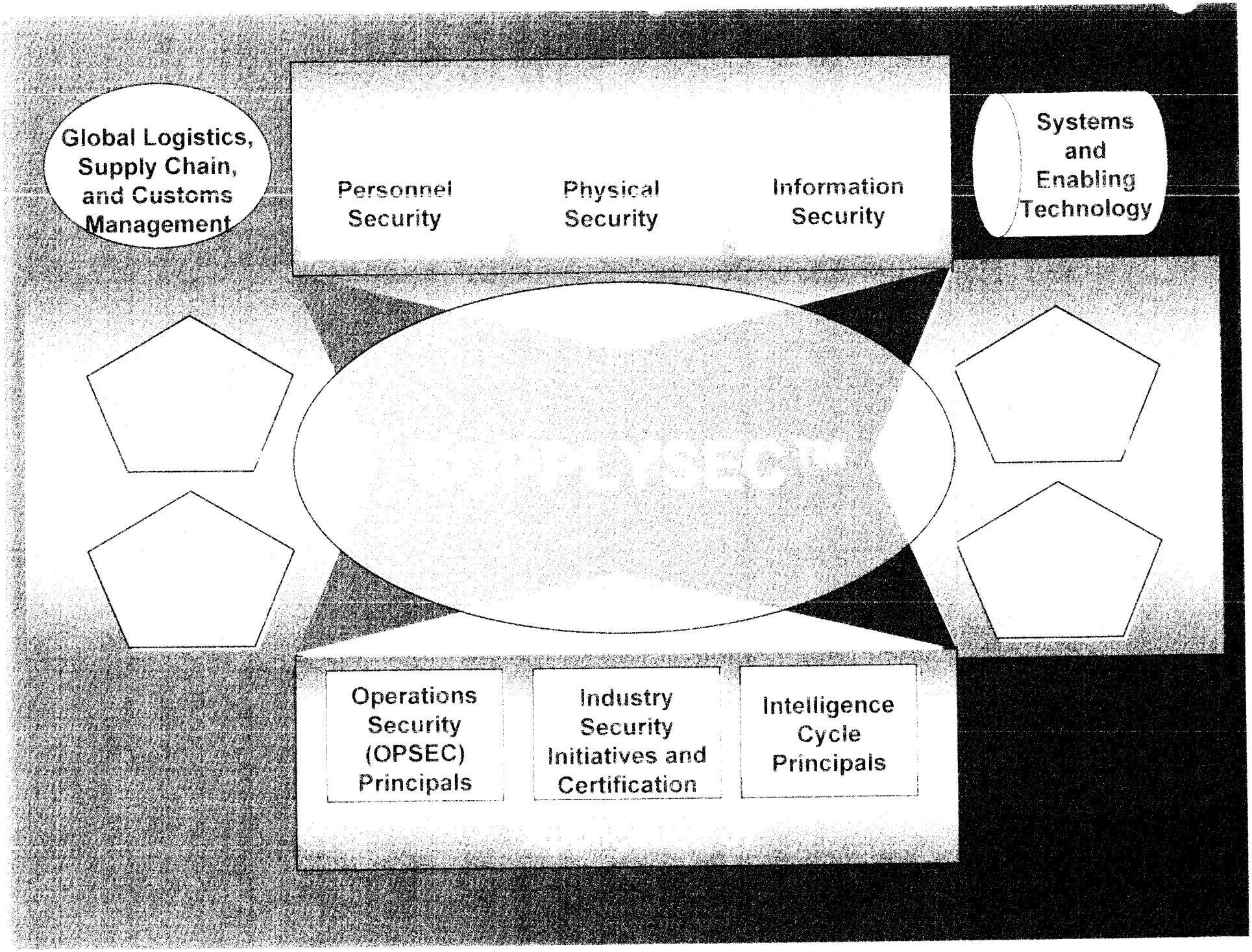
- Employee Screening
- Updated background checks
- Security Personnel
- Termination Controls

