

**OVERSIGHT OF TRADE ADJUSTMENT ASSISTANCE PROGRAMS AND
AUTHORIZATION OF APPROPRIATIONS FOR U.S. TRADE REPRESENTATIVE,
INTERNATIONAL TRADE COMMISSION, AND CUSTOMS SERVICE**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-EIGHTH CONGRESS
FIRST SESSION
MARCH 17, 1983

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CONTENTS

ADMINISTRATION WITNESSES

	Page
Whitfield, Dennis E., Assistant U.S. Trade Representative	2
Von Raab, William, Commissioner, U.S. Customs Service	43
Eckes, Alfred, Chairman, U.S. International Trade Commission	54
Kaiser, Joyce, Deputy Assistant Secretary, Employment and Training Administration, Department of Labor	205
Ryter, Lyle, Assistant Secretary for Trade Adjustment Assistance, Department of Commerce	232

PUBLIC WITNESSES

AFL-CIO, Steve Koplan, legislative representative	219
Air Transport Association of America, James R. Gorson, director—facilitation	134
Gorson, James R., director—facilitation, Air Transport Association of America	134
Industrial Policy Council, Harold W. Williams, president	243
Koplan, Steve, legislative representative, AFL-CIO	219
National Treasury Employees Union, William Samuel, legislative liaison	70
Samuel, William, legislative liaison, National Treasury Employees Union	70
Williams, Harold W., president, Industrial Policy Council	243

ADDITIONAL INFORMATION

Committee press release	1
Opening statement of Senator Heinz	1
Prepared statement of Dennis E. Whitfield, Assistant U.S. Trade Representative	3
Prepared statement of William Von Raab, Commissioner, U.S. Customs Service	12
Questions from Senator Heinz to Commissioner Von Raab	48
Questions from Senator Bentsen to Commissioner Von Raab	52
Prepared statement of Alfred Eckes, Chairman, U.S. International Trade Commission	56
Prepared statement of Senator Lloyd Bentsen	67
Prepared statement of Senator George Mitchell	68
Prepared statement of the National Treasury Employees Union	74
Prepared statement of James Gorson	196
Prepared statement of Joyce Kaiser	208
Prepared statement of Steve Koplan	220
Prepared statement of Lyle Ryter	235
Prepared statement of Harold W. Williams	244
Prepared statements of:	
Mark W. Dumars, president, TACTEC Systems, Inc.	307
Domenic Dipaola, managing director, Leathersgoods, Handbags, Plastics & Novelty Workers Union	314
Daniel J. Fennel, secretary, Industrial Policy Council	319

COMMUNICATIONS

Metzenbaum, Hon. Howard M., a U.S. Senator from Ohio	350
American Textile Machinery Association	373
U.S. Council for an Open World Economy	374
United Automobile, Aerospace & Agricultural Implement Workers of America	376

OVERSIGHT OF TRADE ADJUSTMENT ASSISTANCE PROGRAMS AND AUTHORIZATION OF APPROPRIATIONS FOR U.S. TRADE REPRESENTATIVE, INTERNATIONAL TRADE COMMISSION, AND CUSTOMS SERVICE

THURSDAY, MARCH 17, 1983

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 2:10 p.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Heinz, Long, and Bentsen.

[The press release announcing the hearing and the prepared statement of Senator Heinz follows:]

[Press Release No. 83-119]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING ON AUTHORIZATION OF APPROPRIATIONS FOR USTR, USITC, AND CUSTOMS AND OVERSIGHT OF TRADE ADJUSTMENT ASSISTANCE PROGRAMS FOR WORKERS AND FIRMS

Senator John C. Danforth (R., Mo.), Chairman of the Subcommittee on International Trade of the Committee on Finance announced today that the Subcommittee will hold a hearing on Thursday, March 17, 1983 on:

The fiscal year 1984 Budget for the Customs Service.

The fiscal year 1984 Budget for the International Trade Commission.

The fiscal year 1984 Budget for the U.S. Trade Representative.

Senator Danforth announced that testimony would also be received on the worker and firm adjustment assistance programs established under Title II of the Trade Act of 1974 (P.L. 93-618). Senator Danforth noted that these programs are scheduled to expire at the end of fiscal year 1983 and the President's Budget proposal for fiscal year 1984 does not contain a request for specific reauthorization of the programs.

The hearing will commence at 2 p.m. in room SD-215 (formerly room 2221) of the Dirksen Senate Office Building.

OPENING STATEMENT OF SENATOR JOHN HEINZ

Today the Committee begins, among other things, its consideration of the Trade Adjustment Assistance programs for workers and firms. Since the authorization for these programs expires at the end of the current fiscal year, it is important that the Committee begin its review of them early in the year so that sufficient time will be available to take up reauthorization legislation, such as that which Senator Moynihan and I have proposed.

I am well aware that the Administration does not favor renewing the programs. In fact, in the case of the assistance program for firms, it had proposed deferral of the remaining funds for this fiscal year. Fortunately, the House has disapproved that deferral.

What I have difficulty understanding, Mr. Chairman, is why a program on its face so consistent with this Administration's principles has aroused so much opposition. Few Presidents have been as articulate and outspoken in defense of free trade as President Reagan. That is a position most of us in the Congress also endorse. What we have learned, however, and the President apparently has not, is that free trade rapidly accelerates domestic economic change, a process which is leaving a growing number of victims in its wake. Factories closed and workers laid off because of imports abound. They are the victims of government policy, and the government has a responsibility to them. That responsibility is not a welfare obligation but an adjustment obligation. It is in their interest and ours to encourage retraining and relocation to new employment and to provide the necessary income maintenance while that process is going on. Such a policy will facilitate industrial change by easing the pain of transition caused by imports.

Not to have an adjustment program leaves our workers with nowhere to go but the Congress and nothing to ask for but protection. And that is exactly what is happening in steel, in autos, and in many other industries. The only way to maintain a policy of free trade is to couple it with a program that helps the victims of free trade—an adjustment assistance policy.

That is why I cannot understand the Administration's opposition to this program. The program for workers has had its problems over the years; adjustment is not an easy process under the best of circumstances. But that should be reason to improve it, not destroy it. The program for firms, as we will learn today in testimony, has been characterized by numerous individual successes. Many of them were small successes, and nobody in this room read about them in the paper. But there are companies alive today, and workers employed today, solely because of what this program has done. Yet the Administration would cut even this modest \$28 million program off without a dime.

As I indicated, Senator Moynihan and I have introduced legislation to extend both these programs. This hearing is the opening round in that effort. I hope our witnesses will persuade the rest of the Committee not only of the merits of the programs but of the absolute necessity of continuing them if our free trade policy is to survive.

Senator DANFORTH. Mr. Whitfield, I understand you have a plane to catch. I don't know of any particular questions that members of the committee would have for you, but in order to accommodate your transportation problem, we will simply receive your statement for the record. Then, any followup questions will be in writing.

Mr. WHITFIELD. Thank you.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Mr. Whitfield follows:]

TESTIMONY OF
DENNIS E. WHITFIELD

ASSISTANT U.S. TRADE REPRESENTATIVE
FOR ADMINISTRATION

MR. CHAIRMAN, I AM PLEASED TO APPEAR BEFORE YOU TO PRESENT OUR RESOURCE NEEDS FOR FISCAL YEAR 1984 AND TO RESPOND TO YOUR QUESTIONS. WITH ME IS THE DIRECTOR OF OUR OFFICE OF MANAGEMENT, JOHN GIACOMINI, THE DEPUTY GENERAL COUNSEL, MIKE HATHAWAY, AND OUR DIRECTOR OF CONGRESSIONAL RELATIONS, BILL MARONI.

MR. CHAIRMAN, IN THE LAST SESSION OF CONGRESS OUR AUTHORIZATION BILL FOR THIS FISCAL YEAR WAS PASSED. I WISH TO THANK YOU AND YOUR STAFF FOR YOUR ASSISTANCE IN THIS EFFORT.

THE BILL GAVE US THE AUTHORITY FOR AN ADDITIONAL DEPUTY UNITED STATES TRADE REPRESENTATIVE. THIS MEANS THAT WE WILL HAVE TWO DEPUTIES IN WASHINGTON AND ONE IN GENEVA. ONE OF THE DEPUTY POSITIONS IN WASHINGTON WILL BE FILLED BY AMBASSADOR MICHAEL B. SMITH, WHO HAS BEEN THE HEAD OF OUR GENEVA OFFICE FOR THE PAST THREE YEARS. HE WILL REPLACE DAVID MACDONALD WHO HAS RESIGNED EFFECTIVE MARCH 31 AND WHO WILL RETURN TO PRIVATE PRACTICE. THE BILL ALSO AUTHORIZED AN ADDITIONAL \$1 MILLION DOLLARS OVER OUR CURRENT APPROPRIATION OF \$10.1 MILLION FOR FY 1983.

AS YOU KNOW, WE SUBMITTED AN FY 1983 PAY SUPPLEMENTAL REQUEST TO OMB FOR \$409 THOUSAND DOLLARS. THIS HAS OMB'S FULL SUPPORT AND IS INCLUDED IN THE FY 1984 PRESIDENTIAL BUDGET. OUR PAY SUPPLEMENTAL REQUEST IS NEEDED TO COVER THE 4% PAY RAISE, LIFTING OF THE PAY CAP, AND MEDICARE CONTRIBUTIONS.

SINCE OUR APPEARANCE BEFORE THIS SUBCOMMITTEE AT LAST YEAR'S BUDGET HEARINGS, WE HAVE REORGANIZED THE AGENCY AS ILLUSTRATED IN THE ORGANIZATION CHART WHICH IS ATTACHED TO MY STATEMENT. WE HAVE CREATED UNITS WHICH ARE RESPONSIBLE FOR U.S. TRADE POLICY TOWARD EUROPE AND JAPAN, EAST/WEST AND NONMARKET ECONOMIES, AND WE HAVE PUT ADDITIONAL EMPHASIS ON TRADE POLICY DEVELOPMENT AND COORDINATION WHICH INCLUDES SERVICES AND INTERAGENCY COORDINATION. -- THE CHART AGAIN REQUIRES UPDATING WITH THE ADDITION OF A THIRD DEPUTY.

WE BELIEVE THAT THE ADDITION OF THE THIRD DEPUTY AND OUR REORGANIZATION WILL MAKE THE BEST USE OF LIMITED PERSONNEL AND FUNDS SO THAT WE CAN FULFILL OUR PRESIDENTIAL AND CONGRESSIONAL MANDATES. AND, AS WE INDICATED LAST YEAR, WE ARE USING EVERY MEANS POSSIBLE TO INCREASE PRODUCTIVITY AND MANAGERIAL EFFECTIVENESS WITH THE RESOURCES

WE HAVE BEEN GIVEN. IN THIS RESPECT I MIGHT ADD THAT SEVERAL WELCOMED CHANGES IN USTR'S 1983 AUTHORIZATION WILL BE HELPFUL IN HOLDING DOWN COSTS THIS YEAR. IN PARTICULAR, WE EXPECT THAT THE NEW PROVISION ALLOWING FOR REIMBURSEMENT FOR CERTAIN TYPES OF TRAVEL WHICH WOULD POSSIBLY COST US \$30,000-\$40,000 MORE, WILL ALLOW US TO ACCEPT SPEAKING INVITATIONS. AS YOU ARE AWARE, TRAVEL IS ONE OF USTR'S SINGLE LARGEST EXPENDITURES, AND ONE THAT BY THE NATURE OF THE AGENCY'S MANDATE IS DIFFICULT TO REDUCE WITHOUT ADVERSELY AFFECTING THE UNITED STATES' EFFECTIVENESS IN INTERNATIONAL NEGOTIATIONS.

SINCE FY 1980, WE HAVE BEEN HELD TO 131 POSITIONS, COMPOSED OF TWO CEILINGS -- 113 PERMANENT AND 18 TEMPORARY POSITIONS. BEGINNING THIS FISCAL YEAR, WE ARE ALLOWED TO OPERATE UNDER ONE CEILING OF 131 PERMANENT POSITIONS OR WORKYEARS. WE WERE GIVEN TWO ADDITIONAL WORKYEARS FOR THIS FISCAL YEAR ONLY, FOR SPECIAL INTERN/EXCHANGE PROGRAMS, WHICH RAISED OUR TOTAL TO 133. BY HAVING ONE CEILING, THIS WILL ALLOW US TO CREATE GREATER PERMANENCE FOR STAFF WHO ARE ESSENTIAL TO THE AGENCY. THIS WAS THE INTENT OF THE TRADE REORGANIZATION IN LATE 1979. I MIGHT ADD, HOWEVER, THIS "NO GROWTH" TREND MAY CONTINUE THROUGH FY 1984 IN SPITE OF RISING WORKLOADS.

TO SUPPLEMENT OUR PERMANENT STAFF AND TO HOLD DOWN PERSONNEL COSTS, WE HAVE BEEN SUCCESSFUL IN ESTABLISHING A VOLUNTEER UNIVERSITY INTERN PROGRAM. AT THIS TIME WE HAVE TWENTY STUDENTS, REPRESENTING NINE UNIVERSITIES, WHO ASSIST WITH RESEARCH TASKS. ALSO, WE HAVE THREE PROFESSIONAL-LEVEL VOLUNTEERS. LAST FISCAL YEAR WE ESTIMATE THAT THIS PROGRAM SAVED US ABOUT \$100,000. WE WERE ABLE TO EFFECT OTHER SAVINGS BY ESTABLISHING A SPEEDY COMPUTER COMMUNICATIONS LINK WITH GENEVA, BY REDUCING WEEKEND GUARD SERVICE, BY SHARING DATA RESOURCES, AND BY ACQUIRING DETAILS FROM OTHER AGENCIES ON A NON-REIMBURSABLE BASIS.

FOR FISCAL YEAR 1984, WE ARE REQUESTING A BUDGET OF \$11.647 MILLION WHICH IS \$1.138 MILLION OR 11% OVER THE FY 1983 BASE LEVEL BUDGET OF \$10.509 MILLION. OUR REQUEST REPRESENTS A MAINTENANCE BUDGET THAT WILL PARTIALLY OFFSET RISING UNCONTROLLABLE COSTS. FOR EXAMPLE, \$673 THOUSAND OR 59% OF OUR TOTAL REQUESTED INCREASE IS FOR A RENT INCREASE INITIATED BY GSA. A SUMMARY OF OUR RESOURCE NEEDS FOR FY 1984 IS ALSO ATTACHED TO THIS STATEMENT.

ANY REDUCTION OF THIS TOTAL REQUEST WILL SERIOUSLY AFFECT OUR CAPABILITY TO DO THE JOB ASSIGNED TO US.

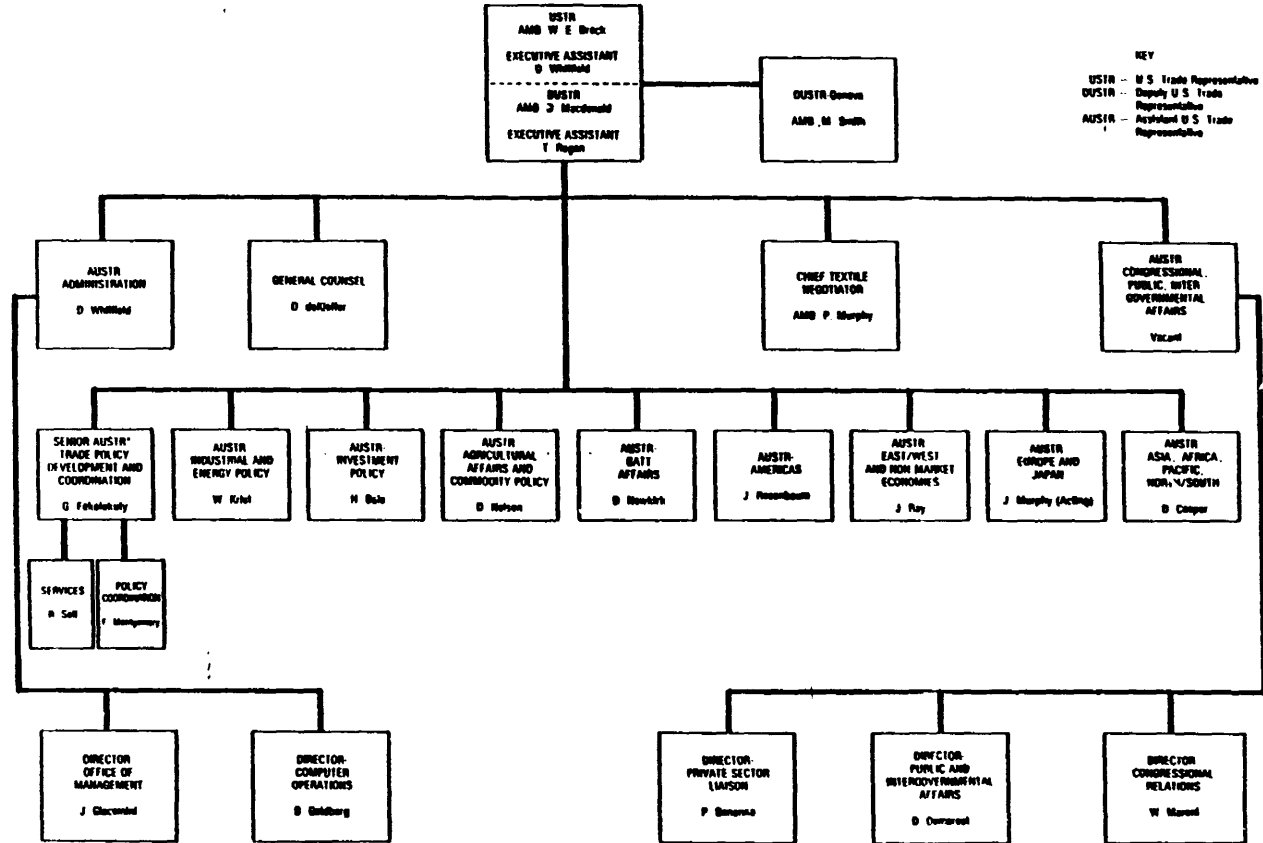
I WISH TO ASSURE THE COMMITTEE THAT WE ARE CONTINUING TO EXERCISE TIGHT CONTROLS OVER EXPENDITURES ESPECIALLY FOR OVERTIME, TRAVEL AND PROCUREMENT. OUR SENIOR STAFF HAS A DIRECT ROLE IN THIS CONTROL PROCESS.

MR. CHAIRMAN, WE BELIEVE THAT OUR REQUEST IS A VERY REASONABLE ONE AND CONFORMS WITH THE NEED FOR NATIONAL BUDGET CONSTRAINTS EVEN WITH RISING WORKLOADS. WITH THE REQUESTED RESOURCES, WE WILL BE ABLE TO PURSUE THE ADMINISTRATION'S AND CONGRESS' COMMITMENTS TO ECONOMIC GROWTH AND STRENGTHENING THE NATION'S ECONOMY.

I WOULD BE PLEASED TO RESPOND TO YOUR QUESTIONS.

THANK YOU.

**OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE (USTR)**



KEY
 USTR - U.S. Trade Representative
 DUSTR - Deputy U.S. Trade Representative
 AUSTR - Assistant U.S. Trade Representative

*CHAIR, EXECUTIVE COMMITTEE

USTR-1

October 1987

Office of the U.S. Trade Representative
Summary and Description of Requirements by Object Class
(Dollar amount in thousands)

Appropriation: Salaries and Expenses

Object Class	1983 Appropriations		1984 Estimate		Inc.(+) or Dec.(-)		Emp. 12/31/82
	Pos.	Amount	Pos.	Amount	Pos.	Amount	
11.1 Full-time permanent positions.....	115	\$4,874	113	\$4,903	-2	+29	112
11.3 Positions other than full-time permanent..... (1040s, intermittents, part-time, consultants, driver-messengers for Geneva)		589		589		+0	
11.5 Other personnel compensation. (overtime, differentials, SES awards, merit increases)		166		166		0	
11.8 Special personal services payments..... (reimbursable details)		904		905		+1	
Total personnel compens.	115	\$6,533	113	\$6,563	-2	+30	
12.1 Personnel benefits..... (health, retirement, insurance, allowances)		695		699		+4	
21 Travel and transportation of persons..... (travel, per diem, miscellaneous expenses)		813		876		+63	
22 Transportation of things..... (transport of household and personal effects to Geneva; U.S. storage of goods)		10		36		+26	

6

<u>Object Class (Continued)</u>	<u>1983 Appropriation</u>	<u>1984 Estimate</u>	<u>Inc. (+) or Dec. (-)</u>
23.1 Standard level user charges... (rent for office space in Washington)	434	1,107	+673
23.2 Communications, utilities and other rent..... (office and residence rents - Geneva, utilities, Xerox, telephone, postage, teletype, computer time)	695	950	+255
24 Printing and reproduction..... (federal register, stationery, forms, reports)	107	156	+49
25.1 Other services..... (administrative support - Geneva, personnel and vendor contracts and office machine maintenance, tran- scribing and translation services, career development, language training, clearances)	997	966	-(31)
25.2 Representation.....	60	60	0
26 Supplies and materials..... (office supplies, computer expensables, supplies)	119	160	+41
31 Equipment..... (office equipment D.C. and Geneva, computer hardware and software)	<u>46</u>	<u>74</u>	<u>+28</u>
<u>Total requirements.....</u>	\$10,509*	\$11,647	+\$1,138

*includes pay supplemental of \$409K

USTR-63

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Senator DANFORTH. Now, Mr. Van Raab, you are next. You also have a transportation problem, I understand.

Mr. VAN RAAB. I've got to leave at 2:50, but Mr. DeAngelus is prepared to stay, the Deputy Commissioner, as long as you would like.

Senator DANFORTH. All right.

Mr. VAN RAAB. As a career member of the Customs Service, he probably knows more than I do so you may be doing better with him than you are with me.

Senator DANFORTH. All right. Why don't you go ahead, and then you leave when you have to. Subsequent to your testimony, any Senators who have opening statements can make their opening statements. They will appear at the beginning of the proceeding as far as the transcript is concerned and as far as the record is concerned, and then we will proceed with the International Trade Commission.

Mr. VAN RAAB. Thank you very much, Mr. Chairman. I have a long opening statement which I would like to submit for the record. And I have a shorter version which I would like to read, unless, of course, you would like me to give a very short version. And I think it would be helpful if I read my very short version.

[The prepared statement of Commissioner William Van Raab follows:]

U.S. CUSTOMS SERVICE
STATEMENT OF WILLIAM VON RAAB
COMMISSIONER OF CUSTOMS
FOR PRESENTATION TO THE SUBCOMMITTEE ON
INTERNATIONAL TRADE

Mr. Chairman and Members of the Committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service FY 1984 authorization request of \$578,749,000 and 11,748 direct average positions.

Customs FY 1984 authorization request represents a net increase of \$7,432,000 over the funds requested in FY 1983. Included in the FY 1984 authorization request is \$50,632,000 for program enhancements and other initiatives, primarily in the law enforcement area, \$35,331,000 for increases necessary to maintain current operating levels, and savings of \$78,531,000.

The substantial savings to be achieved in FY 1984, primarily in the area of commercial activities, will result in increased productivity, streamlined operations, organizational consolidation, abolition of duplicative activities, and the efficiencies to be gained from the conversion of labor intensive functions to more automated processing. In total, these actions will generate reductions of 2,000 positions.

MAJOR ACCOMPLISHMENTS

The Customs Service, as you probably know, was once the main source of federal monies and still continues today to collect significant revenues as well as assuming the responsibility for interdicting drugs and other contraband seeking illegal entry across our borders. Although the primary objective of the Tariff Act is the protection of American industry, revenue collections from its enforcement produced during FY 1982 a record level of \$10.0 billion, an increase of almost 10 percent over the previous year and representing a return of more than \$19 for every appropriated dollar spent by Customs in carrying out its responsibilities.

As usual, Customs also had a busy year processing the enormous volume of traffic and trade generated by the growing international economy. The dedicated Customs workforce cleared more than 300 million persons, 4.7 million merchandise entries, and more than \$257 billion in cargo entering the country. In addition, more than 91 million vehicles, vessels, and aircraft were processed. Projections for FY 1984 indicate renewed growth and a continuing heavy workload in the future. By FY 1984, we anticipate an increase of 7.3 percent for total persons arriving, 7.1 percent for carriers, and 9.0 percent for cargo processing.

As I stated on previous occasions, my efforts will be directed toward strengthening Customs law enforcement programs.

In FY 1982, many of these new programs were fully implemented and were producing excellent results. I am proud to report that in FY 1982 Customs seized \$6.9 billion worth of street value drugs (\$1.7 billion in domestic whole sale). In terms of quality, Customs seizures were 290 pounds of heroin; 11,150 pounds of cocaine, 58,277 pounds of hashish; and, in conjunction with other agencies, almost 4 million pounds of marijuana. I wish to call your attention to the tremendous jump in cocaine seizures from the 3,741 pounds in FY 1981. Many of our current enforcement efforts were directed to controlling this drug and I believe these results are a good indicator of Customs accomplishments.

Before discussing specific Customs programs and the enhancements for which we are requesting funding, I believe it is useful to fill you in on our current and future plans. My initial goal for Customs was to raise law enforcement to our highest priority. The nation faces two major and dangerous problems at its borders. The first is massive drug smuggling, which has been with us for at least a generation and is now about a \$100 billion illegal industry. This past year, as part of the Vice President's South Florida Task Force, Customs successfully concentrated its enforcement efforts in the South Florida area where the major share of illegal narcotics activity is centered, and huge sums of drug-related currency enter and leave the country daily to finance this deadly international traffic.

Secondly, in line with the President's call for closer cooperation among Federal enforcement agencies, Customs has become the lead agency in the Administration's program to block the illegal transfer of critical and high-technology equipment to Eastern-bloc countries. Customs Operation EXODUS, a highly effective detection and investigative effort, is deployed at major ports throughout the country. In addition, Customs is developing new approaches for improving surveillances and the cargo inspections directed at uncovering these illegal equipment shipments.