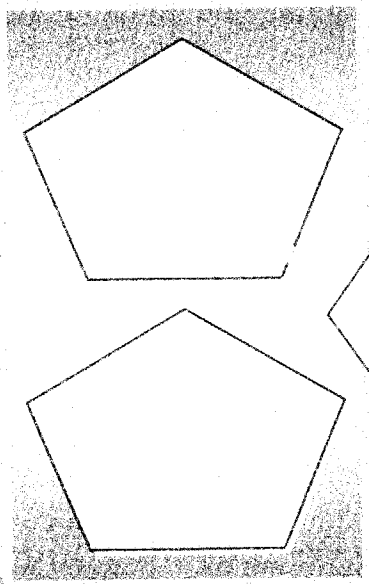
PHYSICAL SECURITY

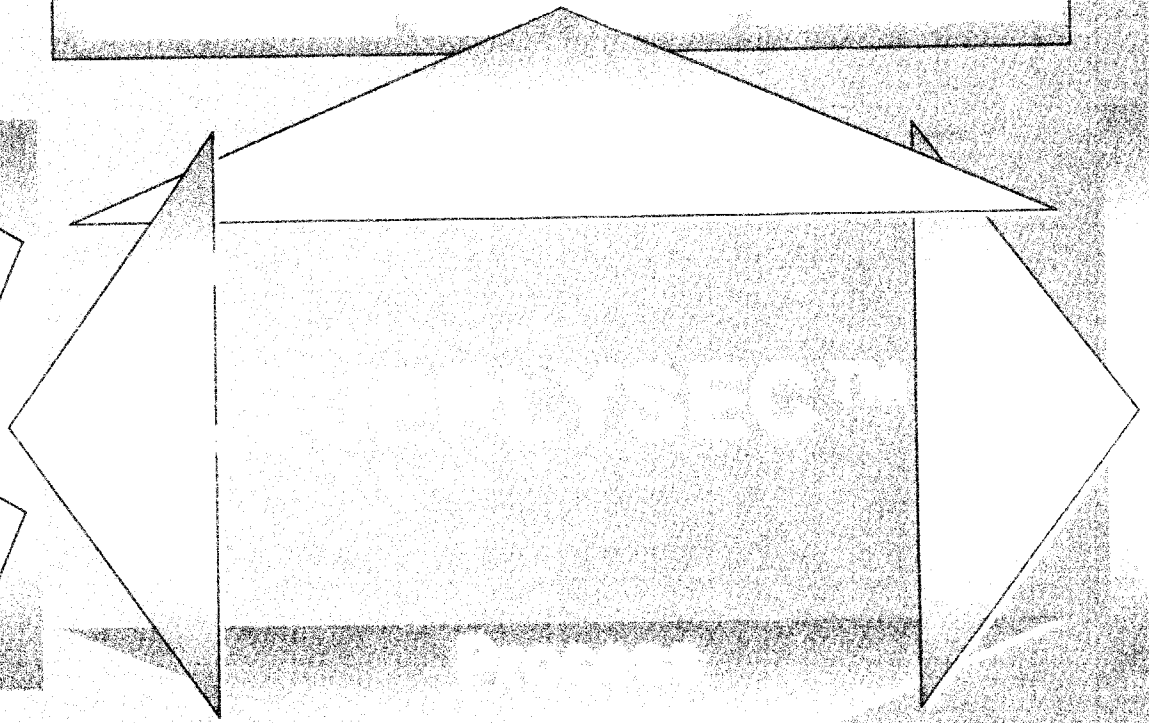
- Site Security
- Perimeter Security
- Access Security
- Dock / Whse Security
- Systems and Hardware
- Vendor & 3PL Screening
- Conveyance Security

INFORMATION SECURITY

- Access Control
- Network Security
- Data Exchange
- Contingency Planning


Global Logistics, Supply Chain, and Customs Management
Personnel Security
Physical Security
Information Security
Systems and Enabling Technology
Operations Security (OPSEC) Principals
Industry Security Initiatives and Certification
Intelligence Cycle Principals





Global Logistics, Supply Chain, Trade Process and Customs Management

The GTMS Trade Security "Diagnostic"

Starting a Security Review -- How to Begin

The Trade Security Diagnostic represents a common sense, first-things-first approach for those companies wishing to assess the level of security within their International Supply Chain, and/or are considering participating in the U.S. Customs' C-TPAT program.