While enforcement is a top priority, facilitation and reducing the burden of Government involvement in international trade are also goals of today's Customs Service. Facilitation of passengers and cargo is a high priority. We do not believe that every passenger, vehicle, piece of baggage, or cargo shipment must be searched. Since the vast majority of Customs transactions involve law abiding persons and firms, Customs officers will be directing their primary attention to "high-risk" passengers and cargo. I am convinced that effective enforcement and efficient facilitation can go hand-in-hand, without contradiction or without diminishing our law enforcement.

The enforcement effort is now well on its way to achieving at least our initial objectives and I will continue to reinforce it with resources as needed. At this time I am turning Customs

attention on a high priority basis to the long-awaited and much needed reform of commercial practices; in essence, how we implement the tariff laws and how we process the vast quantity of imported merchandise.

Currently, we have identified numerous improvements which can be implemented within the current legal environment. Several important commercial initiatives are on the drawing-boards and the blueprints will be ready shortly.

If limited to several words to describe our plans for commercial operations, I believe "centralization," "automation" and "streamlining" would provide you with an accurate picture of where we are heading. Centralization is a key to the new system. In fact, it is almost upon us now, since only 20 locations process 70 percent of all formal entries. Under this plan, entries would be processed in a central location. Although entries will continue to be filed at the same ports as before, we intend to introduce a more selective review processing. I anticipate a noticeably faster turnaround at most locations. Furthermore, centralization has several additional advantages. Automation is most cost-effective where large volume processing is concerned. Also, appraisalment will be more uniform, records duplication will be minimized and, of course, administrative overhead will be reduced. Full service to the public will continue to be provided.

Simplification of forms, paperwork, and procedures will reinforce automation and help to speed up the cargo clearance process. An approach we are exploring is for carriers to provide Customs with direct access to their own automated inventory systems. We are revising procedures by eliminating much of the paperwork previously required for containerized and other forms of cargo, reducing transit time for some shipments by 24 hours. And, we are looking at other possible innovations. In Houston, we are testing a program wherein cargo is processed by teams of inspectors using post-audit techniques. In Charleston, South Carolina, we are testing a program which uses a fully automated manifest inventory control system developed by the Charleston Port Authority and the Charleston Customs district. In the latter, we interface with the port authority's own Automated Manifest System. Both systems seem to meet the needs of the processing environment of some local ports.

We have underway a major project to consolidate our data processing functions into a single computer environment. We feel it will eventually permit us to dramatically improve Customs import processing and implement new methods of collecting duties. A major innovation to be used with this new computer is the so-called Automated Broker Interface System which has been successfully operating as a pilot project in Baltimore and Philadelphia.

I have gone into considerable detail on the projected improvements in Customs commercial operations because of their importance, your interest, and the long-term needs of the international business community. Now that we have built the necessary law enforcement framework, we are turning our full attention to the commercial "side of the business."

Finally, this budget continues our efforts to reduce the overall cost of government business. Inefficient operations will be replaced by sound management practices and systems. Excessive overhead, as well as duplicative and marginal operations, have been specifically targeted for elimination to partially meet the reduced resource levels reflected in this budget. We are continuing to study other proposals to achieve resource savings and improve operational performance, including possible Regional and District reorganizations and, the introduction of less labor intensive approaches to providing service and other means to increase the percentage of entries that bypass import specialist review.

INSPECTION AND CONTROL

Customs Inspection and Control programs include the processing of persons and cargo, as well as the clearance of carriers, for both revenue and enforcement purposes. Customs efforts to balance the expeditious processing of persons and goods will continue in FY 1984. Our objective, considering the resource reductions requested, is to achieve this balance in the most economical way possible while still maintaining full service.

To meet the challenge of a growing workload, we are, in the normal course of our inspections, automating and implementing increased selectivity in the handling of imported merchandise and in passenger processing. Especially in the cargo processing system, every step, from manifesting to duty collection, is subject to time-saving, less resource-intensive procedures. With regard to enforcement, selectivity is also the major instrument of increased efficiency. Our special teams of inspectors, equipped with detector dogs and the best possible intelligence and analysis we can muster, are searching only high risk cargo. These teams have already established significant cost-benefit ratios with noteworthy narcotics seizures from cargo and baggage. We intend to expand their use, expertise, and the equipment available to them.

Passenger Processing

Customs processed more than 300 million persons entering the United States in fiscal 1982, of which almost 30 million were air passengers. Although air passengers constitute only about 10 percent of the total number of persons entering the country, they require a higher than proportionate share of Customs resources because of the constraints of time and space in their processing. The problem is particularly acute because of the "peaking" phenomenon at airports and the lag in expanding facilities to meet the growing workload.

To meet these greater demands and insure that this rapidly growing workload is efficiently accommodated, both in terms of

facilitation and enforcement, Customs has developed new approaches.

We are tailoring our processing systems to the physical configuration and threat level of each airport and introducing a system similar to the traditional Red/Green system generally used at European Airports. Whatever form of Red/Green system is most effective in a particular airport, that is the system we will install. We anticipate implementation of a Red/Green processing system at many of our major airports. Our basic operating assumption is that the vast majority of passengers are honest and can select the particular inspection needed. Different versions of the Red/Green system are being tested in Houston and O'Hare Airports. A Red/Green system is already operating at Miami International Airport and it will be implemented at JFK in March 1983.

The enforcement aspects of passenger processing are being reinforced by training inspectors in new observational techniques, development of walk-through narcotic detection devices, passport "readers," and other similar innovations. Moreover, these new techniques will be very useful in our special responsibility of handling security and visitor processing for the Summer Olympic Games in 1984 at Los Angeles.

Olympics

Customs is requesting \$3.6 million and 31 average positions (staff-years) in FY 1984 to facilitate and protect the many foreign visitors expected to attend and participate in the Summer Olympic Games in Los Angeles. It assuredly will be a great event and Customs intends to do its part in seeing to it that no unexpected activities disrupt the Games.

Customs will be implementing an integrated operation encompassing passenger and cargo processing, security and law enforcement, including inspectors, patrol officers, special agents, and intelligence specialists. All foreign visitors and participants, as well as the equipment they bring, will be processed by Customs through various ports of entry. It is projected that the majority of visitors and equipment will arrive at Los Angeles International Airport, although other major ports of entry will be impacted as well.

Customs concern is to insure that the additional workload does not result in facilitation or security problems at Los Angeles, or any other port. The security threat to the arriving visitors, participants and inspection personnel is heightened because of past world-wide attempts of international terrorist groups to target events like the Olympics, bringing notoriety to themselves and their causes. It is estimated that Los Angeles will experience an additional 15-20 percent workload during the normally heavy summer tourist season. Customs expects J.F.K.,

San Francisco, Chicago, Miami, Honolulu and Houston to have 10-15 percent increases in passenger traffic.

Customs plans to provide sufficient manpower and equipment to insure orderly passenger flow, with minimal delay, while maintaining the best possible enforcement security. An additional 303 Customs officers will be detailed to impacted airports and other locations. Communications and security capabilities will be enhanced and helicopters will assist in surveillance operations. Our full range of security devices will be employed to screen passengers so that no weapons or explosives enter the country.

Cargo Processing

Application of selectivity procedures is ripe for the cargo processing area. To accomplish this we are expanding existing cargo selectivity and introducing full-scale automation to cargo processing systems. I would now like to discuss several systems which have been specifically designed to facilitate the flow of cargo while maintaining an effective enforcement.

In cargo processing, the most significant innovation has been the expanded and enhanced Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT) system. Rigorous system testing during FY 1982 showed that regulatory and enforcement efforts could be improved and cargo expedited by intensively examining only selected shipments identified by automated intelligence as high risk.

Customs ACCEPT efforts in FY 83 include conversion to a central-site computer, and expansion to 10 major ports. At the same time, a manual version of the system, previously developed for use at small to medium-sized ports, will be installed at 12 additional locations. The enforcement aspects of ACCEPT were also strengthened by its "marriage" to Customs Automated Cargo Transaction Intelligence System (CACTIS) which provides background data on each shipment.

In the future, ACCEPT is to be incorporated into a larger automated commercial system, which will control processing of cargo from its arrival at the docks or airports until release to the importer. The system is currently in development on a modular basis. Until that system can be implemented, expansion of ACCEPT as a stand-alone system will continue at major ports. In addition, a number of other initiatives will be pursued to further streamline the entire cargo system.

Contraband Enforcement Teams

The new Contraband Enforcement Teams are reinforcing the traditional inspectional routine. These Teams, ranging in size from 2 to 20 officers, gather and disseminate intelligence perform input document review and analysis and search suspect cargo. Whenever violations are detected, merchandise, drugs, contraband, and items in violation of currency reporting and export laws are seized. Team capabilities will be bolstered by combining their search efforts for drugs in cargo with those of the Canine Teams.

TARIFF AND TRADE

Customs Tariff and Trade Program is responsible for appraisement, classification, duty assessment and collection on entries of imported merchandise, as mandated in the Tariff Act of 1930. Related and equally important functions include verification of import statistics; administering national trade policy by monitoring quotas, steel import restrictions, various trade agreements; as well as enforcing merchandise admissibility for over 40 other Federal agencies and 400 related laws.

We intend to reform and improve the full range of tariff and trade operations and carefully review the current role of the import specialist in the processing of entries. Our goal is to reduce the burden on the importer, especially his costs of doing business with Customs, while insuring that Customs maintains required services as resources decline and the volume of merchandise imports increases. These innovations are already underway or are in the planning stage. I am including a brief description of these innovations in order to give you some measure of the depth and breath of the challenge we are facing over the next two years.

Automation and Centralized Appraisement

Centralizing merchandise appraisement in fewer locations is a major innovation for increasing productivity and maintaining service with a reduced staff. Furthermore, centralization will enhance planned automation, which can be cost-effective only when

large volumes must be processed, and assist in implementing bypass and post-audit systems. These approaches are the core innovations for this system.

Whatever the final configuration of duty assessment locations, centralization does not mean an end to Customs presence, nor any curtailment of our service to the public. The ports not included in the centralized list are not being closed. Inspectors and other Customs support staff will remain in every port, only import specialists will be relocated.

Furthermore, entry papers will still be filed at the port of arrival. Under centralization, these papers will simply be processed at another location. The presence, or absence of an import specialist at any particular port will not affect the initial Customs review of these documents. Similarly, centralization will not delay merchandise being released to importers or entered into or withdrawn from either Foreign Trade Zones or Customs bonded warehouses. These and all other Customs activities at the port will proceed without disruption.

Maximizing Automation Capabilities

A corollary development to centralized appraisalment is the preparation of a fully integrated and automated data base to meet Customs and trade community requirements for entry processing, entry examination, cargo release, duty collection, and liquidation. Many of our current manual and automated entry processing functions have evolved as independent activities

within the Customs Service and are not integrated into a single system. The automated system, as we now envision it, will interface the broker community, source data, and Customs processing procedures.

Automated interface with the broker computers is a key feature of the system. Currently, about sixty percent of the entry summaries presented to Customs are prepared on broker computers, that number is expected to grow to 75 percent by 1986. Customs views this as a unique opportunity for both the trade and Customs to work together. Electronic interchange of entry data between us has been successfully pilot tested for over two years. By FY 1984, five Customs ports will be processing eleven percent of Customs total entry summary workload by the Automated Broker Interface (ABI). The continued expansion of ABI will facilitate the implementation of Customs commitment for streamlined processing and the development of a "paperless entry" based on a post audit capability.

Selectivity criteria for both cargo examination and import specialist review will be maintained in a common data base. The system which will be fully operational in FY 1984, will be capable of identifying the degree of review required by the import specialist. Random sampling will maintain system integrity.

Finally, in these times of limited resources, each agency involved with collecting funds must devise the most efficient means for enhancing debt collections, cash management, and cash flow. This goal is precisely what Customs is striving for in this program. Customs is exploring a variety of systems and is testing new approaches for speeding up debt collections and cash flow. In fact, new cash flow procedures will assure that estimated duty payments will be in the bank within a day after collection. Several proposals for improving debt collection are under consideration, but at this time no decisions have been reached. Commercial fraud teams also will be operating to insure that evasion of duties is held to a minimum.

I believe these innovations, and perhaps others, will pay increasing benefits in the future and will be the means for eliminating unnecessary paperwork, simplifying processing methods, and, best of all, making the importation of goods and payments of duties a more businesslike operation.

TACTICAL INTERDICTION

Customs Tactical Interdiction Program was organized to detect and apprehend smugglers operating between the ports of entry, generally those areas where a significant percentage of today's drug smuggling occurs. Customs maintains a highly mobile land, sea, and air tactical enforcement force and tailored to changing smuggling patterns. Customs tactical units have introduced new operational approaches, equipment, and technology to control and reduce smuggler options for choosing the method, time, and location for crossing our borders.

Our principal tactical interdiction forces are stationed at land, sea, and air ports of entry, and supported by airplanes, helicopters, and boats. Primary emphasis, in the past several years, has been the Southeast Border, where massive amounts of drugs enter the country, and associated large flows of currency enter and leave daily to finance this international drug trafficking. Customs in cooperation with the Coast Guard and the Drug Enforcement Administration, has implemented a series of joint interdiction operations at these critical smuggling border areas. As a result, during fiscal year 1982, seizures in which Customs Tactical Interdiction Program was involved amounted to more than \$5 billion, or almost \$5 million worth of contraband per Officer.

This Administration is committed to fighting crime and we in Customs are in a unique position to contribute since drugs have become a major illegal and untaxed revenue source for crime syndicates around the country. Internally, in order to insure a more effective effort, I realigned the Customs field enforcement organization. Now, the various enforcement elements are working together and our programs are integrated at all management levels.

Current Efforts

Customs Tactical Interdiction Program conducts a variety of traditional enforcement operations such as surveillances, patrols, intelligence-gathering, monitoring sensors, examinations of passengers and crew members, special integrated

enforcement efforts, and vessel and aircraft searches. To combat smuggling by vessels, the Customs Marine Interdiction Program operates 110 boats, ranging in size from 14 to 57 feet and stationed at 49 high-risk locations. A new marine module, concept patterned after the successful Patrol Air Program concept and utilizing a command and control center, will be tested during a 6-month trial scheduled for May 1983. A major facet of this enhanced marine module will be a Servicewide plan for upgrading the entire vessel fleet. Replacements in the fleet will occur in stages as resources are available. Exchange/sale provisions and the traditional seizure/forfeiture routes will be used.

A major interdiction problem for the Marine Program is the "mothership", which is a large fishing or ocean-going vessel hovering offshore and unloading large amounts of marijuana. These "motherships" come from source areas with multi-ton supplies of marijuana, and head either directly for the United States or for rendezvous points where the marijuana is either unloaded at cache sites or off-loaded to smaller boats for runs to locations along the shoreline. Intelligence reports indicate that large-scale smuggling by vessel, while still very active in the southeast, is increasing along the West Coast, Middle Atlantic, and New England coastal areas.

Some measure of the success of our efforts are the outstanding seizures achieved. During FY 1982, the Marine Interdiction Program was responsible for some 4,000 narcotics and

non-narcotic seizures, which included 2,600 pounds of cocaine, and in conjunction with the Coast Guard, over 3.3 million pounds of marijuana, as well as 2,400 arrests.

A prime concern of the U.S. Customs Service has been the effectiveness of our Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband by private aircraft, a threat that has dramatically increased over the past several years. In fiscal year 1981, the value of narcotics and dangerous drugs seized in the Customs Air Program amounted to \$745 million--an increase of 88 percent over 1980, and five fold over 1979. Seizures during fiscal year 1982 are valued at over \$1.2 billion--an increase of over 60 percent compared to the previous year.

In an effort to most effectively respond to this serious problem, Customs air operations use an up-dated strategy. This strategy, a "module" concept, is now in place in Florida. By concentrating air personnel and equipment in a high-threat area and using them in conformance with the new detection, interception, and tracking strategy, it has been shown that significant results can be achieved. In addition, because of your continued interest in Customs achieving the most effective air interdiction program, I have brought on a consultant to review our current plans and approaches, and to provide us with recommendations for developing the most up-to-date air program.

Customs has invested much of its air enforcement resources to combat the smuggling of narcotics and dangerous drugs into Florida. These efforts were intensified in support of the Vice President's Task Force. Most gratifyingly, the present enforcement posture in Florida has deterred the flow of contraband. However, as expected, continued intensive operations in Florida and the assistance of Department of Defense equipment, now available because of the relaxed Posse Comitatus restrictions, are forcing smugglers to shift operations to the Gulf and Southwest Borders. Also, I wish to thank Chairman, Congressman Glenn L. English, Committee on Government Operations, for outstanding assistance in obtaining equipment by Customs in its interdiction efforts.

A recent seizure in Santa Rosa, New Mexico lends strong support to the reality of the shift in smuggling. Smugglers attempted to airdrop 214 pounds of cocaine packed in duffel bags from a private plane to confederates on the ground. Only the timely intervention of enforcement units prevented the drugs from reaching their destination.

In order to meet this threat, we have requested \$18.3 million for a complete air module for operational use at other critical air smuggling locations. Recently, because of the easing of POSSE COMITATUS restrictions and with the invaluable assistance

of Congressional Committees, we have held discussions with the Defense Department which may lead to the loan of a number of aircraft and other air interdiction equipment. This option, should it materialize, will provide us with an alternative national air interdiction capability. We will keep the Committee informed as these discussions with the Defense Department continue.

INVESTIGATIONS

The Customs Service investigates violations of Customs and related laws. Included in this broad mandate are currency, neutrality, fraud, organized crime, white collar crime, smuggling, cargo theft, and wildlife violations. In accomplishing these investigative tasks, during the past year, several major enforcement objectives were emphasized.

Operation El Dorado

Our investigative attack on criminal organizations under the provisions of the Bank Secrecy Act and through their financial transactions, Operation El Dorado, has paid excellent dividends in terms of its impact on the largest smuggling groups operating in this country. Using multi-agency investigative and prosecutorial teams, Operation El Dorado operates under the leadership of the local U.S. Attorney. It is currently active in Miami,

Los Angeles, Houston and New York - cities with large-scale currency movements and in the forefront of top-level drug trafficking and money laundering.

Our Treasury Financial Law Enforcement Center (TFLEC) which came into full operation in January 1982, is supporting the nationwide Operation El Dorado and Operation Greenback, our south Florida version, which also includes IRS, DEA, and the Office of the U.S. Attorney. The Center is analyzing financial characteristics of criminal markets and assisting in developing useable strategies for exploiting criminal financial business practices. Needless to say, the Center also is the source of tailored intelligence, both domestic and foreign, developed and adapted for the investigative field units.

On a national basis, Operation El Dorado resulted in the indictment of 197 individuals, and over \$30 million in currency has been seized. While civil penalties under the currency penalty provisions exceed \$33 million, the related jeopardy tax assessments by IRS against these criminals exceeds \$112 million. Recoveries realized by the Government through this initiative far exceed its costs. Customs is planing for the expansion of Operation El Dorado to Philadelphia and Chicago. New task forces will be formed in other cities as criminal cash flow and/or laundering activities are identified.

Operation Exodus

Operation Exodus was established during FY 1982. Seizures at numerous ports of aircraft parts, communications electronic

equipment, computer parts, classified defense items, and lasers indicate the extent and complexity of the problems Customs confronts. In addition, and equally serious, is the illegal transmission of technical data on research, development, and manufacturing. Our job is not only to detect these shipments, but also to punish the individual violators; and ultimately, if we are to be successful, discourage these shadowy activities of domestic manufacturers, overseas intermediaries, and foreign operatives. To meet these objectives, the wholehearted support of American industry is required.

The \$10 million expansion requested in FY 1984 will permit Customs to respond to the sophisticated tactics of the violators. In addition to equipment, the funds will allow Customs to implement wide-ranging operations, directed to specific products, manufacturers, and geographic locations. The sophisticated equipment will become the means for conducting long-range investigations, serving as the basis for strong criminal cases and raising the prosecution and conviction rate against top-level violators.

By the end of FY 1982, Exodus had accounted for 765 seizures, valued at \$55 million, of critical technology. Some 150 violators were arrested and currently 45 indictments are pending.

Operation Florida

I am proud to inform you of the excellent response by the entire Customs Service to the President's call to form a multi-agency task force for controlling the flow of drugs into

this country through southern Florida. Working on a priority basis, all functional groups contributed to the planning and implementation of Operation Florida, which moved into its operational phase in March 1982. Customs contribution of Special Agents, Tactical Interdiction Officers, Inspectors, and support personnel represented about 80 percent of the staffing strength of the entire operation. By all accounts, Operation Florida has successfully disrupted and deterred major smuggling activities along the Florida coast, particularly those involving private aircraft.

To date, Customs personnel assigned to the Task Force have provided a concentrated and aggressive interdiction effort. Intensive investigations have resulted in the disruption and successful prosecution of major drug smuggling leaders. Operation Florida has produced more than 800 arrests and almost 3,000 pounds of cocaine seized.

Presidential Drug Task Force Initiative

Responding to the growing crime problem, a Presidential Drug Task Force initiative was established this year and is now being implemented throughout the country. Initially, Drug Task Forces will be operating at 12 high crime locations. Customs will participate with other Federal Law Enforcement Agencies in these task forces. As now envisioned, Customs will primarily conduct financial, internal conspiracy and interdiction/smuggling investigations. The financial investigations will focus on large-scale smuggling groups responsible for the laundering of

large sums of money. We are requesting \$15,881,000 and 225 average positions (special agents and support personnel) to join with other Federal Agencies in assuring the success of this initiative, which we believe is required to meet this President's goal of disrupting organized crime throughout the country. The requested FY 1984 funds will permit continued expansion of the program.

Drug Interdiction

The primary operational activities of these city Task Forces will not be directed to preventing the illegal importation of dangerous substances across our borders. However, based on Customs recent experience in the Operation Florida Task Force, drug interdiction can be successfully integrated into the operational approach. Operation Florida was an outstanding example of a successful approach to the problems of illegal importation of dangerous substance. Although the emphasis of the twelve Task Forces is critical and essential to the fight against narcotics related crime, we feel that more must be done along the lines of the Florida approach in order to fulfill our mission of preventing illegal importations and to round out an overall effective narcotics enforcement program.

Fraud Emphasis

Over the past year, Customs has recorded several major accomplishments in the difficult areas of civil and criminal fraud. Our Special Agents were successful in two highly publicized Volkswagen and Mitsui cases, which resulted in \$37,500,000 collected for the Government. During the past year,

the Fraud Program returned over \$54 million in revenues that would have been otherwise lost to the Government. Looking to FY 1984, we hope to build on past successes, targeting major civil and criminal violations -- with an end-product of high-level arrests and a return of multi-million dollar revenues lost to the Government.

INTERNATIONAL COOPERATION

Customs is very active in the international arena and is committed to improving enforcement against international drug traffickers and the facilitation and standardization of international trade and travel. During the past decade, an international system of nomenclature for international trade has been our goal. Under the auspices of the Harmonized System Committee of the Customs Cooperation Council, we have undertaken, in response to private business and government interests, the development of a compatible international classification for Customs tariffs, international trade statistics, and the facilitation of goods.

Our reorganized international operations, now integrated under a single International Affairs Office, has been active in the areas of technical assistance, the Customs Cooperation Council (CCC), and Customs bilateral agreements. For several years, Customs has provided technical assistance and training, on a reimbursable basis, to foreign governments in cooperation with the Department of State. Jamaica, Haiti, Liberia, Jordan, and

Saudi Arabia are recent examples of assistance in enhancing or modernizing of their Services. We are planning to expand both technical assistance, particularly in the areas of trade policy, and in enforcement training. An increasing emphasis is now directed to providing valuation training to developing countries, which should assist American exports.

Our participation in the work of the CCC as well as the implementation of Customs bilateral agreements has brought tangible benefits to both American business and international trade. Customs enjoys close bilateral ties with foreign Customs administrations important to our trade and border drug interdiction. In some cases, we have negotiated formal Customs assistance agreements with key countries in order to institute a formal base of assistance. Currently, we have assistance agreements with Austria, France, Germany and Mexico. Consideration is being given to additional agreements with Italy, Spain, Canada, Japan, Great Britain, and the European community. In this vein of international cooperation, we have submitted the Kyoto Convention to the Senate for their approval. This convention, which would simplify customs entry procedures internationally, has been signed by many countries. If our participation is ratified, it will augment our position as a leader and innovator among the nations of the world.

RESEARCH AND DEVELOPMENT

I would like to take a moment to provide you with a brief description of Customs research and development efforts, which I

believe are essential for effective enforcement operations against today's sophisticated smuggler and the highly complex technical problems encountered in our other activities. In support of the obviously long-term needs for developing new technical applications, Customs is requesting in FY 1984 authorization for no-year funding for its R&D activities.

Modern technology is needed to improve the effectiveness of our interdiction and investigative efforts; to facilitate the flow of passengers, cargo and conveyances; and to improve productivity by reducing costs and introducing new work methods. It is the responsibility of our Research and Development Program to introduce new applications of modern technology by developing equipment for meeting unique needs, by identifying commercial military equipment useful to our mission, and by assisting field personnel in the use of this equipment.

Significant benefits will accrue in enforcement and facilitation from the new airport system for automatically reading U.S. passports and its automatic referral to available violator data bases. We are working with the Immigration and Naturalization Service and the State Department on developing these passport readers. At the land borders a similar system for license plates of arriving vehicles is in development. Detecting narcotics in vehicles and passengers will increase, we believe, as a result of our present R&D efforts to apply gamma radiation in hand-held detectors. Technical improvements in our cargo screening also are in development. Vapor detectors installed in

walk-through configurations at airports should provide similar assistance to passenger processing. Operation EXODUS will benefit from new tagging systems to detecting unlicensed exportations of critical technology and from tracking systems to monitor the location of unauthorized shipments. In addition, several important projects are directed toward improving our detection of incoming smuggler aircraft more efficiently.

CONCLUSION

In closing, I wish to reiterate that Customs basic mission is the collection of revenue and enforcement of Customs and related laws. Customs must fulfill this mission in a dynamic environment, important elements of which include the traveling public, the trade community, American business and the general public. The activities of Customs in fulfilling its responsibilities call for increasingly sophisticated operational and enforcement techniques and the application of a wide variety of skills and disciplines.

Consistent with Administration determination to crack down on crime and strengthen the economy, Customs will play an increasingly important role. In FY 1982, Customs began a series of new law enforcement initiatives and strengthened all its ongoing programs. To increase effectiveness, additional resources were allocated to law enforcement programs and new approaches were developed and implemented to meet specific problems. My goal this year, Fiscal Year 1983, is to "fine tune"

the operations of the law enforcement programs and bolster their capabilities as new opportunities for effective action occurs. In essence, we will support successful programs and cutback on those that are not productive.

Furthermore, in Fiscal Year 1983, Customs will begin a major reform of its commercial processing of merchandise and introduce administrative improvements in its programs and organizational structure. Wherever possible, we intend to introduce more efficient and selective approaches, making full use of automation, reduced paperwork and rapid processing techniques. As I described these efforts earlier, we will be working closely with the importing community to insure that the final operating system meets their needs. Similarly, we will be introducing efficiencies in administrative support throughout Customs. Streamlined administrative support for operational programs is our goal. We are currently reviewing all administrative functions in order to eliminate excessive overhead and duplicative activities.

I believe the strategy presented here is the direction in which Customs must move today and in the future. Current indications are that drug seizures will increase and major trafficking will be disrupted. Our fraud efforts will assure increasing revenues. As to our efforts to protect the national security, illegal exports of critical technology to Eastern bloc countries must be cutback sufficiently so they are no longer a threat. Overall productivity and efficiency will increase as paperwork is reduced. We believe the systems already implemented and on the drawing boards will improve passenger and cargo processing.

I have presented an extensive blueprint of improvements we initiated last year or will be implementing this year. In FY 1984, we should begin to see the completion of these efforts. Many of these innovations will be fully operating and producing successful results by next year. I will be working with the Congress on ways for Customs to do a better job. At times, I will be presenting new approaches and proposals for reorganizing our field structure or for consolidating various functions. Efficiency, economy, and increased productivity will be the key objectives in determining these reorganizations.

Although Customs is reducing its overall workforce, I still intend to make real progress on achieving my priorities of maintaining a strong enforcement posture, improved cost-effectiveness, better service, and providing the American public with a modernized Customs Service.

● This concludes my introductory statement. We are available to discuss the details of the request and answer your questions and those of the Subcommittee Members.

STATEMENT OF WILLIAM VAN RAAB, COMMISSIONER, U.S.
CUSTOMS SERVICE

Mr. VAN RAAB. Mr. Chairman and members of the committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service fiscal 1984 appropriation request of \$578,749,000, and 11,748 direct average positions.

Customs fiscal year 1984 authorization request represents a net increase of \$7,432,000 over the funds requested in fiscal year 1983. Included in the fiscal year 1984 request is \$50,630,000 for program enhancements and other initiatives, primarily in the law enforcement areas, \$35,331,000 for increase necessary to maintain current operations levels, and savings of over \$78 million.

The substantial savings to be achieved in fiscal 1984 primarily in the area of commercial activities will result from increased productivity, streamlined and consolidated organizational structures, abolition of overlapping functions, and efficiencies obtained from automated processing. In total, these actions will generate a reduction of 2,000 positions.

I have stressed as a common theme in my efforts as Commissioner of Customs that increased law enforcement and facilitation of passengers and cargo can go hand in hand. In stressing law enforcement as a top priority, we implemented or expanded a number of Customs programs. Financial investigations, which are an effective way to crush the hierarchy of a criminal organization, were formalized under Operation El Dorado. As a matter of fact, a member of your committee, Senator Roth, held hearings in which we explained some of our activities in this area in some detail just yesterday.

Fraud investigations were redesigned to target primarily major violators. But as notable were our accomplishments in these areas, our greatest effort and success was in two programs essential to our national security—Operation Florida and Operation Exodus.

Operation Florida is a multiagency task force approach implemented in March of 1982, wherein some 250 Customs enforcement officers were detailed to south Florida. A full air module and other equipment were also deployed to put a stop to the growing smuggling by private aircraft. To date, Operation Florida has recorded more than 1,000 arrests and seized 3,800 pounds of cocaine.

The Customs Service continues to work with Senator DeConcini, Congressman English, and the Subcommittee on Government Information, Justice and Agriculture to explore ways in which we may further utilize the recently relaxed Posse Comitatus Act in our interdiction efforts. We appreciate the efforts of all of these people as well as the Department of Defense.

Operation Exodus is the Customs Service response to this administration's desire to protect our Nation's critical technology. Mr. Chairman, I can state unequivocally that Operation Exodus has been tremendously effective. During the past year, we concentrated on the first of three stages of implementation by establishing an export inspection presence at the border. The second stage of the program by increasing Customs focus on investigations and intelligence regarding violations of the Export Administration Act, and the Munitions Control Act, and we are moving rapidly to imple-

ment stage three by increasing foreign conspiracy investigations through the Customs attachés already located abroad.

During 1982, we effectively established the Customs' presence at the border at 12 key locations. And recently we have expanded the program to include all major ports nationwide. I should like to stress, Mr. Chairman, that the majority of funds we are requesting for this program are earmarked for investigations and intelligence gathering. This stage of Operation Exodus is critical because without intelligence, our inspectional team will be operating with only limited information and will not be able to operate as effectively.

Also in the law enforcement area we have taken great strides toward breaking the financial infrastructures of major money laundering operations. Many of these operations are directly related to narcotics smuggling, and we have found that by approaching them through their bank accounts we are able to get closer to the core of the organization, and therefore cripple it much worse.

As you might gather, in fiscal 1982 I focused much of our effort on increasing the enforcement mission of the Customs Service. But during this time in which we were gaining enforcement momentum, I was gathering the best data processing minds in Customs to begin work on one of the most energetic commercial processing initiatives ever attempted by us.

The product of this energy will be a completely refashioned state of the art information system. We call it the automated commercial system, and it will form the skeletal framework for the way Customs processes imported cargo and collects duty for years to come. Duty which amounted to over \$10 billion in 1982.

I will comment that this exercise is a personal responsibility of mine and is being run by a small committee over which I have direct personal control. If it succeeds, I will claim the success. If it fails, it will be a personal one.

One of the first reforms we will be undertaking is the centralization of our appraisal centers. This can be accomplished within the current legal framework, and based on our past experiences, it will have no economic impact on the local importing communities. Currently there are 65 appraisal centers around the country. Of this, however, only 20 locations—or roughly 30 percent—process 70 percent of all formal entries filed.

Besides the obvious data processing advantages we will gain, the centralization of these appraisal centers will mean other significant benefits to the importing community. Namely, a higher degree of uniform application of the law, and a greater interchange of ideas between employees who would otherwise be virtually isolated from one another.

The one common denominator of many of the problems which we are attempting to rectify is paper. Literally tons of paper that are wasting time both with Customs' employees and with brokers and importers as well.

An intensive effort is currently underway to simplify Customs' forms, reduce paperwork and streamline numerous procedures. We are working on new bond procedures which will reduce the number of forms required from approximately 50 down to 1. We are also redesigning the entry summary form which will also incorporate a number of forms into one. As a matter of fact, I spent almost my

entire morning trying to bring that form down to a manageable size.

We are also testing a model seaport cargo processing concept at the port of Houston, as well as a similar program in Charleston, S.C. The new procedures and reduced paperwork embodied in these programs will probably result in significant cost savings for industry.

Another major innovation made possible by computerization and which will fit nicely with the Houston and Charleston programs is the so-called automated broker interface system, which has already been successfully operating as a pilot project in Baltimore and Philadelphia. This system, which has met with favorable response from the brokerage community, permits direct communication with Customs' automated systems. Thereby, eliminating excess paperwork, messenger delays, and duplication of data input effort. We plan to have this system fully operational at no less than five locations by October of this year.

In summary, then, the Customs Service is coming off of an immensely successful 1982, which included significant increases in drug seizures and major initiatives in areas both familiar and new to Customs' officers. The men and women of Customs, we believe, have proven that enforcement can indeed go hand in hand with facilitation, and I plan to continue this theme in the coming year.

In the past year we have entered into agreements with our Canadian neighbors to help facilitate cargo and passenger traffic between our countries. We have reduced the form requirements by quantum amounts. Most important, we have shown that relaxed examination standards do not necessarily mean decreased enforcement results.

I look forward to continued success in 1983 and 1984 from our enforcement initiatives such as Operation Exodus and El Dorado, our inspection initiatives, such as red/green passenger processing, and selective cargo examination, and our commercial initiatives, such as the automated commercial system and paperwork reduction.

To the extent possible, then, we do not intend to search every passenger, every vehicle, every piece of baggage or every cargo shipment—only those deemed high risk. But to insure the integrity of all of our efforts toward these many goals, Customs will maintain close control through our Office of Internal Affairs.

Finally, I want to reiterate that I will continue my efforts to seek every way possible to reduce the administrative excesses which inevitably build up and then continue to exist in any bureaucracy. And I will be ever vigilant in reducing Government's grip on the day-to-day business and affairs of the general and importing public. In fact, I have sent letters to Chairman Roybal and the other congressional leaders with oversight of the Customs Service expressing my desire to work with you and him toward these mutual goals.

This concludes my prepared remarks. Thank you very much. My staff and I are prepared to discuss the details of this request and answer your questions and those of the subcommittee members.

Senator DANFORTH. Thank you very much.

Mr. DeAngelus, you didn't have any separate statement, did you?

Mr. DEANGELUS. No, sir. Senator Danforth. Let me ask you this: Your proposal has been to reduce the number of inspectors, import specialists and other people who are now connected to what could be called the more traditional functions of the Customs Service. What effect would that have on the actual operation of the Service?

Mr. VAN RAAB. Well, we hope with proper management that the affect will not be negative.

Senator DANFORTH. Zero affect?

Mr. VAN RAAB. That's hard to say. We will try to prevent it from having any affect.

Senator DANFORTH. I know, but we have to make a determination as to what your authorization is going to be, how much money you are to get. My own view is that I think the other efforts are very important, and, obviously, have to be pursued. But if there is a significant impact on the more traditional role of the Customs Service with respect to passengers coming into ports of entry, goods coming in, the collection of duties and so on, it seems to me that we should not be sliding backward in that basic effort. We should be facing up to our responsibilities in the Congress to make sure that you are able to do your job involving the traditional functions of the Customs Service.

Mr. VAN RAAB. I understand. When we look at the traditional responsibilities of the Customs Service, which involve the administration of many laws for not only ourselves but other agencies, we think of them in three respects. The first is enforcement. Second, revenue collection or protection, if you will. And, third, is facilitation or ease of passage across the borders.

It is our belief that the budget, as proposed, will not have an affect on our enforcement posture, which is typically contraband. In terms of revenue collection or protection, we believe it will have no noticeable effect on the bottom line of the Customs Service as viewed from the standpoint of the dollars that we collect.

From the standpoint of facilitation, that's a little more difficult to respond to because facilitation is not only a question of actual time clocks put on passengers proceeding or cargo moving across the border, but the perception of how well it moves versus its actual moving time. It is our belief that facilitation will be maintained with respect to passengers moving through airports when the different systems that we are planning to use are implemented. Also, by applying more selectivity to cargo inspection facilitation will not be adversely affected.

I cannot help but believe that the perception on the part of a lot of the communities who deal with Customs feel that facilitation will be affected because they will just not believe that a reduction of that size will not have an affect on facilitation. So I think from an objective standpoint the affect should be minimal, if at all. But from a purely perceived standpoint, I am sure that you will receive some comments that service in various parts of the country has been reduced. And that's about the fairest and most straightforward answer I can give you.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Van Raab. Into what category, among the three you mentioned—enforcement, revenue collection, and facilitation—would you put the monitoring of unfairly traded imports such as steel?

Mr. VAN RAAB. That's enforcement.

Senator HEINZ. Now the number of items subject to careful monitoring, as I understand it, is increasing; not decreasing. Is that correct?

Mr. VAN RAAB. We have received requests to be more vigilant with respect to more items over the past few months. That's correct.

Senator HEINZ. And, frankly, that's because the number of unfairly traded items found by various Government agencies has been found to be increasing and not decreasing.

Mr. VAN RAAB. Our investigations have recently turned up, as I am sure you are aware, a number of illegal schemes on the part of foreign traders so I suppose we have found more.

Senator HEINZ. And I am concerned that when we have basic industry such as steel—and I do come from a State that in good times produces quite a lot of steel—which is in a very depressed condition, I would like to know if you can give specific assurances that steel import procedures will be unaffected by any of these organizational changes.

Mr. VAN RAAB. We have four programs basically. This is a slightly long way around, but I think it will make the point. Basically, drug interdiction and financial investigations are general crime investigations largely targeted at narcotics operations, but they also deal with other activities, Exodus, which is our effort to prevent the export of critical technology, and last, there is commercial fraud. This is a new program, largely targeted at major criminal schemes to defraud the United States of revenue or to disrupt its economy by violating our import laws.

I do not foresee that any of the budget plans here would adversely affect our efforts in the criminal fraud area. If anything, you can regard today's activity in criminal fraud as almost zero, it is at the low point. Over the next 2 years you should see more and more activity. Steel, textiles and a number of other industries are the major targets of our criminal fraud efforts. So I would hope that you would see that we will be much more effective in the criminal fraud area than we have been in the past.

Senator HEINZ. Now you have steel import specialists, do you not?

Mr. VAN RAAB. Yes, sir.

Senator HEINZ. Can you tell us whether or not there has been a hiring freeze affecting those specialists for the past 2 years in various ports as has been unofficially reported?

Mr. VAN RAAB. There has been an administrative hiring freeze on import specialists in most parts of the country.

Senator HEINZ. Can you indicate what the reduction in the number of import specialists handling steel products has been as a result of attrition?

Mr. VAN RAAB. I can't. Perhaps Mr. DeAngelus can. If he cannot, we would be happy to supply that for the record.

Senator HEINZ. Mr. DeAngelus?

Mr. DEANGELUS. Senator, the reductions have been across the board, consequently we have not specifically reduced anyone handling steel. We end up reallocating our priorities to the troublesome items, and steel, as you and the Commissioner indicated, is one of them. Consequently, we have not reduced the number of people handling steel. And, in fact, by centralization, we've put more expert people on handling steel items.

Senator HEINZ. So you have offset the kind of reduction that would have been brought about by attrition by reassigning people from other import specialist areas?

Mr. DEANGELUS. Correct, Senator. By reemphasizing priorities, by greater specialization, and by centralizing what is processed and where it is processed, the import specialists can be more productive in applying their expertise.

Mr. VAN RAAB. I would also add that in constructing our so-called commercial fraud teams, which consist of Customs' agents and import specialists, we have actually detailed import specialists with the specific responsibility of targeting and following up those major frauds. As I indicated, steel and textiles as two of these major areas.

Senator HEINZ. Mr. Chairman, I have a list of six questions that I would like to submit the written responses to.

[Answers to questions of Senator Heinz follow:]

Question. Can you tell us what the status is of the nationwide steel Customs fraud program that was undertaken by the Customs Service more than 2 years ago?

Answer. Customs steel fraud investigations program was initiated early in 1981 primarily to detect violations involving foreign steel shipments which had been intentionally overvalued to circumvent the Trigger Price Mechanism (TPM) monitoring system. This program resulted from an investigation in San Francisco of fraudulent Japanese steel importations by Mitsui and Company (USA), Inc. Analysis of evidence developed by the Mitsui investigation pointed to the existence of an industry-wide scheme to overvalue or falsely describe imported steel to circumvent the TPM.

Customs Office of Investigations continues to pursue steel fraud cases nationwide as priority investigations. Alleged violations are under investigation in most major ports of entry. Of the more than 40 active steel investigations, nearly all of them involve possible TPM violations (primarily overvaluation), and they focus on all types of steel products covered by the TPM (including pipe, sheet, wire rope, nails, plate, etc.) The majority of the steel cases involve products from far eastern countries (mainly Japan and Korea), although European countries are also represented.

The most recent allegation of steel fraud violations involves the possibility that some European steel producers may be attempting to evade export licensing requirements on shipments of steel to the U.S. by transshipping their merchandise through Canada and thereafter falsely showing country of origin as Canada. The Office of Investigations has initiated a study to further develop this allegation.

Question. Does there continue to be a separate organization regarding steel Customs fraud with personnel dedicated solely to this effort?

Answer. The Mitsui steel fraud investigation was worked as a task force operation. This operation, called "Steel Trap", was staffed by Special Agents from throughout the country who were assigned on a temporary, rotational basis. The Special Agent force was augmented by Customs Patrol Officers, Inspectors, Auditors, and Import Specialists from the San Francisco area.

At the conclusion of the Mitsui case (approximately mid-1982) the "Steel Trap" task force was dissolved. Special Agents who had participated in this case carried to their home offices considerable expertise regarding the conduct of complex steel fraud investigations. It has been this group of Special Agents who have for the most part been responsible for working other steel fraud cases. So, while there is no one separate organization or centrally located task force working steel fraud cases, there is that "group" of investigators spread throughout the U.S. who are so employed. These Special Agents will be assisted in their steel investigations by Customs Commercial Fraud Investigations Center, a recently instituted support group located in Washington, D.C. The Center will provide support in the areas of research and intel-

ligence, analysis, major case development, automatic data processing, and program funding.

Question. What have been the results of the steel Customs fraud program in terms of developing evidence of Customs fraud in connection with steel imports?

Answer. From the Mitsui steel fraud case, which was initiated in March 1980, Customs learned that violations like those committed by Mitsui (primarily overvaluation to circumvent the TPM) had undoubtedly been committed by other large steel importers and that TPM-related fraud was perhaps even an industry-wide problem. Evidence of the extent of this problem was on a number of occasions provided through the grand jury testimony of steel importer employees and customs of steel importers.

The Mitsui case provided the impetus for a steel fraud program which currently has more than 40 cases under investigation. These cases involve possible fraudulent shipments of a full range of steel products manufactured in both far eastern and European countries.

The Customs suspicions regarding large-scale steel fraud were not unfounded are supported by the fact that to date five corporations, including Mitsui; VSL Corporation; Pacific Steel and Supply; Marubeni America Corporation; and the National Can Corporation, have plead guilty to fraud charges involving steel imports. A sixth company, Dallas Pipe and Supply Company, plead guilty to Customs related steel fraud charges in a mail fraud case investigated jointly by Customs and the FBI. A seventh company is expected to plead to criminal steel fraud charges in the near future.

Question. To what extent have civil and criminal penalties and fines been sought in connection with evidence of steel Customs fraud that has been uncovered?

Answer. Customs steel fraud investigations program has to date generated significant results in terms of criminal convictions, criminal fines, and civil penalties. The Mitsui case, which netted criminal convictions of three corporations and five individuals; criminal fines totaling \$350,000 and an \$11 million civil penalty, represents the largest joint civil/criminal settlement of a fraud case in the history of the Customs Service. Breda Fucine, S.P.A., an Italian firm, recently paid Customs \$306,000 to settle civil claims which results from their false description of shipments of alloyed drill pipe.

During February 1983 the Marubeni/National Can steel fraud case was resolved. This case yielded criminal convictions of two corporations and one individual, criminal fines totaling \$115,000, and a \$2 million civil penalty.

Customs and the Department of Justice have received an offer to settle the civil and criminal issues in one other major steel fraud case. This matter is still under discussion.

Question. How closely has the Customs Service worked with the Department of Justice in pursuing criminal Customs fraud uncovered in connection with steel imports?

Answer. From the very beginning of Customs steel fraud program, Customs has worked closely with the Department of Justice in the development of criminal violations as well as on the civil and criminal settlement of cases after violations have been established.

It was clear from almost the onset of the Mitsui case that the potential for criminal violations was very strong. As such, the Mitsui investigation was at an early stage coordinated with the U.S. Attorney's Office in San Francisco. Documentary evidence in the Mitsui case was obtained through the service of a Federal search warrant, and when the magnitude and significance of Mitsui's involvement was finally perceived, the Criminal Division of the Department of Justice appointed a special prosecutor.

Customs close relationship with Justice in the steel fraud program has been maintained through the involvement of the same special prosecutor in the negotiated settlement of the Marubeni/National Case case, as well as through settlement discussions about a third major steel case still under active investigation. Additionally, the Criminal Division recently appointed a second special prosecutor to assist with the two other steel fraud cases currently being worked through the U.S. Attorney's Office in New Orleans.

Question. It is the policy of both Customs and the Justice Department to seek the maximum civil and criminal penalties provided by law with respect to both individuals and corporations who have engaged in Customs fraud in connection with steel imports?

Answer. The results achieved in the Mitsui steel fraud case, the largest civil/criminal settlement of a fraud case in the history of the Customs Service, clearly indicates that both Customs and the Department of Justice seek maximum fines,

penalties, and numbers of convictions to come from steel cases. The Marubeni/National Can settlement serves to further support this position.

However Customs and Justice take into consideration certain mitigating factors when arriving at penalty amounts and the number of counts to be included in an indictment. These factors include the extent of a defendant's cooperation and the ability of a defendant to pay. Additionally, Customs and Justice generally agree that no real purpose is served by issuing notices of civil penalty so large that no company could possibly pay (even though that company was by statute liable for the full amount) or by indicating a company (or individual) for hundreds of counts of a criminal violation.

Senator HEINZ. Mr. Van Raab, I have just one observation. It may be you are going to be able to do as much or more with less. From what I hear you are necessarily reassigning import specialists, admitting that there has been a freeze on the hiring of specialists for quite some time, and noting that clearly people do leave, so there has to be a reduction in the number of import specialists.

Mr. VAN RAAB. Yes; that has to be true.

Senator HEINZ. And with the number of import problems increasing, not decreasing, it would be something of an understatement to say you have your work cut out for you. And I must express some skepticism as to whether you are going to be able to handle everything that is being thrown at you under those circumstances. Good luck.

Mr. VAN RAAB. That's good advice.

Senator HEINZ. You may need some help from us.

Mr. VAN RAAB. Thank you very much.

Senator DANFORTH. Senator Long.

Senator LONG. Mr. Chairman, I want to ask my questions to people involved in the ITC.

Mr. VAN RAAB. Thank you very much. [Laughter.]

Senator BENTSEN. Well, you have relaxed long enough because I do want to bother the Customs Service. [Laughter.]

I am deeply concerned by what I hear and what I see in the way of cuts. I am very sympathetic to the idea that you are going to do more in trying to assist jobs done and drug interdiction and that type of thing. I think that is just excellent. I am glad to see that.

It looks to me that you are robbing Peter to pay Paul. When you are talking about cutting some 2,000 Customs' employees, talking about a flat budget, of those 2,000 Customs' employees you are talking about 918 inspectors, you are talking about replacing them with programs, policies, and electronic machines. Some of that money would go into enforcement equipment and drug task force primarily supervised by the Department of Justice. Cargo processing is important. So is fighting drugs.

But it seems to me in a country this size we ought to be able to do both. You know the numbers better than I do. My understanding is the Customs Service earns about \$18 for every \$1 appropriated for it. And I would think that we could have a respectable ratio in titling a government agency to be staffed appropriately to assure that our fair trade laws, as well as our criminal laws, are fairly, effectively enforced.

I'm delighted that you are going to try to help us, as I understand it, with a terminal in Houston and staffing that one. I believe that's some 18 people, if I remember correctly.

But I'm not sure where they are coming from. I have a sneaking suspicion you are taking them from somewhere else where we very much need the service too. I take a look at the port in Laredo. The port in Laredo handles more people, as I understand it, than JFK in New York City. Are you going to move some of the Customs' people from there to other places in Texas? I see us taking approximately 10 percent of the cut. It's not just Texas I'm concerned about. I'm concerned about this sort of treatment across the Nation. I know what it means to stand in those lines down there; to see the traffic jams because we don't have the personnel to handle that traffic.

I've got a situation in Laredo where we have unemployment that ranges well in excess of 25 percent. We have unemployment in Starr County over 50 percent. The whole Mexican border devastated because of the peso problem. People that were coming across to trade are not coming across. Laredo, Tex., on a Saturday, you would swear it was a Sunday. There is no one there. And then to say that you are going to do further things to impede commerce as far as trade across that border by limitations in personnel disturbs me very much. And I don't understand it, and I just don't agree with it.

I would like to have you tell me more specifically just what we are talking about in the way of how this is going to be processed and how you are going to handle it with programs and machinery. Could you comment on that?

Mr. VAN RAAB. That's a tall order.

Senator BENTSEN. That's right.

Mr. VAN RAAB. As far as airports are concerned—

Senator BENTSEN. Like us voting over here for one of these cut out waste. We are all for that. But I want to understand the implementation a little better.

Mr. VAN RAAB. There are a number of categories of the Customs Service that can be reduced by various means. There are certain reductions that can be made by the elimination of unnecessary functions and activities. There are some reductions that could be made—

Senator BENTSEN. Like where?

Mr. VAN RAAB. There are some places in the Customs Service where for historic reasons we have offices or officers and the trade has changed. And, therefore, the reason for having that office or officer there is no longer valid given an austere budget environment.

Second, there are ways to make reductions by changing the role of various Customs' officers. That's the case with respect to import specialists. In this period of an enormous number of shipments coming into the United States our ability and need to review every document and every piece of cargo is sharply reduced.

Your particular concern is directed at airports and at land border crossings, I believe; particularly, in Texas.

Senator BENTSEN. Well, New Orleans is a good example.

Mr. VAN RAAB. And New Orleans. As far as Houston is concerned, just as an example, recently by merely changing the way that we process passengers by moving to a so-called red/green system, which basically allows passengers to determine whether

they must pay duty and which then is backed up by inspectors who review those that say they don't have to pay duty, we have been able to increase the numbers of passengers moving through the Houston airport from 600 to 1,000 an hour. The new system was installed without any increase in Custom's personnel, and without the actual improvement being perceivable to the passengers on how quickly and easily they moved through. So there is a way that we can in airports improve the situation without increasing the numbers.

As far as the land borders are concerned, the same sort of approaches are feasible—being more selective, being more permissive with respect to what we think are low risk passengers, and being more concerned about high risk passengers. We believe that we can allow more people to move through and not necessarily increase the staffing.