The Diagnostic provides companies with a fast (approximately 90 days) but accurate snapshot of their current Supply Chain Security policies and procedures, which it achieves through three primary components:

1. Utilization of an enhanced, data-gathering questionnaire,
2. Review of existing policies and procedures, and
3. Physical inspection and validation of responses.

Armed with this data, companies can take greater control in prioritizing corrective action steps and managing internal resources. And because the Diagnostic is based upon the SUPPLYSEC discipline, companies can have greater assurance that they will not be dealing with issues which should have been identified and addressed the first time around.

The Trade Security "Diagnostic"

- **REVIEW OF EXISTING STANDARD OPERATING PROCEDURES (SOP):** Each company which has been identified within a client's international Supply Chain will be asked to provide a copy of their existing SOPs for staging outbound shipments and for site security. The SOPs will provide a valuable snapshot as to what the company is doing today, as well as raise an immediate flag of concern for identified gaps, or for any company which does not have SOPs.

- **ON-SITE REVIEW AND VALIDATION:** The final and critical step is the actual on-site verification and validation of the data received through both corporate SOPs and the ITS Questionnaire. Without this important piece of 'due diligence', the findings lack credibility. To borrow the saying, "The proof is in the pudding", the physical inspection serves as the ultimate check against what has been presented on paper. It also provides input towards what we refer to as "intangibles", that is, undocumented factors which could have a significant influence on the final analysis. These observations can include the level of support from sr. management, general condition of buildings and property, employee morale, neighboring security risks, and geographic location, etc.

- **DELIVERABLES:** The client deliverables will typically consist of the following:
  - ☑ Formal report providing an overview of the existing security procedures
  - ☑ General recommendations and next steps
  - ☑ Standardized process-flows of each operation's security and logistics procedures
  - ☑ Standard Operating Procedures (SOPs), received from each site and 3PL
  - ☑ Completed ITS Questionnaires and Security Rating Scorecards
  - ☑ Completed C-TPAT "Importer Security Profile Questionnaire" (if participating in C-TPAT)

The GTMS Methodology and Tool Sets

GTMS has developed a sophisticated set of proprietary tools to assist in conducting SCS assessments. At the heart of the tool set is our ***"International Trade Security Questionnaire" (ITSQ)***

- The ITSQ is based upon ***TAPA FSR 2000*** standards, then was enhanced by researching a myriad of other government, trade or security organizations. As a result, GTMS feels confident that it has created the most comprehensive questionnaire available, as relative to ITATS objectives.

- The ITSQ is comprised of four (4) major areas of scrutiny, and twenty (20) sub-sections with same, or like questions deliberately asked across different operational areas as a test for accuracy.

- The ITSQ includes a comprehensive Trade and Security-related Glossary, and convenient hyperlinks as an aid to those respondents who may not be familiar with these terms.

The GTMS Methodology and Tool Sets

Due to the methodology used by GTMS, the 'heavy lifting' of data mining is achieved through the ITS Questionnaire. We have found repeatedly that by providing the respondent with clear instructions, easily understood questions, and ample time in which to complete it, we consistently receive superior data than that of traditional "interview style" audits.

In addition, we have confirmed the Questionnaire methodology to be:

- ***LESS INTRUSIVE:*** The respondent can answer at his/her leisure without the interruption of a scheduled appointment during the work day
- ***HIGHER QUALITY:*** The data received is typically more detailed and complete. Respondents often remember and include critical pieces of information that may get omitted during a time-limited interview
- ***MORE ACCURATE:*** Eliminates errors associated with an auditor's manual dictation, or a misunderstood / misinterpreted response
- ***LESS EXPENSIVE:*** By first reviewing the data received through the Questionnaire, GTMS is able to reduce its time on site for the physical validation portion of the diagnostic , as we arrive focused on exactly what personnel, buildings, operations, etc., we want to review/validate

The GTMS Methodology and Tool Sets

- GTMS has developed the *Security Rating Scorecard* as an important tool to help companies understand exactly how they measured and why.
- By defining security practices and operations into four (4) basic categories, ranging from "Fair" to "Best-in-Class", GTMS can assist companies in identifying potential gaps, and where to prioritize security efforts and resources. Final placement is awarded as "Bronze, Silver or Gold" standards.