Senator BENTSEN. Mr. Chairman, you and I have joined together in expressing our concern for this. And in response to some of the questions that I have just received, I have not had a chance to study and understand the full implication, but I would like to put these questions and these answers in the record.

Senator DANFORTH. Certainly.

[Answers to questions of Senator Bentsen follow:]

Question. Provide for the committee the increases and reductions in staffing by job category, district offices, and ports for each state represented on the Senate Committee on Finance.

Answer. Customs will be taking a net reduction of 1,775 positions in fiscal year 1984. At this time, it is not possible to determine how the cuts will be implemented. Prior to implementing any reductions, Customs will be performing a current workload analysis for determining which regions, districts, and/or ports would suffer the least operational impact.

Question. Describe the electronic data processing system and other administrative efficiencies, including selectivity in inspection and control and tariff and trade, anticipated to result in savings under the services proposed in fiscal year 1984 budget.

Answer. Customs during the past decade has introduced numerous new approaches and techniques in order to improve service as well as maintain a highly effective enforcement effort in its passenger, carrier, and cargo processing systems. More recently, particularly since 1976, Customs has been faced with significant workload growth without offsetting increased resource. During this period, major workload measures rose significantly; cargo entries which reflect our merchandise and revenue processing, and which account for over half of Customs work years, increased over 40 percent. At the same time, air passenger processing, also a heavily labor intensive operation, grew by more than 50 percent.

In fiscal years 1983 and 1984, Customs is planning to continue developing more efficient processing systems. The major focus of these efforts will be to implement the selectivity approach for all processing, reduce the current level of paperwork required for most transactions, and support both of these objectives with fully automated processing methods.

The specific computer and other systems currently under development or in the implementation stage are as follows:

Selectivity.—Selectivity is the key approach for maintaining efficient passenger and cargo systems. As part of the selectivity approach, we concentrate our attention on the small number of suspected violators, transactions, or cargo, which, of course, expedites the processing of the law-abiding passenger or cargo shipment. To implement selective enforcement, Customs is developing for its passenger processing a walk-through narcotics vapor detector device, automatic passport "readers", and specific inspections of baggage pick-up areas to detect suspicious behavior. In cargo processing, potential violators will be pinpointed by an automated data base which provides inspectors with profile information.

Data from our Accelerated Cargo Clearance and Enforcement Processing Technique [ACCEPT] is currently used to expedite cargo clearance. Augmenting our selective enforcement are special teams of inspectors using profile data to pinpoint

suspect cargo and baggage. As a result of the selectivity approach, Customs can concentrate its efforts more effectively with fewer personnel.

Automated Commercial System [ACS].—Customs Automated Commercial Systems [ACS] integrates all automated processing systems. The automated commercial system is designed to eliminate the various stand-alone automated systems, including the Automated Broker Interface [ABI], and integrates them into a comprehensive commercial processing system. In addition, the system includes selectivity processing of both cargo releases and entry summaries with heavy emphasis on post audit capabilities. The system is comprehensive including such areas of commercial processing as bonds, release of cargo, anti-dumping and countervailing, duty, entry processing, liquidations, drawbacks, protests, and quota processing. By integrating all of these systems, Customs expects to significantly improve the productivity and efficiency of our employees and expedite processing for the importing public.

Automated Broker Interface [ABI].—Approximately 60 percent of all Customs formal entries are prepared by processors with automated systems. The Automated Broker Interface [ABI] project is designed to have those broker/importers transmit data directly to the Customs computer thereby saving Customs the input costs. A successful pilot project has already been conducted in the ports of Baltimore and Philadelphia. The project will be expanded to include the ports of Buffalo, Houston, and New Orleans during fiscal year 1984.

Participation by the brokers is voluntary. They electronically transmit the basic entry data to the Customs computer. Customs edits, validates, and makes selectivity processing decisions based on their transmissions and transmits the processed results to the broker/importers. Eventually, these transmissions will permit Customs to interface directly with Census to expedite statistical processing, which will provide further cost savings.

Customs has worked closely with the brokers in designing the system. The trade response has been very favorable. We anticipate rapid expansion to other ports once the programming has been completed and the initial five port expansion plan implemented.

Paperless entry.—The "paperless" entry project is designed to work in conjunction with ABI. With the automated transmission of full-line items entry data to Customs and our subsequent selectivity determination, Customs will generate a message to the broker/importers indicating whether or not the actual documents must be transmitted to Customs. Unless Customs has a need to review the documents, the entry will liquidate immediately and the broker/importer will store the documentation. The broker/importer benefits by not having to file and track the documentation. Customs benefits by not having to process, track, and store the paperwork. All entries would be subject to post audit review.

Centralized appraisalment.—Centralizing merchandise appraisalment in fewer locations is a major innovation for increasing productivity and maintaining service with a reduced staff. Furthermore, centralization will enhance planned automation, which can be cost effective only when large volumes must be processed, and assist in implementing by-pass and post-audit systems. These approaches are the core innovations for this system.

Currently, Customs plans to centralize appraisalment at 13 port locations. Centralization does not mean an end to Customs presence nor any curtailment of our service to the public. The centralized ports will not be closed. Inspectors and other Customs support staff will remain in every port, only import specialists will be relocated. Furthermore, entry papers will still be filed at the port of arrival under centralization. These papers will simply be processed by Customs at another location.

In addition to the previously discussed items, we are looking into the possibility of port closings as well as centralizing various administrative functions in order to generate the projected savings for fiscal year 1984.

Senator BENTSEN. I can't emphasize too strongly to you gentlemen how my concern about what is happening and the delays that I have seen, even with an austere budget, where we are ending up with a substantial trade deficit in this country that we should not be doing those things that impede trade.

Mr. VAN RAAB. Senator, we agree 100 percent with you. And if there are specific instances of delays either in your State or in others which are brought to your attention, we would be prepared to respond to them immediately.

For example, just a few weeks ago I happened to be speaking to Congressman Coleman and he told me of some problems that existed in El Paso. I can assure you that we did correct that situation just as fast as was administratively possible. And that was at least within a week, which for Government work is pretty good.

Senator BENTSEN. I guess I would have to agree with that.

Thank you very much, Mr. Chairman. I appreciate the comments, and I look forward to studying these answers which I have just received.

Senator DANFORTH. Thank you, Mr. Commissioner. Thank you, Mr. DeAngelus.

Mr. VAN RAAB. Thank you very much.

Senator DANFORTH. Next we have the International Trade Commission. Mr. Eckes. And Mr. Whitlock from the GSA.

STATEMENT OF ALFRED ECKES, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION

Mr. ECKES. Thank you, Mr. Chairman. Good afternoon, members of the subcommittee. Let me introduce those at the front table with me. On my right and your left, Commissioner Veronica Haggart and Commissioner Paula Stern. We have all three sitting members of the ITC before you today. On my left is Lorin Goodrich, our Director of Administration, and Rick Arnold, our budget officer. And on his left is Mr. Whitlock from the General Services Administration.

For the sake of brevity, I will briefly summarize one portion of the statement you have before you. I will turn not to the substantive issues of international trade, but to one item that is of immense concern to us at the moment—the deplorable condition of our building, one of the Nation's historic landmarks located at 701 E Street.

This structure is on the very site where Congress met after the British burned the Capitol in the War of 1812. The current structure, begun in the 1830's, was designed by the same architect who planned the Treasury Building and the Washington Monument. Indeed, when British writer Charles Dickens visited Washington in the 1840's he described our building as "a very compact and very beautiful building." Well, if the creator of Ebenezer Scrooge could return for another look, I think he would be as distressed as we are. Plaster continues to fall from the ceilings. The roof leaks badly. Water damage is a serious problem in our library and offices. The electrical system is outmoded. The plumbing is inadequate. There are mice and even rats the size of cats. I supplied the committee with a picture book of the decaying situation, and I hope you will have the opportunity to view it.

In February, the General Services Administration Administrator informed us that his agency would not schedule a basic renovation, costing at least \$10 million, until fiscal years 1988 and 1989. He advised us further that his office would, in the meantime, continue its current program of preventive maintenance and repairs in the building. From my vantage point, this is unacceptable. Further delays in making repairs will threaten the health and safety of our

staff. The current program of maintenance, we believe, is totally inadequate.

We recognize that modernizing the building will be costly, perhaps as much as \$10 to \$20 million. And maybe alternative solutions such as relocation should be examined. But I personally am disturbed that the GSA does not consider the ITC building cost-effective, and apparently wishes to turn it over to the Smithsonian. We've occupied this building since 1921. We are associated with it. Those of us with a sense of history love this historic office building and wish to see it modernized. We think if it is not cost-effective for GSA to modernize it as an office building, I doubt that it's cost-effective for Congress to modernize it for the Smithsonian.

That's a brief summary of our submission, Mr. Chairman. Before I close I would like to extend an invitation to you and members of the subcommittee to come over for lunch some day both to see the historic building and to learn firsthand about our investigations and the extensive work we do in support of Senate Finance Committee activities.

Thank you very much. We would be delighted to respond to any questions you may have.

Senator DANFORTH. Thank you, Mr. Eckes.

[The prepared statement of Mr. Eckes follows.]

STATEMENT OF ALFRED F. FCKES, CHAIRMAN, UNITED STATES INTERNATIONAL TRADE COMMISSION BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, COMMITTEE ON FINANCE, U.S. SENATE, MARCH 17, 1983.

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to discuss the Commission's fiscal year 1984 budget request. I am accompanied today by Lorin Goodrich, our Director of Administration and Richard Arnold, our Director of Finance and Budget. Other staff members are also present.

As you know, the International Trade Commission is a uniquely independent agency with quasi-legislative and quasi-judicial functions. One of our primary responsibilities is to assist Congress and the Executive on trade-related issues. To continue our programs at existing levels, the Commission is requesting \$21,241,000 for fiscal year 1984. Note that I have amended the request submitted in our Budget Justification to add \$138,000 for annualization of the executive pay cap increase approved in December. This total represents an increase of \$1,360,000 over fiscal year 1983 funding of \$19,881,000 (which includes our FY 1983 appropriation of \$19,150,000 plus requested pay supplementals). In brief, our proposal contemplates no change in programs; and staffing would remain at the level of 438 employees, the same level of full-time positions approved by our authorizations and appropriations committees since 1980. The increase in appropriations requested stems from our need to fully fund that approved staff level and from nondiscretionary increases in program costs.

Let me explain what underlies our budget request.

First, our work load is largely beyond our control and is expected to grow over the next several years. As a service agency, we cannot set

our own agenda. Rather we must be ready at a moment's notice to provide assistance to Congress and the President on trade matters. Also, under various statutes the Commission must handle a variety of requests for import relief within very strict deadlines.

The experience of the past year vividly illustrates our problem. During fiscal year 1982, the Commission completed 234 investigations, up from 98 in the previous year, and worked on 106 more for a total caseload of 340. At the same time, because of the growing number of trade problems, there were many requests for assistance from Congress, the President, and other agencies. As our funding for FY 1982 remained uncertain throughout the year, we could not staff at the approved level, and our resources were severely overtaxed.

In 1984, we anticipate that our workload will continue to be heavy. There are several reasons for this. First, there is growing evidence that there is a link between high budget deficits, high interest rates to finance those deficits, and a high exchange rate for the dollar caused by investors moving into dollars to seek high interest. A strong dollar means that U.S. goods become less competitive in world markets and burgeoning trade deficits result. During calendar year 1983, the U.S. trade deficit is expected to increase substantially above the 1982 level of over \$40 billion, although declining oil prices are moderating earlier gloomy forecasts of double the 1982 figure. Nevertheless, declining oil prices could give a competitive boost to the manufactured exports of some trading partners, and thus present previously unforeseen problems for import-competing industries in the U.S.

In the face of such a trade imbalance, it is reasonable to expect that industries will continue to seek relief from foreign competition. It also is likely that we will receive many requests from Congress and the Executive for studies and investigations of trade problems.

An improvement in the U.S. economy in 1983 is unlikely to lighten our workload in FY 1984. Traditionally, this agency is contracyclical -- our statutory workload varies inversely with the health of the economy -- but it lags changes in the economy significantly. Thus, a quick improvement in the U.S. economy and a smaller-than-expected trade deficit would probably not reduce our statutory investigations for some time.

There is another reason for expecting a heavy caseload for the Commission. With low labor costs and modern industrial facilities, many newly emerging industrial nations are increasing exports to our market. At one time this import competition touched only labor-intensive products, like footwear and textiles. Now the competition has extended to industries like steel, transportation equipment, and machinery; and there is growing evidence that chemicals, pharmaceuticals, and high-technology electronics are experiencing increased pressure from foreign producers.

The expanding scope of import competition will mean new challenges for the Commission. Much of the caseload in FY 1982 and thus far this year has involved steel products. We have accumulated a large data base for many of these products and thus work on the cases could be "packaged" in a way that will not be possible in the future. The cases we anticipate in FY 1984, involving new and technologically sophisticated products, will require more staff research and analysis, and the acquisition of additional technical expertise. Already we are having to cope with products like CT scanners and limited-charge cell culture microcarriers.

Petitions concerning scanners and microcarriers were filed under Section 337, a highly specialized area involving patents, copyrights and trademarks. The workload in this area is growing steadily. We anticipate more trademark cases in FY 1984, along with a continued heavy flow of patent-related cases.

As you know, one of our most important functions is to assist Congress and policy-making agencies with technical information. During the past year, this involved extensive support for other government agencies preparing for the GATT (General Agreement on Tariffs and Trade) ministerial in November 1982. Currently we are providing assistance to help develop a GATT work program in services, and we are heavily involved in preparations for international trade negotiations on the Harmonized Commodity Code expected in January 1984.

During fiscal year 1982, the Commission continued to devote large staff resources to the Harmonized System conversion. This work, involving public hearings and discussions with industry, in addition to meetings with the international trade community, is still continuing. The draft conversion is due to the President in June of this year. Over the next several years, as the conversion process goes forward, the Commission will need to provide both Congress and the Executive with much additional assistance on this complex matter.

Another area where I expect increased activity is in Section 332. Under this authority, the Commission conducts investigations and research studies for Congress and the President. We also self-initiate studies on

timely subjects such as export subsidies, performance requirements, and the impact of fluctuating exchange rates on U.S. trade competitiveness. In the future, we anticipate many requests, specifically in the area of high technology.

Our trade-monitoring efforts have become increasingly valuable to Congress and the Executive. As the Committee knows, the Commission's technical analysts regularly monitor shifting patterns of exports and imports in specific commodities, and developments in East-West trade. We provide regular reports on trade in motor vehicles, chemicals, and other commodities. We have enhanced data-retrieval and reporting capabilities to make this important technical information available to Congress, other government agencies, and industry trade associations.

At this point I should note that the technical expertise of our industry analysts and trade specialists is one of the U.S. government's prime resources. Private sector analysts (Business Week, January 17, 1983) have said that the ITC is "the only office in Washington extensively looking at domestic and international trends and trying to assess the future of American industries." As this nation confronts changing trade conditions, the unique capabilities of our specialists will be increasingly important to the government.

Because it is critical to the nation that we maintain and improve this expertise, we plan to expand and improve our training and professional development programs in the future. Among my priorities are: 1) involving our analysts and researchers increasingly in high technology and service studies where the Commission already has done some work; 2) expanding

the use of on-line computer terminals; 3) improving the availability of data in our Library; and 4) encouraging our managers to expand their own fields of specialization and to use the new technologies now available.

The Commission has a reputation for fiscal responsibility, a reputation we value and will strive to maintain. This year and in FY 1984, we will implement certain administrative improvements to help us balance the expanding program requirements I have described with the need for fiscal restraint. These include installing our own computer and additional word-processing equipment, converting the manual TSUSA publication system to an automated system, and adopting an in-house accounting system. The accounting system, scheduled for operation in FY 1984, will allow more intensive cost analyses than are now possible and thus, better control of resources. We continually search for ways to reduce expenditures; for example, we recently determined that we could limit Federal Register inserts and so lower printing costs.

Economies such as these and productivity increases resulting from new technology are factored into our budget request for FY 1984. This is a lean budget--our best estimate of what we need to carry out our increasing responsibilities. Much is expected of the Commission at a time when international trade looms as a major concern for the nation. We must have the resources to respond promptly and effectively to the demands placed upon us.

One final point: recently I sent a letter to this subcommittee describing our struggle to rehabilitate the Commission's main building at 701 E Street, N.W. This 140-year-old historic landmark is in a deplorable physical condition. Although Congress authorized GSA \$5.8 million in 1974

to repair the building, only \$1.2 million was used before the authorization expired, 56% of that amount for roof repairs that proved unsatisfactory and for "design and management" costs. We have had to spend \$750,000 of our own funds since 1974 for repairs GSA would not undertake.

Every year rehabilitation is delayed, estimated costs climb higher; the most recent estimate for basic renovation was \$9.9 million. On February 4, GSA Administrator Carmen informed us that GSA would not schedule funding of this magnitude until fiscal years 1988 and 1989. Mr. Carmen further advised us that GSA's regional office would in the meantime "continue its current program of preventive maintenance and repairs in the building." I subsequently registered our concern with GSA's regional office over the current inadequate maintenance effort, stating that it must be improved to keep our facility in operation until a repair and alterations prospectus is authorized and funded.

Delaying the funding of major repairs to the ITC Building until the end of this decade is unacceptable and will threaten the health and safety of our staff. Costs undoubtedly will escalate. We recognize that there could be alternative solutions, such as relocating to another building in the Government's space inventory or to a newly leased facility. We are open to suggestions provided our special requirements as to space and accessibility can be satisfied. At this point, GSA has not offered a suitable alternative or a response to our concerns over the present level of preventive maintenance, and we may have to seek assistance from our authorization and appropriations committees.

Thank you for giving us the opportunity to discuss the Commission's budget request with you today. The staff and I will try to answer any questions you may have.

Senator DANFORTH. Maybe Mr. Whitlock should proceed. Do you want to make a comment?

Mr. WHITLOCK. Mr. Chairman, I don't have an opening statement, but I'd be happy to answer any questions you might have.

Senator DANFORTH. All right.

Let me make just one comment. I think that the International Trade Commission is held in high regard by those who know anything about it. There are Members of the Congress who do. And there are certainly a lot of people in the trade community who do. I think that the reputation of the Commission is really very fine. It is viewed as being professional and as performing a needed and useful service for our country and for our economy. I regret that I had not visited the Commission until yesterday. I did visit it yesterday, and I looked at the building. I think that the impression that we give by putting a key commission in these circumstances, and also by having only three out of the six Commissioners actually in office—there was some controversy about two nominees who were sent up here last year—is that we don't particularly care about the International Trade Commission. I really think that that is an unfortunate impression to give. So what is involved here is not only the working conditions in your building, but it's also the image which you want to have of yourselves and which we should have of you, and which you should project to everyone who does business with you.

So I would hope that we could take you up on your invitation. Senator Long and I were talking about this earlier today, and he suggested what might be a better approach to it. But I do think that we should look at the building, and I think that we should take you up on your offer to spend some time with you and find out what is going on and how you are operating on a day-to-day basis, what your daily problems and challenges are.

Senator HEINZ. Mr. Chairman, Senator Long didn't suggest moving them into the Hart Building instead of the Senators, did he? [Laughter.]

Senator DANFORTH. We might have a deal for you. [Laughter.]

Senator Heinz.

Senator HEINZ. Mr. Chairman, I have no questions for the Commission, but I want to concur in every respect with what you have said. I have nothing but the highest respect for the members of the International Trade Commission. There must be times when they feel that the Senate and maybe the Congress as a whole doesn't take their job as seriously as it should be taken. And even that some of the people downtown don't take their responsibilities as seriously as they should in sending, as I think we are privileged now to have on the Commission, people who are qualified to be on it.

I hope that the Senate Finance Committee—and I compliment you, Mr. Chairman, on your very correct wording of the situation—I hope that all the members of the Senate Finance Committee will take their responsibilities seriously in the event that names for nomination to the U.S. International Trade Commission are sent down to this committee, hopefully soon. But I hope that we don't just sluff them off as some kind of simple-minded patronage appointment because the jobs that the USITC has are far too impor-

tant for any such cavalier approach to the job of government. So I just salute you in every respect, Mr. Chairman. And I salute the members of the Commission for the work they do. It is very important.

Senator DANFORTH. Thank you.

Senator Bentsen?

Senator BENTSEN. I've been looking at the photographs of the building. You want us to eat lunch there? [Laughter.]

Mr. ECKES. Senator, we don't have a dining room. We will have to send out for something. [Laughter.]

Senator BENTSEN. I think it's outrageous. So that leads me to a question for the GSA. How much money have we appropriated over, say, the last 5 years for end allocation and for maintenance for that purpose?

Mr. WHITLOCK. Senator, I should perhaps review the situation. Let me give a little of the background of this particular facility.

As you know, the ITC has been in the building for a goodly number of years. And the last decade has been a continuing debate between the General Services Administration and the Smithsonian Institution as to their taking over the facility for museum purposes. Basically, GSA has agreed that it would be appropriate for the Smithsonian to acquire the facility.

Senator BENTSEN. It would be what?

Mr. WHITLOCK. Appropriate.

Senator BENTSEN. What happens to the ITC?

Mr. WHITLOCK. We would then, of course, make other arrangements for the ITC. We've had a number of discussions with them on that basis of finding suitable alternative space for their occupancy. And we would not make any adjustment or any conversion of the space to the Smithsonian until ITC was properly housed.

Senator BENTSEN. Well, I agree with the chairman and with Senator Heinz as to the importance of this agency, and the neglect of it, I think. I put a lot higher priority to it than apparently the GSA does. And I am sympathetic to their concerns. I don't know of any—this is going to be one of the most serious areas of controversy for this next decade. These folks are going to have that responsibility. I think it is important. Not only the substance, but the image that is portrayed. And how we in the Congress feel toward the importance of that. I like the Smithsonian just fine, but this is something that we have to direct our attention to.

I understand you have not answered my question. I understand that in 1974 Congress appropriated \$5.8 million to repair the building but the GSA used only \$1.2 million of that authorization before it expired. Since fiscal year 1975, \$4.9 million has been appropriated for the ITC building. The roof now leaks, inadequate fire and safety systems, electrical system is inadequate, and there are a lot of structural repairs that are necessary.

If I looked at that kind of maintenance in the private sector, it sure would be a low-rent operation.

Mr. WHITLOCK. Sir, it's correct that we spent \$1.2 million of the original prospectus, and then the delays in the decision as to how to transfer the building to the Smithsonian is what delayed the balance of the expenditure. We are at a new point at this point in time. I visited with Mr. Eckes in November and had several conver-

sations since about correcting some of the short-term problems. And we have a listing of those problems, and, of course, a schedule for the solution of each. The ones that are a serious nature, such as the roof leaks, and the other things that need to be done in the short run have been programmed to be accomplished by contract by August of this year.

The more long-range program which envisions about a \$10 million renovation to replace the major systems and closer to \$20 million if we were to restore the building to its original look would be deferred until 1989. Within that timeframe we would then finalize decisions as to disposition of the building with the Smithsonian or not.

Senator BENTSEN. There are a lot of these photographs that deal with things like going down and cleaning the drain. It's not a major construction job.

Mr. WHITLOCK. Yes; that's certainly correct. They are not things that deal with construction but day to day needs.

Senator BENTSEN. Yes; I look forward to further information that you can provide us on this.

Senator DANFORTH. Senator Long.

Senator LONG. I just heard you make the statement that you thought you might start or finish repairing the roof in August.

Mr. WHITLOCK. The project would be awarded as a construction project to replace the roof in August of this year. It would run several months beyond that.

Senator LONG. Now if someone is sitting at a desk underneath one of those leaks, are they supposed to sit from now until August before they can go to work to do something about it?

Mr. WHITLOCK. The leaks that we have currently we patch on an interim basis as soon as they are discovered.

Senator LONG. Are they still leaking? Is the roof still leaking?

Mr. WHITLOCK. You will find that during periods of heavy rain new leaks will spring up and we will go and patch. You correct them. And, of course, they reappear very quickly. That's what dictates the-replacement of the entire roof.

Senator LONG. Well, I can recall when we had one of the worst hurricanes in history hit Louisiana and some of those houses were just about destroyed. It didn't take but a day to go in there and put plastic over those roofs where all those shingles had been blown off so that the roof did not leak until you can get around to doing something more substantial about it. It took them a day. And do you mean it is going to take you from now until August to go to work on keeping the roof from leaking?

Mr. WHITLOCK. Sir, we patch the roof as the leaks are identified in the manner in which you just described. We are talking about a project to replace the roof in this August proposal, which is to permanently repair the roof.

Senator LONG. Let me ask this of the chairman of the Commission. As I understand it, you are asking for an authorization of about \$20 million for fiscal year 1984. Can you tell me how does that figure compare with the annual domestic shipments by all firms that were under ITC investigations in 1982 other than the Section 332 investigation?

Mr. ECKES. Senator, we estimate that the total amount of shipments was about \$100 billion. We estimate that this covered about 25 percent of all manufacturing jobs in the United States; \$100 billion dollars in shipments and about 25 percent of all manufacturing jobs; 3.5 million jobs were probably covered by ITC investigation in this period of time.

Senator LONG. Well, that works out to a ratio of about \$1 for every \$5,000 of responsibility that this Commission is exercising in a year, it seems to me. Is that about it? Does that square with your figures?

Mr. ECKES. I hadn't looked at it that way, but it sounds right.

Senator LONG. I just divided \$20 million into \$100 billion and it comes out at \$5,000. That's what my arithmetic says. If that is not right, I would like to be corrected.

Senator DANFORTH. This is how thorough the Commission is. [Laughter.]

Mr. ECKES. None of us brought a calculator. I will accept that.

Senator LONG. Well, you divided \$20 million into \$100 billion and take my word for it. [Laughter.]

That's where you come out. I just got through doing it with my old-fashioned pencil. [Laughter.]

Sorry to take you away from your calculator.

Mr. ECKES. I think so.

Senator LONG. Well, I'm tired of revenue sharing. That would indicate that this committee passed a bill where it cost about \$1 for every \$1,000 that the Treasury administered under revenue sharing to require compliance with the program and to get the money in the hands of the people who are supposed to have it; \$1 for every \$1,000. And in your area of responsibility it looks to me like it is costing you about \$1 to monitor \$5,000. I guess maybe it's \$2 for every job that is involved in this type of thing, depending upon how you look at it.

To us it is very important that we get this job done. And I, for one, down through the years have fought to try to protect the independence of the Commission. We've had pretty good success. But having done that, we sort of had the feeling that, well, if we just leave it up to the executive branch and you don't do what somebody at the White House indicates that they think you ought to do that they might cut your budget so we tried to take it away from the Office of Management and Budget. And then we tried to see to it that whatever you needed you could have over there. And we put the responsibility in Congress rather than in the executive branch. And that gets us down to the building. And it looks today that the executive branch is clearly not looking after you very well as far as your building. So I think we had better arrange to try and take care of that.

I don't know precisely how to do it, but we would welcome any advice or thought that you might give after you think about it. It occurs to me that since the Congress once met on that spot after they burned the Capitol that maybe we could just put that back under the Architect of the Capitol and let the Congress assume the responsibility for keeping the building up. I'm not saying we are doing all that good a job on our building, but we sure are doing

better on this than we are doing with the building you have. [Laughter.]

Senator LONG. The previous chairman of the Commission was before this committee testifying some years ago, Mrs. Bedell, and I asked her about the condition of the building. And she said that it was her good fortune that she was out of her office when the ceiling fell in.

Well, the building is older now and I presume in no better condition than it was then. Is that fair?

Mr. ECKES. In no better condition, and far worse. We've had plaster falling on us. Commissioner Haggart found a dead mouse in her office a week or so ago. But we understand that there are even rats exploding in the basement because of some new rat killer the GSA is using that makes them swell up and explode. [Laughter.]

Senator BENTSEN. I think I'll come around and get us all there for lunch. [Laughter.]

Senator LONG. I think I will come around and look at that rat situation. [Laughter.]

I've got a mountain cabin that has a basement and I've become pretty much of an expert at poisoning rats and mice. [Laughter.]

I will come around and take a look and see what you are doing and see if your methods are better than mine.

I'm firmly convinced though that I ought to do what I can on a bipartisan basis to try to provide you with adequate facilities.

And I hope very much, Mr. Chairman, that you will persevere in this matter and I will do anything I can to see that it is done.

Senator DANFORTH. Thank you, Senator Long.

And let's follow up on the—maybe we could bring our own lunch. [Laughter.]

Senator DANFORTH. Getting back to the building, and not just the premises, which I saw yesterday—the situation is truly ridiculous. If that amounts to instant patching of the roof, it's obvious something is wrong. I mean the windows are falling out, stuffing is needed between the window panes, and the plaster is falling out. It is obviously a ridiculous situation. It's demeaning. I think we should see that.

Also beyond the building, I think we should find out from you not only what your legal responsibilities are, but some of the things you do and how you function; what your problems are and what your challenges are. I think we would look forward to that.

Senator LONG. Could I ask one further question?

Senator DANFORTH. Yes; Senator Bentsen has something he wants to say.

Senator BENTSEN. I just ask that I put some remarks of my own and those of Senator Mitchell in the record.

Senator DANFORTH. Right.

[The prepared statements from Senator Bentsen and Senator Mitchell follows:]

PREPARED STATEMENT OF HON. LLOYD M. BENTSEN

Mr. Chairman, we have an unusually long agenda to cover today, so I want only to mention two subjects of special interest to Texas and trade policy.

First, I want to say that the budget presented by the Administration with regard to the U.S. Customs Service is disturbing. On the one hand, the budget shows an increased emphasis within the Administration on the enforcement of our laws against the importation of dangerous drugs. This initiative has been long in coming, and it is desperately needed in my area of the country. On the otherhand, the Administration seems to be proposing to rob Peter to pay Paul. They propose more or less a flat budget, but they would fire 2,000 Customs employees including 918 inspectors, and replace them essentially with programs, policies, and electronic machines. Much of the money saved would also go into enforcement equipment and a drug task force primarily supervised by the Department of Justice.

Cargo processing is important and so is fighting the importation of drugs. We should be able in a country this size to do both. The Customs Service now earns about \$18 for every \$1 appropriated for it, and I think a respectable ratio entitles a Government agency to be staffed appropriately to assure that our fair trade laws, as well as our criminal laws, are fairly and effectively enforced.

I am also concerned that the Service's ability to serve small communities would not be equal to the tasks of the 1980's with these cuts. The town of Laredo, Texas now processes more people each day than JFK Airport in New York City, yet the only new employees proposed in the commercial service area for Fiscal Year (FY) 1984 are 31 people to help process importations at the Los Angeles Olympics in the summer of 1984. Senator Danforth and I have asked the Service for the details of the changes that it proposes to make in its staffing, port-by-port, so that we can evaluate on a factual basis whether the aims and objectives of the Customs Service can be carried out under this budget. I hope this hearing and whatever written answers the Service provides to our letter will help us to make those decisions.

Now the other major program change we are seeing in this hearing is the Administration's recommendation to abolish trade adjustment assistance. This Committee agreed in 1981 to reduce this program so substantially that it provides very little assistance to workers, about \$54 million in FY 1983. The Administration proposes to abolish the entire program and replace it with grants to States—and now I am quoting the President's budget—"for programs to meet the needs of workers displaced from their jobs due to technological and other changes in the economy." Only \$240 million is proposed for all such "displaced worker" grants, 70 percent of which goes to training of various types.

I doubt seriously that such a training program would ever actually inure to the benefit of workers adversely affected by trade. But more importantly, it seems to me that this approach to the problem of training dislocated workers does not deal with what is one of the fundamental problems of trade in this country today.

The U.S. economy is now so integrated with the world economy that we have nearly as much of our GNP devoted to trade as Japan does. One consequence of that increasingly integrated world economy is that our industries must face competition from all over the world, often subsidized and almost inevitably the result of affirmative Government policies to promote specific industries targeted directly at the U.S. economy. We have literally no policy under the current Administration to adjust our businesses and workers to this problem of a fully integrated world economy, and if we do not develop a policy in this Congress, I am afraid we are doomed to see the list of deceased American industries expand geometrically.

Therefore, I believe that the policy of abolishing trade adjustment assistance is really a policy of closing our eyes to the problem that confronts us. I believe that instead the Committee will have to undertake a searching analysis of the process of promoting adjustment to import competition, by which I mean becoming competitive. This will mean, I believe, some changes in our basic import relief law, as well as an aggressive program of outreach to labor and firm and even communities. It may be that in the next few weeks I will offer legislation on the subject to serve as a discussion vehicle for the debate which must inevitably come. In any event, I regard the abolition for adjustment assistance and its replacement with \$240 million for retraining for all types of dislocated workers as an inadequate substitute for thinking about this fundamental problem.

PREPARED STATEMENT OF SENATOR GEORGE J. MITCHELL

Until the current recession, international trade has traditionally been something of a stepchild in the American economic picture. Aside from agricultural exports, most efforts to help our economy or assist various regions have concentrated on the internal, domestic economic picture.

But the changing nature of the world has forced us to recognize that this approach is no longer adequate. Today, trade in a broad variety of fields directly affects our overall Gross Economic Product. It affects jobs for Americans. It affects their standard of living. And it does so directly. There are estimates that between 40% and 70% of the GNP drop we experienced during this recession was directly the result of lowered net exports.

In light of that fact, and in light of the fact that the international recovery from this recession shows every indication of being a slow and patchy one, we are faced with several challenges. How we meet those challenges will influence to a great degree how prosperous and resilient our own economy will be in the coming decade.

There are two primary areas I wish to explore in more detail. One goes to the challenge of combating unfair trade practices without at the same time creating a contraction of international trade. The second is the appropriate role of the federal government in helping those workers and industries which suffer economic harm because of our national policy of seeking to open international trade.

I believe that one element of meeting the first challenge is to recognize that our current procedures and requirements for establishing unfair trade practices place a huge burden on industry, in terms of both cost and time, and to question whether a larger share of that burden could not, perhaps, be assumed by government.

Smaller companies simply cannot afford the lengthy and costly process that is now required to establish the existence of an illegal subsidy and injury due to imports. I hope the Administration will be sympathetic to the goal of reducing the procedural burdens in this area, particularly for smaller firms. I hope to take advantage of Chairman Eckes appearance today to solicit his views on possible reforms to the anti-dumping and countervailing duty laws.

On the second issue, I believe it is important that we maintain some form of trade adjustment aid for workers and companies harmed by the national policy of open trade. There are two reasons for this. First, open trade will benefit all the nations over the long term, but it will do so at the expense of concentrations of people and companies in the short run. The national benefit will, in this instance, be purchased at the cost of individuals. In such a circumstance, it is only fair that the nation lighten the burden of that cost, and there is no more effective method to do so than through a federal trade adjustment program.

Secondly, I believe an affective trade adjustment program, which focuses on both workers and industry can be a valuable counterpoint to the existing trade laws, most of which force industries into the position of seeking to prove, not just trade injury, but unfair practices resulting in that injury. If we want to encourage open trade, we will have to reduce the invitation to litigate that now exists. A good trade adjustment program would provide an option for industries to seek the help they need to maintain their competitive standing without forcing them to the additional task of demonstrating that the trade injury was caused by unfairness.

Because many Maine firms compete against imports, the TAA program has been used extensively in Maine. Since 1975, over \$11 million in benefits has been paid to more than 10,000 workers. Nearly \$12 million in technical and financial assistance has been spent on 11 firms in Maine. Since all but one of these firms are still in operation, I believe the program has served the purpose of helping companies adjust to import competition well.

This kind of adjustment is routinely provided by the majority of developed nations to their local industries, and should remain a centerpiece of our nation's policy as well. It is in that respect that I will be exploring the Administration's proposal to allow the Trade Adjustment Act to expire without renewal this year.

Senator Long. Let me just ask one question about that matter. Do you think you would prefer simply to let that old building go and get the GSA to rent you some more modern space? Would you rather have another building or would you rather just improve the one you are in?

Mr. ECKES. Senator, that's a difficult question. I wouldn't want to rule out the other options. My own personal preference is to improve our building—my training has been in history and I love the old building. I think some of my colleagues agree, but I don't think any of us would want to rule out another option that might come up and prove to be a better solution. We know the difficulty of trying to build a new building. We know the difficulties, given the problems that occurred in the 1970's with that \$6 million appropriation, of getting the building modernized. I think it's important to find a solution and to find a solution reasonably promptly. I would prefer to stay where we are if it can be modernized.

Senator LONG. Thank you.

Senator DANFORTH. Thank you all. Thank you for coming.

Mr. ECKES. Thank you very much.

STATEMENT OF MR. WILLIAM SAMUEL, NATIONAL TREASURY EMPLOYEES UNION

Senator DANFORTH. Mr. Klepner.

Mr. SAMUEL. Thank you, Mr. Chairman. Mr. Klepner was unable to be here because of the floor debate on social security and he has asked me to be here in his place.

My name is Bill Samuel. I am legislative liaison with the National Treasury Employees Union, the exclusive representative of all Customs Service employees worldwide. And with me is Mr. Paul Suplezio, legislative consultant with our union.

We are pleased to appear before you today to discuss the authorization of appropriations for the Customs Service for fiscal year 1984. As the subcommittee knows, our Nation depends upon the effective enforcement of our Customs laws both to intercept narcotics traffic and other contraband crossing our borders and to provide for the smooth flow of travelers and merchandise through U.S. ports of entry.

In addition, the Customs Service is a key revenue producing agency responsible for collecting duties and other taxes which accounted for \$10 billion to the U.S. Treasury last year. This represents a return of approximately \$19 for every dollar spent for the Customs Service budget.

To achieve these goals, Customs must be provided adequate capability for enforcing Customs' laws. In recent years, this has required a gradually increasing level of resources because of the continued growth in international trade, tourism, and the growing need to protect our domestic automobile and steel industries, the escalating drug threat, and our strategic interest in controlling the export of critical technology to the Soviet Union. And though the need for sufficient resources is obvious to some and we congratulate this subcommittee for its continued awareness of Customs' budgetary needs, the present administration has been sadly lacking in foresight in its funding request for the Customs Service.

With this subcommittee in the lead, Congress decisively rejected the administration's proposed cut of 2,600 positions last year, and as a result, the total funding level for the present fiscal year will be \$571 million. Though the budget request for fiscal year 1984 contains some welcome increases, such as additional funding for Operation Exodus, drug enforcements and procurement of a second air module, these increases are paid for by major offsetting reductions in personnel, including 820 inspectors, 200 import specialists and 100 patrol officers. A further decrease of 170 inspectors will result from the Office of Management and Budget's plan to reduce the Department of Agriculture's reimbursement for inspector positions devoted to animal and plant inspection.

Overall, this budget represents a net reduction in total staff years of 15 percent from last year, despite an expected 9-percent increase in passenger traffic and an 8-percent rise in imports. In order to provide for the program increases included in the fiscal year 1984 request and the restoration of the 2,100 positions cut in the administration's budget, an authorization of \$639 million is required.

However, to provide for the growing workload at our Nation's air, land and seaports and for improved border enforcement against the continued threat of drug smuggling and illegal aliens, we recommend an additional \$15 million to provide for 2,200 new inspectors, 150 import specialists, and 50 patrol officers. Consequently, we strongly recommend that the subcommittee authorize a budget of \$654 million and 14,318 positions.

We would like to turn now to several areas of law enforcement and revenue collection suffering under this administration's determination to expedite the clearance of passengers and cargos without adequate concern for enforcement and revenue collections.

The underlying theme of the various experiments designed to speed clearance is fewer inspectors, but higher quality inspections. Because of Customs' haste to implement new systems, we believe we will see the former, but not the latter.

For example, Customs is now moving headlong toward adoption of a new cargo inspection system known as ACCEPT, without a proper evaluation of cost and benefits, including the impact on enforcement. The purpose of ACCEPT is to enable Customs to use computer records to identify so-called high risk shipments, or high risk importers for spot inspection and to let other merchandise through without any examination at all.

However, we have seen no evidence that Customs has collected adequate data or constructed accurate profiles to identify potential

smugglers, let alone tested them. What we can expect from this system until Customs demonstrates otherwise is garbage in and garbage out. The system will be unable to guide inspectors to the shipments that need checking, and it will ultimately fail to beat the smuggler who is determined to beat the system.

Similarly, Customs is experimenting with numerous passenger inspection systems, including new configurations at Miami, Los Angeles, Chicago, and the eastern international airports. The experiment in Miami and Los Angeles, known as ASSIST, has so far produced mixed results. While the time it took passengers to enter the terminals decreased in Miami under the experimental inspection system, practicing time actually increased in Los Angeles. In Miami, all enforcement indicators fell, including 32 percent fewer arrests, 40 percent fewer drug seizures, 18 percent fewer merchandise seizures and 10 percent fewer currency seizures. In Los Angeles, drug seizures fell 6.5 percent and their overall arrests did increase.

Moreover, there was an increase in inspector overtime and an increase in the number of supervisors required. We believe that the wisest statement in Customs' report on the test is that ASSIST is no panacea. Customs should resist pressure for its adoption at airports to which it is not suited, and where its implementation satisfies the goal of passenger facilitation to the detriment of enforcement.

At the same time, Customs is moving toward a virtual honor system for importers by placing a greater reliance on automated processing of import documents and eliminating the role of import specialists in checking to insure that the proper duty classification is made and collected by the Treasury. This trend flies in the face of a recent GAO study which indicates that it is the very absence of an import specialist's personal involvement in the classification and evaluation process that is resulting in very costly errors to both importers and the Government.

Nonetheless, the administration has proposed reducing the number of entry processing locations by one-half. And, in addition, cutting the total number of tariff and trade personnel by almost 700. We believe that the value of the service provided by import specialists to the importing community is best illustrated by the overwhelmingly negative response on behalf of the brokers to Customs' plan to centralize the appraisement function. Though Congress acted through the 1983 continuing appropriations bill to prohibit Customs from implementing the plan in a dozen locations, Customs has since informed us that it now plans to remove import specialists from offices in Pennsylvania, South Carolina, North Carolina, Florida, Texas, California, Arizona, Montana, North Dakota, Ohio, and Kansas. We believe that the loss of face-to-face contact with import specialists will deprive the business community of an extremely valuable service and hinder the development of international trade in their communities. We therefore call upon this subcommittee to explicitly bar the use of appropriated funds for the implementation of centralization of appraisement plan.

One other action recently taken by Customs deserves the attention of the subcommittee. On December 17, 1982, Customs sent instructions to its regional offices to forego the collection of mini-

mal duties at passenger processing locations. And we are aware that assessments of under \$25 are now being waived in some ports. Because the Customs' inspector must still calculate the duty owed under declared merchandise, before the assessment can be waived, we question Customs' assurance that it will be cost effective to forego what will surely amount to millions of dollars worth of revenue each year. As the Congress struggles to control growing deficits, we believe this subcommittee should send a clear signal to the Customs Service not to relax its collection of duties.

Senator DANFORTH. Are you close to the end?

Mr. SAMUEL. Yes. Final point. We urge this subcommittee to maintain its opposition to the statutory limit on overtime earnings, a cap which has become unduly restrictive and expensive to enforce. We continue to believe that employees willing and able to work overtime without foregoing family obligations should be permitted to do so. And that the burden of forced overtime created by the cap should be minimized.

We will be happy to answer any questions you have at this time.

[The prepared statement of the National Treasury Employees Union follows:]

STATEMENT OF
VINCENT L. CONNERY
NATIONAL PRESIDENT
AND
JERRY D. KLEPNER
DIRECTOR OF LEGISLATION
NATIONAL TREASURY EMPLOYEES UNION
TO THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE

HON. JOHN C. DANFORTH
CHAIRMAN
AUTHORIZATION OF APPROPRIATIONS FOR THE
U.S. CUSTOMS SERVICE
FISCAL YEAR 1984

U.S. SENATE
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Mr. Chairman and distinguished members of the Subcommittee:

As the exclusive representative of over 125,000 Federal workers, including all employees of the U.S. Customs Service worldwide, we are pleased to appear before you today to discuss the authorization of appropriations for the U.S. Customs Service for Fiscal Year (FY) 1984.

The Trade Subcommittee's annual review of Customs' programs and resources has proven invaluable to ensuring effective congressional scrutiny of the Administration's funding requests for this vital law enforcement agency. As the Subcommittee well knows, countless national interests have a stake in effective enforcement of our Customs laws, including business, labor, agriculture, and the travel and tourism industry. Moreover, our country's long-term health and security depends upon effective policing of our borders, halting the flow of critical technology to unfriendly nations, and interdicting the illicit drug traffic that has such a crucial effect upon the level of violent crime.

We cannot protect these interests and achieve these goals without providing Customs with adequate capability for enforcing the Customs laws. In recent years, this has required a gradually increasing level of resources, because of the strong growth of international trade and tourism, the need to protect our domestic automobile and steel industries, the escalating drug threat, and our strategic interest in export control. The key question then is: "How much is enough?" To answer this question, we need to

weigh the cost of additional resources against the costs to society of inadequate enforcement of the Customs laws.

Under the Reagan Administration, the Office of Management and Budget has basically opted to shut its eyes to the growing Customs workload and the costs of law enforcement to our vital interests. In each of the Reagan budgets for the Customs Service, in FY 1982, FY 1983, and sadly FY 1984, OMB has chosen to keep the total appropriation for the Service at essentially the same level as the previous year. This has forced OMB to propose huge personnel reductions in order to maintain essentially constant outlays.

These Reagan budgets, which called for a decline in the level of real Customs resources in the face of a growing workload, were totally unrealistic and were so perceived by Congress and the travel and trade communities. Last year, OMB recommended a reduction of 2,600 permanent positions, including 1,200 Inspectors, in order to maintain funding at the level of \$499 million. With this Subcommittee in the lead, Congress decisively rejected this budget by restoring all the positions cut and providing additional funds for export control and narcotics enforcement, with a funding level of \$544 million. Including the supplemental for pay and the new Medicare tax, the FY 1983 total funding level is \$571 million.

The Administration's request for Customs in FY 1984 is cast in the same fiscal straitjacket as last year. This budget contains some welcome increases which we have long advocated, such as additional funding for Operation Exodus, drug enforcement, and procurement of a second air module for air patrol operations.

However, these increases are paid for by offsetting reductions in personnel totaling 2,000 positions, including 820 Inspectors, 300 Import Specialists, and 100 Patrol Officers. In addition, OMB proposes a further cut of 170 Inspectors because of a decrease in reimbursable funds, which stems mainly from a reduction in the Department of Agriculture's appropriation (the Animal and Plant Health Inspection Service of DOA reimburses Customs for a certain number of Inspector positions used to perform agriculture protection functions). The total FY 1984 funding level requested by OMB is \$578 million, a mere \$7 million above the FY 1983 authorized level with supplemental.

We can see in this budget very clearly the effects of a freeze in the dollar level of this agency's spending. The freeze requires an actual cut in real resources of \$80 million (the dollar cost of 2,170 positions) or 12 percent. Measured in terms of the decrease in positions, the real reduction is 15 percent of total staff-years. In addition, RIF costs totaling \$20 million would be incurred, including funds for severance pay, annual leave and unemployment compensation.

We have computed that a maintenance budget for FY 1984, which provides for the program increases proposed by the Administration, and fully restores the reduction of 2,170 positions, is \$60 million above the Administration's request. This maintenance budget would allow \$639 million and 13,918 average positions and would save \$20 million in RIF costs.

However, such a budget makes no provision for workload growth at the nation's air, land, and sea ports, or for improved border enforcement against the escalating threat of drug-runners and illegal immigrants. Consequently, NTEU recommends an

additional \$15 million above the maintenance budget, to provide for an additional 200 Inspectors, 150 Import Specialists, and 50 Customs Patrol Officers. We believe this budget to be the minimum essential requirement for effective Customs operations in FY 1984, and we strongly recommend that the Subcommittee authorize our budget of \$654 million and 14,318 average positions.

To summarize, the NTEU recommended budget would:

- restore the 2,170 positions recommended for elimination by the Administration;
- fully fund the program increases for Operation Exodus, the Summer Olympics, organized crime drug enforcement, second air module, and ADP equipment supported by the Administration;
- provide for an additional \$15 million and 400 average positions for personnel in critical line functions where there is presently a huge gap between workload and resources.

Mr. Chairman, the NTEU recommended budget is \$75 million above the President's budget request for Customs. This is a large amount. However, we would like to stress that all but \$15 million of this amount would be used to restore 2,170 positions recommended for elimination by the Administration. The seemingly large increase we have recommended is due to the totally unrealistic reductions proposed by the Administration -- reductions that were decisively rejected by the Congress in the FY 1983 Continuing Resolution passed a scant 60 days ago.

In your deliberations on whether to adopt the NTEU proposal, or to accept some or all of the cuts proposed by the Administration, we ask the Subcommittee to keep in mind the following points.

First, the FY 1983 budget approved by Congress provided the first increase in Customs resources in eight years. From FY 1975 to FY 1983, Customs resources remained essentially static (see Table 1 appended to the end of our testimony) despite a 65-80 percent growth in workload during that period. The increase made in FY 1983 went almost entirely to two new programs, Operation Exodus and the South Florida Drug Enforcement Operation.

Second, NTEU has consistently maintained, and the reports of this Subcommittee and the General Accounting Office have confirmed, that for almost a decade Customs has been stretched thin by a growing imbalance between workload and resources, leading to wide areas of minimal enforcement or non-enforcement. Examples are inadequate controls over outbound shipments, only general supervision of cargo unloading, inspection of barely .3 percent of containerized shipments which comprise 70 percent of seaborne cargo, reduced oil import gauging, and a virtual "honor system" for yachts and boats entering our seaports. These conditions, which still exist despite the additional resources provided in FY 1983, are symptomatic of a general breakdown in enforcement that will require several years of growing resources to correct.

Third, Customs is a revenue-producing agency which collects an average of \$19 for every dollar spent. An incremental increase in Inspectors or Import Specialists would yield a minimum return of 3 to 1, according to Customs. GAO studies have indicated that much revenue is lost from inadequate inspection of containerized cargo and inadequate verification of merchandise entries. The evidence strongly indicates that Customs is definitely operating at resource levels where additional staff would yield revenue increases greater than their cost.

Fourth, while it may be tempting to make economies, as has been the practice in recent years, at the expense of a law enforcement arm such as the Customs Service, in the long run this is extremely unwise because reductions only rebound as increased costs in other parts of Federal, State, and local budgets.

The Administration's FY 1984 budget proposal would result in the wholesale dismantling of the protections afforded the American manufacturer, the American worker, and the public through effective enforcement of the Customs laws. Once again the burden is on Congress to formulate a rational policy, and to begin this year by providing essential resources to eliminate congestion at our ports of entry, stem the decline in enforcement, and lay the foundation for a modern, effective Service in the future.

We welcome the opportunity to participate in this task as the representative of the thousands of dedicated Customs employees whose service is of inestimable value to the nation, yet who have been remarkably ill-served by this Administration.

In the remainder of our testimony, we would like to call attention to the manner in which our society and economy are dependent upon Customs law enforcement, and the social and economic costs of inadequate enforcement. We would then like to discuss each of the principal areas of Customs activity -- Inspection and Control, Tariff and Trade, and Tactical Interdiction -- in some detail, reviewing major problems and issues in each. We will conclude with our recommendations for an alternative budget for Fiscal Year 1984.

Social and Economic Costs of Inadequate Enforcement

As the nation's principal border enforcement agency, Customs is responsible for processing the flow of merchandise and travelers at over 300 ports of entry, and for interdicting the movement of illegal narcotics and contraband between these ports. With approximately 15,000 full- and part-time personnel, Customs watches over a frontier that is 26,000 miles in length as the crow flies, and 100,000 miles if measured by the length of the tidal shoreline.

In recent years, as the economy has become increasingly open to foreign trade, international travelers have visited our country in record numbers, and illegal narcotics traffic and immigration has risen, the challenge to Customs enforcement has increased and brought with it a requirement for additional resources. The question then becomes one of weighing the cost of the additional resources against the costs to society of not adequately enforcing the Customs laws. The following are important national interests protected by Customs, where lax enforcement would be extremely costly to the economy and society.