Security Rating Scorecard

Audit Rating Score

Point Value	Description of Security Measurement Criteria Re: Personnel, Processes, Buildings & Physical, Access Controls, Systems	Standard	Results/Action
N/A	Security application does not apply	Not Applicable	
0	Not present or utilized – no plans to implement		Corrective Action (CA) required
.5	Not currently present or utilized, but is being addressed	BRONZE	Conditional upon confirmation audit
1	Generally in place and satisfactory	SILVER	Meets minimum requirements
2	Firmly in place and meets "best practices" criteria	GOLD	Exceeds requirements

Qualification for "Gold" Standard requires meeting all elements of SILVER , plus one or more requirements under GOLD

1. Dedicated Security Resources

1.1 Personnel	N/A		.5	1	2
Dedicated Security personnel are experienced and well trained (1.1.1)	❑	❑ No dedicated Security department and/or trained personnel	❑ Plans are underway to create a Dedicated Security Department and/or hire trained personnel	❑ A dedicated Security department is in place	❑ A dedicated Security department is in place ❑ Department is headed by experienced Security professional ❑ Department personnel receive regular training
Security personnel are subjected to background checks as a prerequisite to being hired (1.2.5)	❑	❑ No background check are performed	❑ A policy of conducting background checks is being implemented	❑ Background checks are conducted on all personnel as a prerequisite to hiring	❑ Background checks are conducted as a prerequisite to hiring ❑ Background checks are updated after hiring (1.1.5)
Written job description are in place for each Security-related position. (1.1.2)	❑	❑ No written job descriptions exist for Security related positions	❑ Formal job description are currently been drafted for Security related positions	❑ Formal job descriptions are in place for all Security-related positions	❑ Formal job descriptions are in place for all Security-related positions ❑ Job descriptions are maintained in accordance with ISO standards (1.2.6)

The Rating Scorecard represent the leading edge of SCS methodology. They are easy to read and understand, and provide a fair and objective mechanism for critiquing a client's operations.

The Trade Security "Diagnostic"

■ DIAGNOSTIC TIMEFRAME

The TS Diagnostic has been designed to be completed in just over ninety (90) days. Influencing factors on project completion will obviously depend upon the number of client offshore manufacturing sites, complexity of existing trade operations, and the number of 3PL service providers currently supporting the supply chain.

Page 1 of 1

Major Project Tasks & Timeframes

■ KNOWLEDGE TRANSFER

C-TPAT practices a policy of passing its subject knowledge on to its client in a "train the trainer" environment, thereby making the client more self-sufficient going forward.

Other GTMS Service Offerings

- U.S. Customs Regulatory Compliance and Admissibility Issues
- Trade Process Efficiencies and Cost Reduction Strategies
- Trade Systems and Enabling Technologies
- Corporate Compliance Manuals and Training
- Importer Self Assessment (ISA) Preparation
- Trade Compliance Diagnostics and Assessments
- Classification, Valuation & Country of Origin & Marking
- "Tariff Engineering" and Duty Reduction Programs
- Binding Ruling Requests
- Global Trade Requirements / Problem Resolution

Global Trade Management Solutions

Founded by William (Jerry) PECK, a Licensed Customs Broker (U.S. Treasury Department), with over 21 years of experience in international trade, Trade Process, Supply Chain Management and Regulatory Compliance. Mr. Peck's unique background includes tenures as the Import Manager for both Mattel Toys and Compaq Computer, the director of consulting services for AEI (Danzas-AEI), the world's leading third-party logistics (3PL) service provider, and National Director, Trade Process, for KPMG LLP's Trade & Customs Practice.

Mr. Peck created GTMS out of a growing frustration with traditional Supply Chain Management and 'Big Five' consulting practices who consistently failed to incorporate [illegible] Trade & Customs considerations and strategies into their corporate Supply Chain solutions. Peck's definition of "Global Trade Management" remains the industry standard, which he defined as:

"The total optimization of the end-to-end international Supply-Chain, from product conception to final delivery – with focus on the integration of key cross-border (i.e., Trade and Customs) regulatory, strategic and system components – to ensure a seamless, secure, and cost-effective flow of goods, data and payments, across international borders."