1. Controlling the Export of Critical Technology

Until recently, one of the largest areas of Customs staffing deficiency was the outbound clearance of exports. Faced with a rising tide of imports, the resources for monitoring exports were gradually withdrawn. Even spot-checks of outbound shipments were seldom made.

The costs of such negligence have now been driven home by the discovery by the Federal Bureau of Investigation of a

pervasive pattern of activity by Soviet agents to pry away the secrets of American high technology by means of bribes and other inducements to obtain products on our export control lists. Their targets are lasers, fiber optics, computers, and telecommunications equipment.

In addition, the importance of technological competition in maintaining ascendancy in the world economy has led to cases of industrial espionage, such as the well-publicized Japanese attempt to steal the trade secrets of the International Business Machines Corporation.

In 1980, the president of Spawr Optical was convicted of shipping about 50 high-energy laser mirrors to a laser research laboratory in Moscow. After being denied an export license for shipment of the mirrors, Spawr deliberately understated their value to the Customs Service and made the delivery through Swiss and West German intermediaries.

Two top officials of a California computer firm were convicted in 1980 of shipping more than \$1-million worth of computer machinery to the Soviet Union without a license. The machinery was crated with air conditioners and washing machines and sent through Germany and the Netherlands to Moscow.

In January, 1983 a former CIA official and two business associates were indicted on charges of conspiring to sell a \$5 million diesel engine assembly line to the Soviet Union in violation of U.S. export laws. The charges were the result of an undercover sting operation run by the Customs Service through a fictitious Paris-based company, as part of Operation Exodus.

Similar charges have also been filed against a Canadian firm and two of its executives alleging they conspired to ship tank

engines to Iran. This investigation was also part of Operation Exodus, but originated in documents discovered by an alert Inspector at Dulles Airport.

Operation Exodus was initiated by Customs in late 1981 to step up enforcement of the export control laws, The Export Administration Act of 1979 (50 U.S.C. 2401), and The Arms Export Control Act (22 U.S.C. 2778). The program began as an experiment with 130 Inspectors, Customs Patrol Officers, and Special Agents operating as three-person teams to conduct spot-checks of outbound shipments and follow up investigative leads at ten ports of entry. The program has proven successful thus far, and has been expanded through increased funding provided in both the FY 1983 and 1984 budgets.

Counting the FY 1984 increase, Operation Exodus is now being funded at the \$30 million level, whereas just a year ago outbound inspection was virtually non-existent. Clearly, the Reagan Administration has concluded that the cost of providing the necessary resources is far outweighed by the cost to the nation of illegal exports of critical technology.

This conclusion is supported by the findings of the Senate Permanent Investigations Subcommittee after a two-year inquiry. The Subcommittee report found that the Soviets are engaged in a massive effort to acquire Western technology by any means, and the Soviets have been able to use such technology to modernize and speed the development of military weapons systems. Naturally, such advances entail countervailing responses by our own military establishment, and this increases the size of our defense budget.

- 10 -

A highly classified Defense Department document, which was reported on by columnist Jack Anderson in an article, "High-Tech Pipeline to Moscow" in the December 26, 1982 edition of the Washington Post, listed notable successes by the Soviet intelligence community in 13 key technology areas, including electro-optic sensors, radar, anti-submarine devices, propulsion, material alloys, energy storage, navigation, lasers, aircraft and electronic components, signal processing, micro-electronics, and computers. Given the extensive range of Soviet technological espionage, it seems reasonable that the loss of such strategic information could eventually add billions to the U.S. defense budget.

The Senate Permanent Subcommittee on Investigations has called for a stronger enforcement effort to halt the export of high technology to our nation's enemies. We urge the Trade Subcommittee to take a close look at this area, and provide the resources for an adequate export control program. Given the huge dimensions of the problem, and the many ways of obtaining U.S. military and industrial secrets, it is quite conceivable that a program on the order of \$50 to \$100 million would be a bargain when compared to the additional costs to defense of the loss of critical technology.

2. Interdicting the Drug Trade

The retail value of illicit drugs supplied to the U.S. market in 1980 is estimated by the National Narcotics Intelligence Consumers Committee (a task force of the principle Federal agencies concerned with the drug problem) to be \$70-\$90 billion,

more than the combined profits of the Fortune 500 companies and double the volume of drug sales two years earlier. Today in America there are an estimated 492,000 heroin addicts, 25 million people who use marijuana at least monthly, 10 million cocaine abusers, and more users of dangerous pills such as quaaludes than ever before.

Approximately 90 percent of the drugs abused in this country come from abroad, including all of the heroin, cocaine, hashish, and 93 percent of the marijuana. According to the House Select Committee on Narcotics Abuse and Control, no more than 10 percent of this drug traffic is interdicted. In 1980, an estimated 44 metric tons of cocaine entered this country; of this amount, 3.5 metric tons, or 8 percent, was seized by drug enforcement agencies. Only about 6 percent of the 4 metric tons of heroin entering the U.S. in 1980 was interdicted.

The regional impact of the illicit drug traffic is particularly severe in the Southeastern United States. An estimated 70 percent of the cocaine, 80 percent of the marijuana, and 90 percent of the quaaludes smuggled into the U.S. come through Florida, Georgia, and the Carolinas. In Florida alone, the drug traffic is the highest in the nation, estimated at \$7-\$10 billion annually. Georgia is the third highest state in drug traffic (ranking just behind Texas). As Federal and State enforcement efforts have been stepped up in Florida, drug runners have shifted their operations to Georgia, the Carolinas, the Gulf Coast, and Virginia.

When one considers events of the past year, it is no exaggeration to say that the entire Southeastern part of the

country is now in the throes of crime and corruption fostered by the lucrative profits of the drug trade. Miami's drug wars and epidemic of violent crime is well known. In Georgia, law officers have been offered sums up to \$50,000 to look the other way when drug shipments arrive by air or sea. During the past year, undercover operations by State and Federal agents have led to the arrests of a Georgia State Senator who promised drug smugglers carte blanche if they financed his bid for governor, six sheriffs and ex-sheriffs, two police chiefs, two county commissioners, six deputy sheriffs, two state troopers, nine police officers, a police narcotics squad secretary, one agent with the Georgia Bureau of Investigation, one county prison warden, two deputy prison wardens, a state forest ranger, and eight Coast Guard sailors guarding the coast against smugglers (reported by Art Harris in the Washington Post, June 15, 1982).

During last October alone, Georgia authorities recovered \$600 million worth of cocaine in duffel bags dropped from planes into cow pastures in the Northern part of the State. The large number of remote landing areas and the dearth of law enforcement officers in rural parts of the state, combined with the escalating drug threat, caused Governor George Busbee to order the Georgia National Guard to use its planes and helicopters as part of the state's anti-drug smuggling force. The Governor's order, which went into effect last November, tripled the state's capability for intercepting illegal drug shipments and made control of drug trafficking the highest priority for all law enforcement agencies in the state.

In North Carolina, the head of the FBI's Charlotte office, Robert L. Spence, has called narcotics traffic there "the number-one growth crime today". Virginia, too, has experienced increased drug traffic by air and sea, prompting Governor Charles Robb to propose to the state legislature last December that the National Guard be used in the fight against drug traffickers. According to the Governor, his proposal was prompted by a state-wide surge in drug-related crimes caused in part by the growing presence of Florida and South American-based smugglers in Virginia's coastal waterways.

The high rate of drug use in the nation is intimately linked with the rate of violent crime that has been plaguing our citizens. According to the Attorney General's Task Force on Violent Crime, one of the recurrent themes of its hearings was the importance of more effectively combatting narcotics traffic. "From Washington to Los Angeles, from Detroit to Miami, we have heard drug officials and scholars stress the connection between drugs and violent crime," the Task Force stated. Law enforcement authorities estimate that between 40 and 60 percent of all serious crimes occurring in the United States during 1981 are drug-related.

The number of reported crimes in the country increased 9 percent between 1979 and 1980, reaching an all-time high in the latter year and maintaining this level in 1981. In 1982, it appears that total reported crime may have receded about 5 percent, but this is no cause for complacency. In an address last fall at the Justice Department, President Reagan stated that "crime today is an American epidemic. It touches nearly a third of the American homes and results in about \$8.8 billion a year in financial losses."

In addition to the social costs of violent crime, the burden of drug use has a significant impact on the nation's health care system, the employment market, and social services. All of these impose direct costs upon Federal, State, and local budgets. For example, in 1980 there were 32,000 admissions to Federally-funded drug treatment programs associated with heroin and cocaine use alone. In a study completed for the State of New York, former Health and Human Services Secretary Joseph Califano estimated last year that the cost of drug addiction in terms of health care and lost work days was more than \$40 billion a year. Califano also made public the results of a Rand Corporation study that showed that prison inmates addicted to heroin (a \$50-a-day habit) had committed six times as many robberies, ten times as many burglaries, and four times as many thefts and assaults as non-addicted inmates.

In the face of this evidence, there is little doubt that a much stronger drug enforcement effort is needed if the nation is to be spared the extraordinary economic and social costs of rampant drug abuse and violent crime. While evidence indicates that marijuana use appears to be leveling off, cocaine and heroin use have risen sharply in the past two years and have reached epidemic proportions in our Eastern Seaboard States.

The Administration's own Task Force on Violent Crime has called for a "clear, coherent, and consistent enforcement policy with regard to narcotics and dangerous drugs," to include "a border policy designed to effectively detect and intercept the illegal importation of narcotics." The Task Force stated:

"We wish to emphasize that the Federal government's first priority should be to provide adequate resources to its own offices which are involved in fighting violent crime."

Yet the Customs Service, which is on the front line in this struggle as the nation's principle border enforcement agency, is to be reduced by 1,436 staff-years in its Inspection and Tactical Interdiction resources under the Administration's budget proposal. We believe that to propose a reduction in the number of Customs Inspectors and Patrol Officers while the drug threat remains critical is the height of irresponsibility. Considering the huge costs the drug trade is imposing on our society, we believe the most prudent course of action would be for the Congress to completely restore these positions and augment them by a minimum of 250 additional personnel.

3. Enforcing the Trade Laws

It has become increasingly evident in recent years that the ready access of foreign manufacturers to markets in this country is costing American jobs. Imports have added significantly to unemployment, and rising unemployment has strained the ability of Federal, State and local budgets to provide needed welfare, job retraining, and social services.

Enforcement of the nation's trade laws protects the American economy by preventing the entry of merchandise without payment of the appropriate duty, or outside an established import quota. By assessment of countervailing duties, American firms are protected from unfair (subsidized) foreign competition. Entry is also barred for products which violate the patents or copyrights of

American firms, or violate laws designed to protect the public health and safety or the environment.

U.S. Customs Service Inspectors and Import Specialists have been a bulwark in protecting our economy against an avalanche of government-subsidized foreign steel, which surged to record levels in 1981. Last year, European Common Market countries were selling carbon steel products in the U.S. at \$500 a ton, with a government subsidy of \$130 a ton. Our domestic steel industry has been operating at 31 percent of capacity, and 45 percent of the work force -- 200,000 persons -- were thrown out of jobs. The Commerce Department estimates that for every 1 million tons of imported steel, 25,000 to 30,000 jobs are lost.

In January, 1982 U.S. steel companies filed suit for relief through application of countervailing duties. Last summer, the International Trade Commission and Commerce Department agreed, resulting in the imposition of additional duties of up to \$250 a ton on steel imported from seven European countries, South Africa, and Brazil. The Customs Service collected the data on which these findings were based, and later implemented collection of the countervailing duties equal to the estimated subsidy.

This strong enforcement stand strengthened the hand of the Federal government in negotiations with European steel producers, and last October the Commerce Department was successful in concluding a quota agreement that will limit European steel imports on 11 carbon steel products to 5.12 percent of the American market until 1986. This quota agreement will, of course, be implemented and enforced by Customs.

However, it should be noted that Europe accounted for only 6 million of the 20 million tons of steel imported to this country in 1981. If the gap left by the Europeans is not to be filled by other steel exporters -- chiefly, Japan, Korea, and Brazil -- Customs will need to continue to monitor steel imports from these countries. Moreover, the European agreement did not effectively cover imports on steel pipe and tubing which have harmed American producers. It will fall to Customs to monitor these shipments closely until this problem is resolved. Protection of our specialty steel producers will also depend upon Customs' import documenting and fact-finding capability.

If steel shipments are not physically verified, and documents stating country of origin, price, and quantity are not examined for accuracy, our trade law enforcement in this vital area will become a dead letter. Yet this is precisely what the Administration is proposing with its cut of 820 Inspectors and 300 Import Specialists for FY 1984. What would be the cost of the jobs lost, and the attendant unemployment, welfare, and social costs, from law enforcement compared to the \$60 million it would cost to restore these positions?

We must not forget that a similar drama is being enacted in the American automobile industry, where 280,000 workers are now unemployed, compared to 213,000 a year ago. Despite a voluntary quota agreement limiting Japanese imports to 1.68 million passenger cars, the Japanese share of the U.S. market rose to 22.6 percent last year -- the highest in history. News accounts indicate that in all probability the present agreement, which expires on March 31, will be extended for a third year.

It is still unclear whether additional relief will be required to save American jobs and rejuvenate the automobile industry. At the present time, the Customs Service is responsible for monitoring the volume of automobile imports, classifying shipments in accordance with U.S. tariff schedules, and collecting appropriate duties. Should a quota be adopted, it is clear that the burden of implementing such a policy will fall squarely upon the Customs Service. Considering the real possibility of such action, the shortsightedness of a cutback in the Inspectional and Classification and Valuation resources of the Service at this juncture becomes readily apparent.

When important national interests are at stake, protecting American industries through import restrictions is one of the many policies that need to be considered. We submit that this country should not unilaterally disarm itself by cutting 20 percent of its Inspectors and 28 percent of its Import Specialists, as the Administration proposes.

4. Serving a Growing Domestic Tourism Industry

One of the major factors affecting Customs resource needs is our national policy of encouraging foreign visitors to this country. This has led in recent years to the rapid growth of passenger arrivals at our land, sea, and air ports of entry, visibly taxing Customs' processing capabilities. Moreover, as many of our cities and regions seek to participate in the growing tourist trade by becoming international gateways, the inability to provide adequate Customs personnel to staff these new facilities is becoming painfully apparent.

This country has too much to lose by allowing Customs to become a hindrance to the expansion of our tourism industry. Foreign visitors are now coming to the U.S. at the rate of 20 million a year, about 8 million from overseas (Canada and Mexico have consistently accounted for the largest number of foreign visitors). In 1980, foreign visitors spent an estimated \$12 billion in the United States, producing approximately \$1.4 billion in Federal, State and local tax revenues. Moreover, between 1970 and 1979 these expenditures grew by more than 250 percent, well ahead of other measures of economic activity.

The travel and tourism industry is now the third largest industry in the United States, employing more than 6 million Americans and producing more than \$118 billion in annual sales. Commerce Department statistics show that more than a million establishments benefit directly from foreign tourists' spending in this country. More than 95,000 jobs were directly supported by foreign visitors food purchases alone in 1978.

Nevertheless, 1982 was a lackluster year for international travel to this country. The overall number of foreign visitors declined 9 percent. While most of the loss was accounted for by a drop in visitors from Great Britain, West Germany, France and Canada declined as well. Since 1982 was a year of deep recession for the world economy, it can be safely assumed that international travel growth will resume with economic recovery.

Even more serious, however, is the fact that the U.S. market share of international tourism has been falling in recent years. According to the Travel and Tourism Government Affairs Policy

Council, the United States now gets only 8 percent of foreign tourists, and this figure is still trending down. The reason for this, according to the Secretary-Treasurer of the Congressional Tourism Caucus, Representative William H. Boner, is the long Customs lines that greet foreign visitors, and inadequate travel promotion.

Both of these causes may be traced to the Reagan Administration's shortsighted budgetary policy. The proposal to cut 820 Customs Inspectors at a time when the Air Transport Association, after a thorough survey, found that a minimum of 230 additional Inspectors was needed at airports alone, can only serve as a deterrent to foreign travel and cost this country millions of dollars in lost business.

In a demonstration of massive unwisdom, the Administration has also proposed to zero out in FY 1984 all funding for the U.S. Travel and Tourism Administration. It is proposing this action despite the fact that the U.S. gets \$18 back for every dollar spent on overseas travel promotion. We can think of no more retrograde action, at a time when jobs and income are so important to our economy, than to turn our back on the sound program of the National Tourism Policy Act which President Reagan signed into law in October, 1981. The U.S. Travel and Tourism Administration should be fully funded at the minimum level of \$14 million which it requires to do an adequate job of promoting travel to this country.

While travel promotion is the purview of other committees of the Congress, the Trade Subcommittee has the ability to do something about the frequent congestion and overtaxing of

facilities occurring at our air, land and sea ports. This problem is caused mainly by the low number of Inspectors attempting to keep pace with the growing number of visitors over the past decade.

If the U.S. is to exploit its natural advantages as a Mecca for foreign visitors, the Customs Service must be provided with an adequate number of Inspectors to reduce present congestion and accommodate the expected growth in future traffic. Besides the 230 additional Inspectors specified by the Air Transport Association for our airports, many of our land border ports such as San Ysidro, Laredo, and Niagara Falls are experiencing lines two to three hours long. Taking matters into its own hands because of the intolerable situation that exists at some locations, the House last year voted an additional \$5 million for more Inspectors at our land ports in the Southwest.

This Subcommittee has taken the lead in requiring Customs to develop new inspectional techniques to facilitate the processing of travelers while not reducing enforcement. As you are aware, last year the Federal Inspectional Services (FIS), composed of Customs, Immigration and Naturalization Service, and the Animal and Plant Health Inspection Service of the Department of Agriculture, tested at Miami and Los Angeles International Airports a new inspection procedure known as ASIST, the Accelerated Special Inspection System Test. We will discuss the FIS report of this test in detail in our testimony, but here we wish to make one point, which is that staff savings failed to materialize as a result of the new inspection procedure. In fact, the GAO report on the test found Customs staffing in Miami to be

inadequate. In our experience, there is simply no way to get around the problem of adequate staffing if large numbers of passengers are to be processed while maintaining enforcement.

We strongly urge the Subcommittee to consider the need for additional Customs Inspectors in light of the contribution of the travel and tourism industry to the U.S. economy. Certainly, the advantages to the nation's balance of payments, plus the additional jobs and tax receipts accruing from tourist expenditures, would far outweigh the cost of several hundred additional Inspectors.

5. Safeguarding American Agriculture

One of the principle missions of the U.S. Customs Service is to prevent the introduction into this country of foreign plant or animal pests that would endanger American agriculture. Considering the paramount role of the nation's \$500 billion agriculture industry, and the enormous costs of eradication should an outbreak of disease occur, an adequate level of baggage inspection at our ports of entry is an absolute necessity. The possible introduction by an unwary traveler of pests that could seriously damage our ecology is an ever-present danger that our country has been able to forestall by the sound policy of passenger baggage inspection at our borders.

For this task, the Department of Agriculture has in the past reimbursed Customs for the cost of 221 Inspector positions. Customs Inspectors perform primary inspection of travelers arriving by air and sea. Based on the declaration form, the finding of agricultural items, and in some cases, a passenger

profile provided by the Animal and Plant Health Inspection Service (APHIS), the Customs Inspector may refer the passenger to a Plant Protection and Quarantine Officer for secondary agricultural inspection.

The importance of this task was driven home in 1981 by the Mediterranean Fruit Fly infestations in California and Florida. Those infestations cost more than \$50 million to eradicate. It has been estimated that a general infestation by this pest, which feeds on over 800 different fruits, would cost \$200 to \$250 million annually in agricultural losses.

The U.S. has not experienced an outbreak of Foot and Mouth Disease since 1929, though countries as close as Great Britain and Brazil have not been so fortunate. The Agriculture Department estimates that it would have a \$10 billion impact on the livestock industry if introduced in this country today. Our system of agricultural protection must be working if we have thus far kept out this disease, but we cannot afford to let down our guard.

African Swine Fever, which has recently made an appearance in Cuba and the Dominican Republic, is another animal disease which may enter through pork products contained in passenger baggage or airplane waste. There is no known treatment for the disease, which would cause \$2 billion in losses the first year.

The soil from plants carried by unwary travelers serves as a means of transport for many pests, which could increase crop losses from 5-10 percent if introduced into this country.

Passenger-carried meat and meat products also pose a serious threat. In FY 1980, 123,128 individual lots of meat and meat products totaling 305,635 pounds were confiscated from arriving

air travelers. These products represented a potential source of animal disease that could severely damage our livestock industry.

In light of these facts, one can imagine our dismay when NTEU was informed by Customs only three months ago that, as a result of a reduction of \$1.8 million in reimbursable funding from the Department of Agriculture, the Service was immediately eliminating 95 of the 228 positions devoted to hand baggage inspection at air and sea ports. As a result, baggage inspection was to be immediately reduced to the indicated levels at the following airports:

Anchorage, AK	50%
Atlanta, GA	36%
Boston, MA	27%
Chicago, IL	50%
Dallas, TX	67%
Dulles	45%
Honolulu, HI	47%
Houston, TX	56%
John F. Kennedy	45%
Los Angeles, CA	33%
Miami, FL	25%
New Orleans, LA	33%
San Francisco, CA	34%
Seattle, WA	29%

In addition, all sea passenger hand baggage inspection for agricultural purposes was being terminated, and seed sampling on our Southern border would no longer be performed.

We cannot think of a more shortsighted policy. In the past, this Subcommittee has taken a firm stand on the importance of adequate agricultural inspection as a safeguard that must not be relaxed. This position was forcefully stated in the Subcommittee's report on the Customs Authorization bill two years ago. We urge the Subcommittee to persevere in this course, and to restore Customs funding for these positions in light of Agriculture's apparent inability to do so.

6. Halting Illegal Immigration

Customs has been playing an increasingly important role in the control of illegal immigration at land border ports and outposts where no Immigration and Naturalization Service (INS) Inspector is available, and at airports where Customs and INS Inspectors are cross-trained to perform each other's missions. The magnitude of illegal immigration into the country, and the attendant social costs (lost jobs, lower wages, sweatshop working conditions, and strained community services) are fueling the call for stronger enforcement at our nation's frontiers. The problem is not limited to our land borders, but includes the nation's air and sea ports, where a growing number of aliens are attempting to gain entry through use of forged passports.

The Census Bureau estimates that there are currently 5 to 10 million illegal aliens in the U.S., and that 500,000 to 1 million more enter illegally each year. These illegal immigrants take American jobs and contribute significantly to the high rate of unemployment. The total number of unemployed, which now stands at 12 million, would be cut in half if the jobs held by undocumented workers were available to our citizens. This would relieve the U.S. budget of some \$34 million in unemployment and welfare compensation.

As things now stand, the nation remains wide open to illegal immigration, and the pressure on our borders is growing every day. Last year over 800,000 aliens were apprehended attempting to cross our Southwestern frontier, and arrests were up 20 percent over 1981. In some locations, such as the Chula Vista, California border section between San Diego and Tijuana, Mexico, the number

of arrests last month jumped 74 percent over the number in the first half of January, 1982. According to INS Commissioner Alan C. Nelson, Mexico's peso devaluation and economic difficulties probably account for much of this movement. But aliens other than Mexicans, including a significant number from El Salvador, are also streaming across the Southern border.

According to one estimate, if illegal immigration continues at current levels it will add 37 to 70 million people to the U.S. population in the next half-century. This will place an extraordinary burden on the nation's ability to provide jobs and an adequate standard of living for our people.

Recent studies by State and Federal authorities have found that the budgetary costs of illegal aliens are huge. Illinois' Attorney General estimates that his state loses \$66 million a year in unemployment benefits paid to illegal aliens who use phony immigration documents when they apply for aid. Similar cases involving welfare and food stamps have been uncovered in California. That state's Department of Social Services discovered that hundreds of aliens in San Diego, Los Angeles, and San Francisco had submitted fraudulent forms to qualify for benefits.

The Reagan Administration is seemingly concerned about the immigration problem, but this has not stopped it from submitting totally inadequate budgets for Customs, which is on the front line in this struggle. We urge the Subcommittee to recognize the joint role of Customs and INS in carrying out this important mission, and to allocate the resources necessary to secure our society and economy from this growing burden.

PROGRAM, BUDGET AND POLICY ISSUES

We turn now to a discussion of the workload and adequacy of resources in each of Customs' principle functions: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also focus on the major issues that deserve consideration by the Subcommittee.

Inspection and Control

There is a large and growing workload/resource imbalance in the Inspection and Control function of Customs due to the number of Inspectors failing to keep pace with the growth of international trade and tourism.

Significant indications of workload growth are that:

- the volume of U.S. merchandise imports has been growing at an 8 percent annual rate for the past decade, and is projected by Customs to continue growing at this rate through 1985;
- Airline passenger arrivals from abroad increased 70 percent between 1973 and 1981, a 9 percent annual rate;
- Total persons arriving from abroad will total 340 million in FY 1984, an increase of 13 million over 1983 and 39 million over the past two years;
- Air cargo imports have been growing at a 14 percent rate in recent years, and are projected to increase to 1.5 million tons in 1983, double the level of 1978.

In order to place these statistics in perspective, we would like to note the following points.

Some of our airports, such as Miami and Atlanta have experienced a rate of growth far above the national average, and

have had a totally inadequate number of Inspectors assigned for the past three years. Atlanta alone experienced a 523 percent growth in international passenger traffic in the three-year period, 1977 to 1980. The advent of wide-body aircraft arriving at closely spaced intervals has led to peaking and congestion at all major airports, especially during the tourist season. The need to handle this traffic has placed a premium on passenger processing to the detriment of cargo inspection, with increased opportunities for smuggling.

In fact, the largest cocaine seizure in history, 3,748 pounds valued at \$175 million, was made by an Inspector last year in Miami aboard an air cargo plane, concealed in a shipment of suits and dresses. Passenger couriers, however, are an equally significant drug threat. According to the National Narcotics Intelligence Consumers Committee, passenger couriers transport virtually all the heroin entering this country, and a large percentage of the cocaine continues to arrive through "body-packing" or ingestion by couriers on air passenger flights.

Last year, the number of travelers arriving from abroad, most of whom entered at our land border ports, increased by 26 million compared to a Customs estimate (in last year's budget request) of 13 million. This erroneous estimate contributed to understaffing and huge congestion at land ports of entry, and shows the pitfalls of submitting an unrealistic budget. If Customs had been permitted to plan rationally for anticipated workload growth, many of the problems that have been occurring on our Southwestern border could have been avoided, and border enforcement would not be in a state of near collapse from the

weight of the traffic our thin line of Customs Inspectors have had to contend with.

Customs resources in the Inspection and Control area have remained static between 1978 and 1983. Now the Administration is proposing to reduce the number of Inspectors to below the level of 1972, despite a 100 percent growth in the number of merchandise imports and air passenger arrivals since that year. This is indicated in Table 1, which shows the trend in the number of Inspectors since 1972, and the Administration's proposal for FY 1984.

The Customs workload/resource imbalance is further illustrated by Exhibit I, appended to our testimony. This chart, taken from the Long-Range Strategic Plan prepared for Customs by the firm of Peat, Marwick, Mitchell & Company, shows actual and projected workload to 1985, and compares this workload to Customs outlays in constant dollars. The results are striking. All the workload trends are rising, but the real level of Customs outlays stays at about the 1975 level.

These facts clearly demonstrate the crux of the problem confronting the Customs Inspectional force today. Customs has essentially an uncontrollable workload, which continues to rise while the number of Inspectors has remained stable. As a result of increased demands from importers and carriers, the static work force is required to put in longer hours on the job. Overtime mounts and becomes the principle resource utilized to accommodate the growing demand for service.

As workload continues to outstrip the capacity of the Inspectional force, the point is ultimately reached where

concessions are made in the form of reduced enforcement. Countless signs of this erosion exist today, providing graphic evidence of conditions that require immediate correction. Some prominent examples are:

-- Customs has been inspecting less than 1 percent of all containerized shipments, which account for over 70 percent of seaborne cargo, despite clear evidence of increased drug seizures and revenue collection when the inspection rate is increased. Last year, the number of containers inspected fell to 0.3 percent of the total number imported.

-- At many coastal ports, private vessels such as boats and yachts arriving from foreign destinations have been placed on a virtual honor system with regard to Customs inspection. Owners are permitted to notify Customs telephonically within 24 hours of arrival, and the formalities usually consist of negative replies to a few questions. Customs attempts to keep this system functioning through spot-checks, but only a tiny fraction of arrivals is ever inspected.

-- Customs has gone to a system of general supervision of vessel unloading. Instead of one Inspector assigned to a ship, the Inspector may now be required to perform inspections at docks miles apart. He must frequently leave one site for another, even though his presence would be a deterrent to smuggling at the initial location.

-- At many ports, Customs lacks the resources to exercise proper supervision over the gauging of tankers by representatives of the oil companies. As a result, Customs' role as the only independent source of data on crude oil and petroleum product

imports is abnegated; revenue collections (when import fees are imposed) are jeopardized, and energy policymaking in times of emergency is undermined by the lack of reliable data.

-- In many ports and outlying areas, Customs lacks the resources to ensure the physical security of the Inspectors themselves. It is not unusual for Inspectors at many land border ports, or on the "graveyard shift" to work alone. Lone Inspectors are exposed to encounters with narcotics traffickers, fugitives, terrorists, and other criminals. Help in many instances is two or more hours away. For these reasons, NTEU has long held that sufficient numbers of Inspectors should be assigned to each port so that, for their own security, Inspectors may be teamed on isolated assignments.

On May 25, 1979 a lone Inspector on duty at the Customs station in Lynden, Washington was shot and killed while questioning an escaped felon who was entering the U.S. from Canada. Despite repeated requests from this union and members of Congress, Customs to this day has not assigned sufficient Inspectors to permit greater security at this port of entry. We strongly urge the Subcommittee to consider these facts in its deliberations on the number of Inspectors to be funded for FY 1984.

Mr. Chairman, these conditions are symptomatic of a general breakdown in enforcement which our union, as a representative of U.S. Customs Inspectors, has been emphasizing since 1978. The unvarnished truth is that there are wide areas of minimal enforcement or non-enforcement of the Customs laws today, and more are emerging. Surely it is a congressional responsibility

to provide the dedicated men and women of the Customs Service with the resources they need to do the job.

Two years ago the Trade Subcommittee directed Customs, in conjunction with INS and the Department of Agriculture, to test new methods of passenger processing at our airports, with the object of minimizing delays to travelers while maintaining enforcement. In compliance with this directive Customs initiated ASIST, the Accelerated Specialized Inspection System Test, at the Miami and Los Angeles International Airports. The principle characteristic of ASIST, in line with recommendations of both the General Accounting Office and the Air Transport Association, was to process passengers through a "one-stop" station where both Customs and INS primary inspections are performed prior to the passenger's claiming his checked baggage. It was reasoned that overall waiting time at the airport could be reduced if Federal Inspection Services (FIS) processing could begin while passengers were waiting for their checked baggage, which surveys have shown takes an average of 24 minutes to arrive.

Under the inspection procedure, primary screening was performed by either a Customs or INS Inspector, each of whom was to be cross-trained in the other's job. The primary Inspector had the option of referring the traveler to either a Customs, INS, or Agriculture secondary inspection station if a problem was encountered in the initial screening. Otherwise, the passenger was free to claim his checked baggage and depart. Roving Inspectors were posted in the baggage claim area and at exit control points. These Inspectors could stop passengers and refer them for baggage inspection if this was deemed warranted.

This system differed materially from current inspection procedures, which require travelers to claim their checked baggage before reporting for Customs inspection. Since all passengers are subject to baggage inspection under the current system, it could be expected that enforcement under ASIST would depend significantly on the percentage of checked baggage that was inspected. This could be measured by the number of referrals to secondary, since all passengers referred to secondary had to first claim their checked baggage.

The final report of the Federal Inspection Services on ASIST was submitted last summer. What were the results?

In Miami, 50 percent of the passengers exited the inspection facility in 33 minutes under ASIST, compared to 44 minutes pre-ASIST, for a 25 percent gain in speed of processing. Ninety percent were out the door in 66.5 minutes, compared to 74 minutes pre-ASIST, or 10 percent faster. To put these times in perspective, it should be noted that the average time for a passenger on a domestic flight to exit the terminal at Miami, from the block time of the aircraft, was 30.5 minutes.

In Los Angeles, 50 percent of the passengers exited the inspection facility in 43 minutes under ASIST, compared to 40 minutes pre-ASIST, for a 6 percent longer processing time. Ninety percent of the passengers cleared in 75 minutes, compared to 66 minutes before ASIST, or 15 percent longer. The average time for a passenger on a domestic flight to exit the terminal from the block time of the aircraft was 26.7 minutes at Los Angeles.

In Miami, all enforcement indicators were down under ASIST for both Customs and INS. Interceptions of agricultural products increased, due mainly to assignment of additional APHIS staff for the test. The drop in Customs enforcement included 32 percent fewer arrests, 40 percent fewer drug seizures, 18 percent fewer merchandise seizures, and 10 percent fewer currency seizures. For INS enforcement, one alien out of every 2,000 applicants was denied admission under ASIST, compared to 1 out of 1,700 for the same period the year before. This represents a 15 percent drop in INS enforcement.

In Los Angeles, Customs enforcement measures were mixed, with some rising and others falling. INS enforcement was down sharply. As at Miami, APHIS enforcement rose significantly as additional staff were assigned to the test. Customs enforcement showed a 45 percent increase in arrests, 44 percent increase in merchandise seizures, and 85 percent increase in currency seizures. However, cocaine seizures were down 17 percent, marijuana seizures dropped 14 percent, and overall drug seizures fell 6.5 percent. For INS, one alien out of 3,695 was denied entry under ASIST compared to one out of 2,396 a year earlier. This represents a 35 percent drop in INS enforcement.

In Miami, the number of passengers referred for secondary inspection was 22.1 percent under ASIST compared to 16.4 percent pre-ASIST.

Both Customs and INS conducted the test with no increase in staff, though their resources were merged in accordance with the test concept. While Customs concludes that ASIST has the potential for staff savings, this finding is wholly unsubstantiated

by the report. In fact, what little data appears in the report, such as a significant increase in Inspector overtime, and an increase in the number of supervisors required, tends to support the opposite conclusion.

The report also shows that, based on staffing requirements, ASIST requires 7.7 percent more personnel than one-stop (Chart D.28, p. 78 of the Report). Finally, GAO's evaluation of the test found that the staff in Miami was inadequate for the inspection system being implemented, particularly due to a shortage of Inspectors at exit control points.

There is, therefore, no reason whatsoever for placing any confidence in the conclusion that implementation of ASIST will lead to staff savings. The most that can be said is that ASIST can be implemented with existing staff at some airports.

In its summary evaluation of the test, Customs compares the results of ASIST with specific criteria of success, such as passenger processing time, drug and merchandise seizures, revenue collection, staffing and overtime costs -- 14 criteria in all. It then renders this judgment: "Had the results of the key indicators been accepted at face value ASIST would be marginal at best."

However, its final conclusion is that ASIST can provide meaningful facilitative gains provided a string of conditions are met with regard to staffing, baggage delivery, and airport facilities and support services. INS gives unqualified support to ASIST, and recommends its adoption at other airports. In its report, INS dwells on the impact of recent staff reductions and finds merit in cross-training Customs personnel to perform INS

functions.. APHIS also supports ASIST provided additional staff are assigned to permit a separate Agriculture secondary, as was done in the test.

We believe that the wisest statement in the report is that ASIST is no panacea. Customs should resist pressure for its adoption at airports to which it is unsuited, and where its implementation would aim at the single goal of passenger facilitation to the detriment of enforcement.

Moreover, ASIST was implemented in such a short time frame that it is safe to say that it has not yet been adequately evaluated. Since it has continued in effect at Miami and Los Angeles, this Subcommittee should request a further evaluation covering a longer period than the initial test. In light of the adverse impact on enforcement demonstrated in both Miami and Los Angeles, ASIST should not be further expanded until evaluation indicates that Customs compliance levels can be maintained.

Let us turn now to the subject of cargo processing, which is an area where Customs is moving headlong toward adoption of a new inspection system without a proper evaluation of costs and benefits, including the impact on enforcement. The idea behind the new system, known as ACCEPT, or Automated Cargo Clearance and Enforcement Processing Test, is simple. Since Customs can make only a limited number of inspections, these should be concentrated on "high risk" shipments where the payoff is potentially greater for the inspectional resources expended. The problem is how to determine which are the "high risk" shipments. It is not possible to set up a computerized system for fingering the shipments to be checked, as ACCEPT attempts to do, without a

great deal of data collection and construction of profiles of the characteristics of "high risk" shipments and "high risk" importers. There is no evidence that Customs has collected this data and constructed the profiles, let alone tested them. What we can expect from this system, until Customs demonstrates otherwise, is "garbage in, garbage out". The system will do a less than adequate job in guiding Inspectors to the shipments that need checking.

Enforcement is bound to suffer while a system that has been inadequately prepared and tested is implemented. Enforcement under ACCEPT depends on the formula, "fewer inspections, but higher quality inspections". What we believe we will see is the former, but not the latter.

Moreover, Customs has not come up with an answer to the question of how to deal with the infinite ingenuity of the smuggler determined to beat the system. Once it becomes known that certain importers and shipments are receiving minimal inspection, how can smugglers be deterred from taking advantage of this situation?

How can potentially harmful shipments, such as adulterated foodstuffs and improperly labeled medicines, be prevented from entering the stream of commerce? With Inspectors taking samples, such shipments can be stopped at the port. Under ACCEPT, the burden will increasingly fall on the Import Specialist to make a determination, based on review of entry documents, that a shipment is potentially hazardous. But Customs has been reducing the number of Import Specialists, and those remaining are severely overworked. Besides, once the Import Specialist gets

the entry documents, the shipment may already be in the stream of commerce. So how will ACCEPT protect the public health and safety?

Section 499 of the Tariff Act of 1930 requires the inspection of not less than one package of every invoice and not less than one of every ten packages of imported merchandise. The law authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue. We believe this provision allows the Treasury Secretary to reduce the number of inspections required, but not to totally abrogate the requirement for inspection contained in the law. However, on September 10, 1981 Customs issued a regulation which allows the release of merchandise with no inspection at all.

Last year, we called for public hearings on ACCEPT and the related Customs regulation of September 10, 1981. We also urged this Subcommittee to bar any funds for implementation of ACCEPT until this panel is satisfied that the public interest is protected. We simply do not believe that the Subcommittee should accept unsubstantiated assertions that, because this system is "automated" or "computerized," it is a truly effective enforcement tool, and not a scheme for minimal enforcement or non-enforcement through exclusion from inspection of many goods imported into this country. We again strongly urge the Subcommittee to act on this important matter. We will be pleased to assist in any way possible with your review of the ACCEPT program.

Another area fraught with danger to the public is the Customs program to remove its employees from bonded warehouses and turn the accounting and release of merchandise over to the warehouse management. In its report on the Customs authorization for FY 1981, the Trade Subcommittee called upon Customs to conduct an in-depth national audit of bonded warehouses. The Subcommittee report noted "incredible" abuses in the program. The results of several audits that came to the Subcommittee's attention amply supported this assertion. Now Customs is trying to wash its hands of the bonded warehouses. Its new report will enable Customs to audit the future condition of the warehouses, but what about the present condition? Without the national audit called for by this Subcommittee, the potential for fraud, abuse, and scandal is huge. We urge the Subcommittee to call an immediate halt to further execution of this program until you have had an opportunity to thoroughly review Customs' plans and actions to date.

Overtime

Last year, the Ways and Means Committee voted to remove the \$20,000 cap on inspectional overtime earnings and the House of Representatives adopted this committee amendment by a vote of 220 to 178. Similarly, the Senate deleted the overtime limitation from its version of the FY 1983 Customs authorization bill and, as a result, the statutory overtime cap was eliminated in the final version of H.R. 6094, which was signed by the President on January 12, 1983.

In a letter to Representative Edward R. Roybal, Chairman of the House Subcommittee on Treasury, Postal Service and General Government of the Committee on Appropriations, Chairman Gibbons of the Trade Subcommittee and 15 Members of the Ways and Means Committee urged the Treasury Subcommittee to remove the overtime cap in the FY 1983 Customs appropriations bill. Despite the Trade Subcommittee's argument that the cap had become unduly restrictive and expensive to enforce, the House and Senate Committees on Appropriations included an overtime cap of \$25,000 in the FY 1983 Continuing Appropriations Resolution and granted the Commissioner of Customs, or his delegate, authority to waive the cap in individual cases. Because the overtime cap continues to be a burden to both the taxpayer and the individual Customs Inspector, we call upon this Subcommittee once again to take whatever steps are necessary to ensure that Customs' activities during FY 1984 are not hampered by the existence of a statutory limitation on overtime earnings.

Though only two Customs Inspectors had exceeded \$20,000 in overtime earnings during FY 1979, the year before Congress first imposed the \$20,000 cap, almost one-third of all Customs Inspectors neared the statutory limit by the end of FY 1982. This confirmed for us the fact that overtime had become a critical resource for meeting the growing demand for clearance of passengers and cargo. For nearly a decade, a virtually static number of Inspectors has been available at our nation's ports of entry to meet a steadily growing number of air travelers and formal entries of goods. On balance, overtime has become a necessary and cost-effective tool in Customs' strategy for

meeting its enforcement and revenue collection responsibilities with a work force limited by Office of Management and Budget (OMB) personnel ceilings.

An Inspector with overtime earnings of \$15,000 to \$20,000 a year works an average of 62 hours a week, 52 weeks a year. In fact, a 1981 Customs' study of overtime showed that, in addition to a normal 40-hour week, the average Inspector is required to work three of every four Sundays, one Saturday per month, and seven weekday overtime assignments per month. Clearly, the cap has not reduced the overall amount of overtime necessary to meet the demand for service. It has merely spread overtime out among the staff to such an extent that employees who do not want to work overtime are forced to, while those Inspectors who are willing to work longer hours are prohibited from doing so.

Forcing Inspectors to work long hours on overtime has driven many dedicated employees out of the Service. In some cases this has led to even more tragic consequences. An Inspector in Detroit died of a heart attack last year after working an overtime shift from which she had asked to be excused. The Inspector had been assigned to work 4-12 p.m. on Sunday and then required to return to work at 7:00 a.m. Monday. She asked to be excused from overtime Monday night but was ordered to work. There were other Inspectors who were present and willing to work but were not allowed to because they had reached the overtime cap. She died of a heart attack later that evening.

In Houston, where the seaport stretches for 60 miles, Customs has seen several women Inspectors resign over the past year after being forced to work late at night on overtime.

Incidents in which female Inspectors were accosted while working late in unsafe areas were also reported.

While proponents of the overtime cap claim to be acting in the employee's interest by limiting the amount of overtime Inspectors can be compelled to work, the overtime cap has had the exact opposite effect by completely eliminating the voluntary aspect of overtime. Prior to the imposition of the cap, Inspectors were able to work out an allocation of overtime duty which took into account their personal needs. Inspectors who wanted to earn more money and were willing to sacrifice their free time or work late at night volunteered for overtime, while Inspectors who had family obligations or other non-work commitments did not. And although this system led to an imbalance in earnings, because the Inspectors were able to choose which assignments they wanted, efficiency and productivity were greatly enhanced.

We strongly believe that employees willing and able to work overtime without foregoing family obligations should be permitted to do so, and that the burden of forced overtime should be minimized. Morale at the workplace is fostered by allowing individual preferences to play a greater role in the assignment of overtime, not by a rigid policy of equalization of earnings.

For the past two years, Customs itself has urged Congress to remove the overtime cap. Treasury Department officials have testified that, in addition to costing \$1 million a year to administer, the cap is preventing Customs from properly allocating its limited resources among ports experiencing different rates of growth. Instead of using local Inspectors to clear carriers on

overtime, Inspectors have been transferred from other ports at government expense to do the job.

Moreover, the overtime cap is interfering with the accomplishment of Customs' mission. Inspectors who exceed the cap are not available for overtime assignments, and some services are either being withheld, or they are being provided by less experienced part-time employees. In some cases, Customs has been forced to use non-inspectional personnel to clear incoming flights. In other cases it has had to replace Inspectors who have reached the cap with higher-salaried supervisory personnel, at a greater cost to both the carriers and the government. In light of this cost, we urge the Subcommittee to keep in mind the fact that over 70 percent of all overtime earnings are reimbursed to the government by the carrier which requests clearance after normal port hours.

The \$25,000 cap imposed during FY 1983 was intended to avoid allowing a sizeable number of Inspectors to reach the cap. But we would like to remind the Subcommittee that, as Customs testified last year, it would need to raise the cap to between \$26,000 and \$30,000 to assure that its workload requirement was met by available personnel during FY 1983. Moreover, with a 4% pay raise, the \$25,000 cap is now effectively \$24,000.

This Subcommittee wisely chose to eliminate the cap altogether and urged Customs to maintain internal controls on the use of overtime. Customs asked for that kind of administrative flexibility last year and stated that it would actually save the government money. We hope the Subcommittee will therefore once again delete the overtime cap from its authorizing legislation.

Before we leave the subject of overtime, we would like to briefly address the rate of overtime pay provided under the Act of 1911. The most recent data collected by Customs shows that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays, and 2.4 times the regular rate on the other days of the week. The Customs study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the work site. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. In addition, there is often a good deal of uncompensated travel time to and from the port, and waiting time when aircraft or ships are delayed in arriving. The study also confirms that the average Inspector works 7 hours on each Sunday assignment, and an average of 8 hours if holidays are included in this figure.

We remain convinced that the frequent call-backs, the late-night hours spent away from home, and the physically demanding nature of inspectional duties justify the present rate of overtime pay. Moreover, these rates of pay conform with the prevailing overtime rates in the private sector, which normally establishes double-time premiums for call-back and night work, and where the typical practice is triple-time for Sunday overtime and double-time-and-one-half for holiday work.

We urge the Subcommittee to reject any Administration attempts to change the basic overtime rate of pay for Customs Inspectors. It would not only be grossly unfair to the Inspectors, who have a unique role in Federal law enforcement, but it would

seriously reduce the incentive to continue to work long hours at a time when the service is stretched thin and already lacks adequate staff.

Tariff and Trade

The Tariff and Trade activities of Customs are responsible for the collection of over \$11 billion a year in revenue to the U.S. government and for the smooth operation of our nation's trade programs. Import Specialists are now located in approximately 65 Customs offices across the country, where they are in daily contact with representatives of the importing community, sharing with them their intimate knowledge of product lines, Customs court rulings, and the technical aspects of their own commodity specialties. When one considers that there are over 10,000 categories in the Tariff Schedules, that products frequently fit more than one classification, and that proper classifications can make the difference between a duty-free entry or a 70-percent tariff, the value of this service to both the import community and the American taxpayer can be understood.

This is confirmed in a Customs survey of rejected entries conducted in May 1980. The survey found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification errors were the most numerous, amounting to 32 percent, while valuation errors made up another 15 percent. In addition, 549 entries covering quota merchandise were erroneously presented as not subject to quota. In commenting on this finding, the Director of Customs' Office of Trade Operations stated:

"While this number does not appear to be statistically significant, the unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

It also noted that the correction of these errors by the Import Specialists resulted in the collection of an additional \$53 million in import duties. The significance of this figure is apparent when one considers that the annual salary cost for the entire Import Specialist work force at that time was \$34 million.

The Administration has proposed reducing the number of entry processing locations by half and, in addition, cutting the total number of Trade and Tariff personnel by 698 employees as part of its FY 1984 budget. These cuts will save Customs \$26 million in personnel costs, and if we once again compare this to the \$53 million in entry errors found during Customs' 1980 study, the reasoning behind the proposed budget cuts appears even more shortsighted.

Even before this year's cuts were proposed, Customs Tariff and Trade activities were suffering from a growing imbalance between workload and personnel resources. As shown in Table 2, the 1,150 Import Specialists on board today are fewer than the number available during 1974. Yet in 1984, the Administration projects that the number of entries will continue to climb and will represent more than a 60% increase over the volume of imports in 1974. Even allowing for a significant improvement in productivity, which has increased historically at a 4.3 percent annual rate, it is evident that Customs has been, and will continue to be, unable to keep pace with the growth in workload.

A 1981 GAO report entitled, "Assurance Needed That Import Classifications are Accurate," belies Customs' claim that increased computerization and greater reliance on brokers will make up for this shortfall in personnel. In fact, the GAO study indicates that it is the very absence of an Import Specialist's personal involvement in the classification and valuation process that is resulting in very costly errors to both taxpayers and the U.S. government.

The report states that:

"Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification is essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.

"Verification is hindered, in part, by a cursory entry-by-entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be resubmitted, and the lack of a quality assurance program.

"The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload."

The report also notes that steps essential to confirming import classifications -- physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings -- are often not performed. GAO found that, in a random sample of entries in three Customs field offices, up to 74 percent of product classifications were accepted solely on the basis of reviews of entry documents. Of products susceptible to laboratory analysis, only 13 of 242, or 5 percent, were analyzed. From 75 to 85 percent of the products were probably never physically examined, according to the report.

As the report points out, a few hours on the importer's premises, viewing samples and establishing classifications, can save untold staff hours by permitting Customs to liquidate most entries upon receipt. In fact, during FY 1981, Import Specialists made over 8,000 visits to importers' premises. While importers consider this to be a very valuable service to their business, it also allows Customs to save the government money by eliminating the potential for rejected entries, time-consuming post-entry work, and entry backlogs resulting from errors.

The value of the service provided by Import Specialists to the trading community is best illustrated by the overwhelmingly negative response of importing agents and brokers to Customs' plan to centralize the appraisement function in 35 locations, down from the present 65. A letter from one North Carolina agent written in response to Customs' proposal to transfer the Import Specialists stationed in Wilmington, North Carolina to Norfolk, Virginia, best sums up the problem:

"U.S. Customs personnel in North Carolina have played a major role in our opinion, in the growth of the North Carolina ports. U.S. Customs personnel have played a very major role in the expeditious clearance of imported cargo through the ports of North Carolina...

"By placing our port under the district in Norfolk, we, of course, feel left out in the cold. The closest Import Specialist which we would have contact with would be Norfolk, Virginia. Therefore, each time we had a question it would be necessary to place a long-distance call to Norfolk and discuss the problem, whereas now, within five minutes we can be in the Customs office discussing our problem face-to-face with an Import Specialist or with other Customs officials as necessary...

"A few years back, Customs experimented with what was called centralized appraisement within each region of the Customs Service. Import Specialists at different ports were assigned different commodities for which they would have responsibility for final appraisement and classifications. Therefore, an importer could

have his merchandise imported at the port in Wilmington but have his entry appraised in Miami. Not only did it take longer to have merchandise appraised, but it became virtually impossible to have contact with the Import Specialist who was actually appraising a particular type of merchandise. We think that this method proved to be very costly and cumbersome to the U.S. Customs Service; therefore, this plan or program was discontinued. Almost immediately, there was a remarkable improvement in the appraisement of merchandise. We think that we are headed for another disastrous experience if the Customs districts are reorganized as we have heard they would be."

During consideration of the FY 1983 Continuing Appropriations Resolution, both the House of Representatives and the U.S. Senate expressed reservations about the Administration's plan to centralize Customs' appraisement function and, in a piecemeal fashion, responded to the objections of importers and their congressional delegations by prohibiting Customs from eliminating twelve entry processing locations, including Customs offices in Duluth, Minnesota/Superior, Wisconsin; Milwaukee, Wisconsin; Bridgeport, Connecticut; Portland, Oregon; Miami, Florida; Saint Albans, Vermont; Anchorage, Alaska; and Blaine, Washington.

Since that time, importers and members of Congress from other ports affected by the centralization program have voiced strong objections to shutting down appraisement offices and transferring Import Specialists to distant locations. The most recent list of ports which will lose their appraisement capability by April 1 of this year includes the ports of Pittsburgh, Pennsylvania; Charlotte, South Carolina; Greenville-Spartanburg, North Carolina; Jacksonville, Florida; Port Everglades, Florida; Eagle Pass, Texas; San Diego, California; Phoenix, Arizona; Sweetgrass, Montana; Great Falls, Montana; Portal, North Dakota; Toledo, Ohio; and Wichita, Kansas.