After the tragic events of September 11, 2001, Peck was an industry leader in the development of Supply Chain Security (SCS) "Diagnostics" and "Assessments", based on Trade Process methodologies, process standards, and [illegible] procedures. His vision of how Customs would treat Supply Chain Security was featured in the *Journal of Commerce* ("Security as a Competitive Tool", December 17, 2001, page 38), which correctly foresaw Trade [illegible] Trade Compliance as the ultimate responsibility of the Importer, as well as emerging programs like the "Customs-Trade Partnership Against Terrorism" (C-TPAT).

Trade Management Solutions

[illegible] in Law Enforcement and Physical Security. Mr. Sossaman is an [illegible] Special Agent with the USDOJ, INS Gang Detail. Mr. Sossaman is a [illegible] Special Agent Academy, Federal law Enforcement Training Center. Mr. Sossaman [illegible] Department of Navy, Maritime Force Protection and an Instructor, Terrorist Threat [illegible] US Naval Station, Weapons Division, San Diego. Mr. Sossaman has preformed services [illegible] Anti-Terrorism Protection Unit (ATPU) for the Maritime Sealift Command and is [illegible] member. Mr. Sossaman holds a valid security officer license for the state of California.

[illegible]

[illegible] in Law Enforcement Management. Mr. Roache is the retired elected [illegible] Sheriff. Mr. Roache holds a Juris Doctor from Western State University in San Diego. Mr. [illegible] of over 2000 law enforcement officers involved in all aspects of law Enforcement

[illegible] Consultant

[illegible] US Navy reserve, holding the rank of Commander. Mr. Grise has extensive military [illegible] and has held the position of US Navy Anti-Terrorism Officer for the Balkan Region. [illegible] in civilian physical security and holds a valid security officer license for the

[illegible] Trade Management Solutions

[illegible] Department of Navy Instructor, Maritime Force Protection and Visit Board, Search and [illegible] Marine Non Commissioned Officer of the US Marine Corps Recon Recovery [illegible] vulnerability to attack of US Naval facilities.

[illegible]

[illegible] Department of Navy Instructor, Lead Civilian Instructor, Visit Board, Search and Seizure [illegible] Marine Non Commissioned Officer of the US Marine Corps Recon Recovery Team. [illegible] vulnerability to attack of US Naval facilities.

[illegible]

[illegible] Police officer and SWAT member. Mr. Ketaily managed and oversaw the Facility Security [illegible] largest cargo port on the west coast.

Contact Information:

East Coast & Midwest

Wm. "Jerry" Peck, CHB

Office: 815-482-1732 Mobile: 815-342-6348

email: wpeck@global-trade-ms.com

West Coast

John F. Stampfli

Office: 949-215-6394

email: jstampfli@global-trade-ms.com

Dave Sossaman

Office: 760-788-9499

email: Tsunami105@AOL.com

Global Trade Management Solutions

[illegible] years of experience in global logistics and security management. Mr. Stampfli's [illegible] direct responsibility for import/export operations, international and domestic [illegible] administration while the Manager of Logistics at Unisys Corporation. He also has [illegible] in conducting physical security surveys and risk assessments while serving as an [illegible] Army National Guard. Before joining GTMS, John held management positions [illegible] (LP) where he was a subject matter expert in global logistics operations and [illegible] and conducted numerous consulting projects for several major corporations.

[illegible] intelligence issues that have appeared in over 20 major publications and is an [illegible] intelligence and security professional organizations.

[illegible] in history from California State University, Fullerton. In addition, he holds Professional [illegible] Business Management and International Trade from the University of California, [illegible] graduate of the United States Marine Corps Command & Staff College. Mr. Stampfli also [illegible] for the state of California.

[illegible] are members of the ***National Cargo Security Council (NCSC)***, and both have [illegible] from the Military Intelligence Corps Association (MICA), for their work on [illegible] training tools.