Though we have requested detailed information regarding the centralization plan, Customs has still provided no rationale for the proposal and no cost-benefit analysis of its supposed advantages. In addition, Customs has not provided the impact statements on the affected communities required by executive order.

Our objection to the plan is based on our belief that it would break down the Inspector/Import Specialist team that is vital to the smooth operation of our ports of entry. Ultimately, the centralization plan will cost the government billions in lost revenue resulting from entry errors. The range of commodities that an Inspector must examine is too great to permit him the expertise needed for a determination of admissibility. Consequently, the Inspector calls upon the Import Specialist, who frequently joins him in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is a greater likelihood of a shipment being released before its inadmissibility is discovered.

In addition, as we have shown, the loss of face-to-face contact with Import Specialists would deprive the business community of an extremely valuable service, and cost many firms thousands of dollars. At the same time, it would hinder the development of foreign trade in many municipalities and result in lost revenue to areas already hard-hit by the recession. We therefore call upon this Subcommittee to make a clear statement of policy concerning the desirability of Customs' maintaining Import Specialists

in their present locations by barring the use of appropriated funds for the implementation of this plan.

At the same time, the nation needs a firm commitment to increase the number of Customs Trade and Tariff personnel to the level required to meet the growing demands of trade and a rapidly expanding importing community. Based on the sheer volume of entries, a minimum of 1,400 Import Specialists is required. Customs estimates that, in FY 1984, it will collect over \$12 billion in import duties, or over \$18 for every dollar appropriated to the Customs Service. Hiring additional Import Specialists would not only help correct present deficiencies in the valuations and classifications program, but it would bring in additional revenue to the U.S. government.

Tactical Interdiction

For several years, this Subcommittee has expressed alarm over the epidemic level of narcotics smuggling. In particular, it has placed a high priority on stemming the flow of drugs into the U.S. across our Southern border. Given this, we find it incredible that the Administration has once again submitted a budget that reduces the number of Customs Patrol Officers, the dedicated group of men and women who are primarily responsible for the enforcement efforts of the Customs Tactical Interdiction function.

Last year, the Administration's proposal for a cut of 70 Patrol Officers was rejected by Congress' and this year OMB has requested that this corps be reduced by over 100. These cuts in personnel are even harder to justify in light of the Administra-

tion's request for a second Air Module, a resource package of aircraft, radar and other electronic gear. Clearly, if Customs is going to provide the Patrol function with added equipment, technology which we believe is badly needed in our war against smuggling, the Administration should be no less committed to providing the personnel needed to exploit this new equipment to its fullest capacity.

Along with the Customs Air Patrol, the Customs Land Patrol is enlisted in the fight against illegal immigration and narcotics smuggling. In addition, the Customs Marine Patrol cooperates with the Coast Guard and Navy and other Federal agencies in blocking the use of "mother ships" and other vessels used to bring drugs into the country. An example of the problems facing Customs Tactical Interdiction personnel is graphically illustrated by the Director of the Customs Air Support Program, who last year told the Miami News:

"What we've got is about 150 targets every day coming in, in the radar environment, and they're not talking on the radio, they're not displaying a transponder code and they're not on a flight plan. And they're not being challenged by anybody...The only people around to challenge them are us and we can only pick six to eight a day to chase."

The fact is that, of 7,000 aerial sorties made by drug traffickers into this country each year, only 1 percent are being successfully interdicted.

As you are aware, the Administration has launched an effort in South Florida to attack the drug problem, and the FY 1984 budget proposes that twelve regional task forces work around the country to combine the efforts of Federal law enforcement agencies to fight drug trafficking by organized crime. What the

Administration seems to be adding on the one hand, it is reducing on the other. For the reduction in Customs Patrol function is a net reduction from last year's budget.

We ask that the Subcommittee give very serious consideration to the priority that should be accorded Customs Tactical Interdiction, in light of the enormous drug and immigration problems facing this country.

NTEU'S RECOMMENDATIONS FOR AN ALTERNATIVE BUDGET FOR THE CUSTOMS SERVICE

Table 3 appended to our testimony contains our recommendations for an alternative budget that will enable the Customs Service to meet minimum essential requirements for Fiscal Year 1984. High among these requirements are the need for additional Inspectors at our ports of entry, the need for an adequate number of Import Specialists to process a growing volume of imports, and the need for additional Customs Patrol Officers to guard our frontiers.

We would like to summarize these recommendations.

First, we recommend an additional 200 Inspectors and \$7.5 million above the level of the FY 1983 Continuing Resolution. This necessarily entails restoration of the Administration's proposed cut of 1,195 Inspection and Control positions and \$45.7 million. Also, the 170 positions being lost through decreased reimbursement would be restored, at a cost of \$7.8 million. The total additional requirement for Inspection and Control would be \$61 million in FY 1984.

Second, we recommend an additional 150 Import Specialists and \$5.6 million above the level of the FY 1983 Continuing Resolution. This entails the restoration of the Administration's proposed cut of 698 Tariff and Trade positions, and \$26.9 million. The total additional requirement for the Tariff and Trade function would be \$32.5 million in FY 1984 under the NTEU recommendation.

Third, we recommend an additional 50 Customs Patrol Officers and \$1.9 million above the level of the FY 1983 Continuing Resolution. This entails restoration of the Administration's proposed cut of 102 positions and \$1.2 million for Tactical Interdiction. The total additional requirement for Tactical Interdiction would be \$3.1 million for FY 1984.

Fourth, we recommend that the Subcommittee allow 256 positions and \$50.7 million above the level of the FY 1983 Continuing Resolution for program additions proposed by the Administration, namely, \$10 million for Operation Exodus, \$3.7 million and 31 positions for support of the Summer Olympics, \$18.3 million for a second air module for drug interdiction, \$15.9 million and 225 positions for the Customs contribution to the President's new organized crime and drug enforcement task forces, \$2.3 million for new ADP equipment, and \$.5 million for toxic substance control. These amounts are already included in the Administration's budget request.

In sum, we urge a restoration of Administration cuts in Customs functions totalling 2,000 average positions and \$72.6 million. This restoration would save RIF costs of \$20 million, or a net increase of \$52.6 million. We also support the program

improvements and \$15.3 million allowance to maintain programs at current levels, as proposed by the Administration, totaling \$66 million and 256 average positions. Going further, we would add 400 positions and \$15 million for essential personnel and 170 positions formerly reimbursed to Customs by the Department of Agriculture and warehouse proprietors at a cost of \$7.8 million. Thus, our total recommended addition to the Administration's budget request for FY 1984 is 2,570 positions and \$75.4 million.

We appreciate the opportunity to present our views on the FY 1984 Customs authorization and look forward to working with the Subcommittee to develop the FY 1984 budget for the Customs Service.

Table 1. Number of Customs Inspectors and Total Employment

FY 1972 - 1984

	<u>Total Employment (Average Positions)</u>	<u>Number of Customs Inspectors</u>	<u>Indexes: 1972=100 Total Employment</u>	<u>Customs Inspectors</u>
1972	11,116	3,754	100	100
1973	11,772	3,700	106	99
1974	11,878	4,000	107	106
1975	13,076	4,400	118	117
1976	13,380	4,300	120	114
1977	13,228	4,300	119	114
1978	13,854	4,399	125	117
1979	14,061	4,174	126	111
1980	13,820	4,165	124	111
1981	13,316	4,379	120	116
1982	12,924	3,987	116	106
1983 (EST)	13,492	4,125	121	110
1984 (EST)	11,748	3,305	106	88

Table 2

U.S. CUSTOMS SERVICE
 Formal Entries of Merchandise and Number of Import Specialists
 Fiscal Years 1972-1984

<u>Fiscal Year</u>	<u>Number of Import Specialists</u>	<u>Number of Formal Entries of Merchandise</u>	<u>Entries Per Import Specialist</u>	<u>Average Annual Workload* Growth</u>	<u>Required Number of Import Specialists Assuming Product Growth of 4.3% Per Year³</u>
1972	1174	2,866,000	2,441		1174
1973		3,240,000			
1974	1210	3,206,000	2,650	1956-1974 4.3%	1210
1975		3,015,000		1974-1984 17.1%	
1976		3,264,000			
1977		3,690,000			
1978		4,017,000			
1979	1236	4,384,000	3,547		1361
1980	1219	4,374,000	3,588		1320
1981	1165	4,588,000	3,938		1331
1982	1081	4,753,000	4,397		1330
1983 (EST)	1042	5,090,000	4,885		1390
1984 (EST)	751	5,395,000	7,184		1410

Notes:

1. Subcommittee on Trade, Committee on Ways & Means, Background Materials on H.R. 9220, July 14, 1976, p. 39, gives Import Specialist workload in FY 1974 and average annual growth of workload, 1956-1974. Workload is measured in number of entries per Import Specialist.
2. Assuming 4.3% productivity growth per annum since 1974, the number of entries each Import Specialist would be capable of handling in 1984 would be $2650 + (2650 \times .043 \times 10) = 3790$. Dividing this into 5,345,000 entries yields 1410 as the required number of Import Specialists.

U.S. CUSTOMS SERVICE BUDGET FY 1984
Administration Proposal and Recommendation of
the National Treasury Employees Union (NTEU)

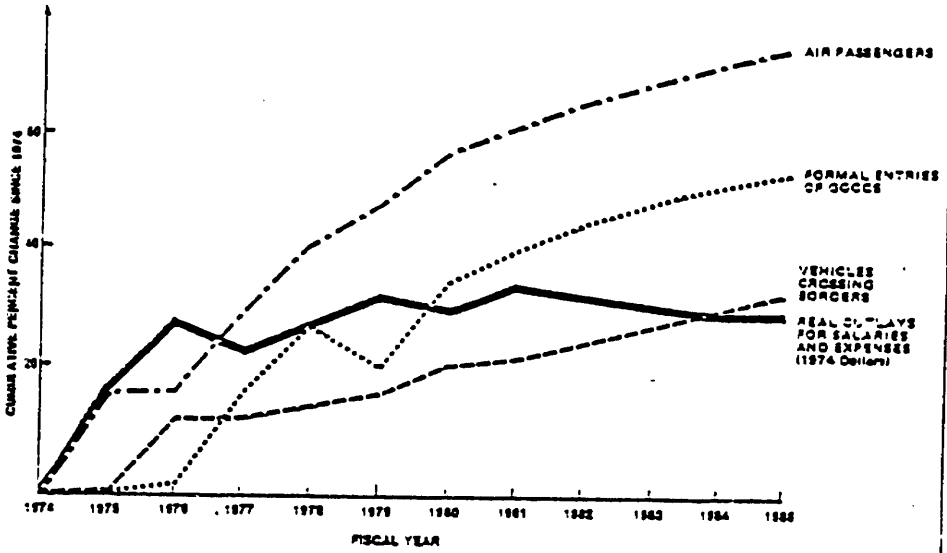
Table 3.

	Admin. proposal		NTEU recommend. to restore to FY 1983 level		NTEU add-on for minimum enforcement staffing	
	\$(millions)/ staff years		\$(millions)/SY		\$(millions)/SY	
FY 83 appropriations	553.7	13,492				
FY 83 pay supplement.	+ 17.6	-0-				
FY 1983 BASELINE	571.3	13,492	571.3	13,492	571.3	13,492
FY 83 program increases:						
Op. Exodus	+ 10.0	-0-				
Olympics	+ 3.7	+ 31				
Air Module	+ 18.3	-0-				
Org. crime & Drug Enforc.	+ 15.9	+225				
ADP Equipment	+ 2.3	-0-				
Toxic substances	+ .5	-0-				
SUB TOTAL	+ 50.7	+256	+50.7	+ 256	+50.7	+ 256
FY 1984 program reductions:						
Tactical interdict.	- 1.0	- 28	-0-	-0-	+ 1.9	+ 50
Centralization of Apprais.	- 5.7	-156	-0-	-0-		
Bonded warehouse prog.	- 2.0	-114	-0-	-0-		
Region & District consolidation	- 5.7	-142	-0-	-0-		
Inspection & control	- 34.4	-198	-0-	-0-	+ 7.5	+ 200
Trade & Tariff	- 16.8	-450	-0-	-0-	+ 5.6	+ 150
Unspecified	- 7.0	-192	-0-	-0-		
SUB TOTAL	- 72.6	-2,000	-0-	-0-	+15.0	+ 400
FY 1984 increases to maintain current levels:						
RIF costs	+ 20.0	-0-	-0-	-0-	-0-	-0-
Other costs	+ 15.3	-0-	+15.3	-0-	+15.3	-0-
SUB TOTAL	+ 35.3	-0-	+15.3	-0-	+15.3	-0-
Nonrecurring costs Decreased reimbursement*	- 6.0	-0-	- 6.0	-0-	- 6.0	-0-
	(- 7.8)	(- 170)	+ 7.8	+ 170	+ 7.8	+ 170
FY 1984 BUDGET	578.7	11,748	639.0	13,918	654.0	14,318

*reduction in reimbursement from Department of Agriculture and other programs

EXHIBIT I

CUSTOMS WORKLOAD COMPARED TO REAL SALARY
AND EXPENSE OUTLAYS (1974-1985)



* Trend projection

**STATEMENT OF MR. JAMES GORSON, AIR TRANSPORT
ASSOCIATION**

Senator DANFORTH. Mr. Gorson.

Mr. GORSON. Thank you, Mr. Chairman. I can quickly summarize my statement.

My name is James R. Gorson. I am director of facilitation of Air Transport Association of America, which represents the scheduled airlines of the United States.

Air transportation is a principal mode of transportation to and from the United States for international travelers. Air transportation also represents an extensive, increasingly important, and growing international air freight and mail distribution system. Customs' requirements impact upon this international air commerce where inspections are mandatory at U.S. ports of entry and preclearance airports. The airlines are, therefore, vitally interested in budget considerations covering Customs' staffing and procedures at gateway airports.

The numbers of Customs' inspectors at U.S. gateway and preclearance airports have not kept pace over the past several years with the growth of international air commerce because of budget constraints. The fiscal year 1984 Customs budget proposal, for example, includes further expenditure reductions which we understand will reduce airport levels roughly by 10 percent. Inspector staffing levels today for the most part are inadequate to meet current airport inspection loads. This situation will deteriorate significantly in the coming peak international travel season. Either adequate numbers of Customs' inspectors must be authorized or a high priority program to reduce inspector workload through continued modernization and simplification of current practices and procedures must be initiated or both.

In this connection, Mr. Chairman, at a recent joint Government airline's facilitation conference we were requested to develop an analysis of how further efficiencies could be realized. The ATA analysis is being finalized and we will be glad to submit a copy for the record.

[The analysis from Mr. Gorson follows:]

ANALYSIS OF FEDERAL INSPECTION AGENCY

MANAGEMENT AND ORGANIZATION

APRIL 4, 1983

Prepared by the
Air Transport Association of America
1709 New York Avenue, N.W.
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At the Request of
The November 1982 Joint
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ANALYSIS OF FEDERAL INSPECTION AGENCY
MANAGEMENT AND ORGANIZATION

	<u>Page</u>
I. INTRODUCTION	1
II. HOW THE FEDERAL INSPECTION SYSTEM WORKS TODAY	4
III. REGULATORY RESPONSIBILITIES OF FEDERAL INSPECTION AGENCIES	9
A. United States Customs Service	9
B. The Immigration and Naturalization Service	11
C. The Drug Enforcement Administration	12
D. Animal and Plant Health Inspection Service of the Department of Agriculture	12
IV. PREVIOUS REPORTS AND STUDIES ON FEDERAL INSPECTION AGENCY MANAGEMENT	14
V. ORGANIZATIONAL OPTIONS AND ALTERNATIVES WITH RESPECT TO FEDERAL INSPECTION AGENCY MANAGEMENT AT AIRPORTS	25
A. Improve Techniques and Agency Coordination	26
• universal implementation of ASIST	26
• employment of automated and selective system of cargo clearance	26
• expedited utilization of machine readable passport system	26
• improved coordination within the government and with industry	27
• increase in authorized inspectors	27
• greater cross-utilization of inspectors	27
• consideration of the Canadian Inspection System	27
B. Single Management Concept	28
• combine inspection agencies and place within existing Cabinet Department	29
• combine inspection agencies into a new independent "United States Inspection Service"	30
• establish private or quasi-governmental entity to perform inspection functions	31
C. Interagency Facilitation Board	32
D. One Agency to Process Air Travelers, Another to Process Air Freight	33
VI. RECOMMENDED METHOD OF PROCEEDING	34
APPENDICES	

I. INTRODUCTION

In order to strengthen air commerce and achieve greater government productivity, the United States must improve its ability to facilitate the movement of passengers and cargo through its international gateway airports, and must assure that federal inspection services are performed efficiently and economically. National policy calls for measures to encourage travel, tourism, and trade and, concurrently, to prevent the entry of unlawful narcotics, illegal aliens, contraband, and dangerous plant, animal, and human diseases.

The challenge of accomplishing these objectives is illustrated by an examination of the scale of activities involved. Twenty-six million air travelers entered the United States on more than 200,000 scheduled and charter aircraft in 1982.^{1/} In the same year, international cargo, with an estimated value of \$31 billion, arrived by air at United States gateway airports.^{2/} Federal projections indicate that substantial increases in both passengers and cargo can be anticipated in the decade ahead.^{3/} An increasing proportion of international cargo shipments is comprised of time-sensitive small-package and document express shipments, for which efficient customs clearance procedures are particularly important.

The economic impact of this international commerce emphasizes the necessity for modernizing and streamlining the federal inspection services. In 1982, customs duties collected on air and surface imports exceeded \$9 billion.^{4/} This figure compares with the collective budgets of \$1.2 billion for the U.S. Customs Service, the Immigration and Naturalization Service, and the Animal

^{1/} See Appendix A.

^{2/} See Appendix B.

^{3/} Federal Aviation Administration, "FAA Aviation Forecasts - Fiscal Years 1982-1993" (February 1982).

^{4/} See Appendix C.

and Plant Health Inspection Service.^{5/} According to the U.S. Travel Data Center, visitors from abroad contribute annually \$12 billion to the United States economy, producing over \$1 billion in federal, state, and local taxes, and supporting 320,000 jobs.^{6/} In recent years, the rate of growth of foreign visitor spending has far outpaced the rate of growth of U.S. personal consumption expenditures and the Gross National Product.^{7/}

It is widely recognized that the increase in passengers and cargo, and the magnitude of revenue involved, have not prompted the government to improve the federal inspection process for international air commerce. Over the past five years, international air passenger travel has increased by 41%^{8/} and air cargo tonnage by about 29%^{9/} while the number of Customs inspectors, for example, at airports has not increased at all.^{10/} This has resulted in lengthy inspection periods, which have imposed time and financial burdens on the traveling and shipping public, and the airline industry as well.^{11/} A Government Accounting Office report on delays in the federal inspection process at airports in New York and Miami provides evidence that such inefficiency may have cost air travelers at those airports more than \$26 million in 1982.^{12/} Air carriers, too, incur increased operating expenses, when multi-million dollar aircraft and flight and maintenance crews are prevented from being utilized optimally by delays in inspection practices and procedures. Localities, fearful of losing revenue and goodwill from past and potential international visitors, have also called for

^{5/} See Appendix D.

^{6/} See Appendix E.

^{7/} See U.S. Travel Service, "The Economic Impact of Foreign Visitor Spending," (September 1980).

^{8/} See Appendix A.

^{9/} See Appendix B.

^{10/} Current budget proposals call for an actual decrease in the number of Customs inspectors.

^{11/} See Appendix F.

^{12/} See Comptroller General, More Can Be Done to Speed Entry of International Travelers (1979). The analysis of costs to passengers is provided in Appendix G.

improvements. The County Manager of Dade County reported in January that at Miami International Airport inspection problems were "worse than ever."^{13/}

Executive and legislative branch studies described in this analysis, including reports of the Comptroller General to the Congress, have established that efficiencies can and should be achieved in the use of federal inspectors, and also in streamlining their functions to take advantage of modern technology, such as state of the art computers and advanced communications systems. Such improvements would advance the Congressional objective, expressed in the National Tourism Policy Act, to "encourage the simplification, reduction, or elimination of barriers to travel, and the facilitation of international travel generally."^{14/} Similarly, action is necessary to facilitate the movement of international air cargo and to reduce the need for more costly holding facilities.

Improvements in the federal inspection system would also be consistent with this nation's commitments as a signatory to the Chicago Convention on International Civil Aviation. Annex 9 to the Convention sets forth facilitation Standards and Recommended Practices designed to "prevent unnecessary delays to aircraft, crews, passengers, and cargo, especially in the administration of the laws relating to immigration, quarantine, customs and clearance."^{15/} The United States is obliged to establish to the extent practicable procedures "in accordance with the practices which may be established or recommended...pursuant to this Convention."^{16/} An example is the dual channel system for the inward clearance

^{13/} See Appendix H.

^{14/} 22 U.S.C. §2122.

^{15/} See Article 22 of the Convention, 61 Stat. 1180, 1186 (Dec. 7, 1944).

^{16/} See Article 23 of the Convention, 61 Stat. 1180, 1186 (Dec. 7, 1944).

of passengers^{17/} and their baggage,^{18/} a system which has long been in use abroad but has been implemented only recently at three U.S. airports.

The need for improvements in the federal inspection system is compelling. To achieve these improvements, it appears that the number of federal inspectors must be increased substantially, or that a high priority program be initiated to revise the inspection process, or both. Clearly, actions to modernize and simplify the system, such as implementation of accelerated one-stop passenger inspections, citizen by-pass, machine readable passport examination, and automated selective processing of cargo and express shipments are essential to keep pace with the growth of international air commerce. Past history and the current situation demonstrate the complexity of the issues, and the need for legislative and executive branch officials most familiar with the problems to implement a solution. The airlines wish to be of assistance in this work.

It is hoped that the following analysis will be helpful. It first examines the federal inspection process today and the regulatory responsibilities of the various inspection agencies, then reviews major studies conducted in the past regarding that process, and then presents options and recommendations that may be considered individually or in combination as potential improvements for the current inadequate system.

II. HOW THE FEDERAL INSPECTION SYSTEM WORKS TODAY

The Airport and Airway Improvement Act of 1982, Public Law 97-248, required the Secretary of Transportation to appoint a task force to be chaired by the Chairman of the Civil Aeronautics Board to conduct a study of airport access problems and issues. The task force study has been completed and was

^{17/} See Annex 9, Chapter 3, V 3.17.1; reproduced in Appendix I, infra.

^{18/} See Annex 9, Appendix 5, reproduced in Appendix I, infra.

submitted to the Congress on March 10, 1983. The following is an excerpt concerning federal inspection services contained in the task force report:

"Federal Inspection Services (FIS) at U.S. airports are a significant cause of groundside congestion and delay for international air passengers and shippers. FIS congestion and delay detrimentally impact international passenger and cargo facilitation, disrupt the ability of arriving international air passengers to make planned domestic flight connections, significantly affect the movement of urgent shipments in international commerce, and can affect the capacity of an airport to accommodate international traffic."^{19/}

The delays and disruptions described by the task force reflect the fact that the inspection process today for passengers and cargo arriving in the United States has changed little fundamentally from the days of the steamship. As the Comptroller General noted in connection with cargo, "Customs' inspection requirements are still dictated by a law enacted in 1842,"^{20/} and many requirements governing passenger inspections are of similar heritage.^{21/} Delays in the inspection process of three hours or more have been experienced at major U.S. airports including New York and Miami,^{22/} and concern over delays has been an important factor in prompting carriers at several busy airports to increase substantially the time between the international arrival and the connecting domestic flight.^{23/} Congress has expressed alarm that the "rapidly increasing volume of both international air passengers and cargo...[has resulted in]...congestion and excessive delays...at U.S. airports of entry."^{24/}

^{19/} See Appendix J.

^{20/} See Comptroller General, Customs' Cargo Processing - Fewer But More Intensive Inspections Are in Order 7 (1978).

^{21/} See Section III, *infra*.

^{22/} See Appendix F.

^{23/} At Honolulu International Airport, the standard minimum connecting time from an arriving international flight to a domestic connecting flight has increased, for example, from 90 minutes in January of 1973 to 120 minutes in January of 1983. At San Francisco International, the increase for the same period has been from 75 minutes to 135 minutes. Source: Official Airline Guide.

^{24/} S. Rep. No. 97-192, 97th Cong., 1st Sess. 21 (1981). This concern was forcefully reiterated in September of 1982. See S. Rep. No. 97-547, 97th Cong., 2nd Sess. 24 (1982).

For the international traveler and shipper, there is little need to detail the elements of the federal inspection process at U.S. airports. They have had time, often an abundance of time, to anticipate and participate in that memorable process. Passengers know from personal experience that arrival in the U.S. after a long international journey can mark the beginning of an exhausting experience. Shippers know that if their important shipments arrive after 5:00 p.m., or on a weekend, the cargo will often sit unprocessed until at least the next business day, and, sometimes, days beyond that.

While there are variations at some airports participating in tests, the current passenger inspection process through the airport facility is the traditional two-stop system. With hands filled with inspection forms, receipts, passports, tickets, baggage checks, and hand baggage, the arriving passengers first stand in line to be interviewed by Immigration officials before claiming their checked baggage.^{25/} Documents are examined to determine whether they can be admitted to the United States, and their physical appearances are considered for possible health problems.

After the standing in line and the completion of the Immigration examination, the formal federal inspection process is suspended while the passengers claim their checked baggage. They then move to another area to stand in another line to await another examination. The Customs official conducts an interview. The inspector enters the traveler's name and date of birth in the Treasury Enforcement Communications System for a computer check against a list of known or suspected violators. The inspector reviews the passenger's Customs Declaration and examines all or part of the passenger's baggage.^{26/}

^{25/} Although the federal agencies are authorized to expend public funds to acquire space at airports for the performance of their public inspection functions, e.g. 49 U.S.C. §1509(e), it is the airlines and other airport tenants which pay for inspection agency space and periodic, costly modifications.

^{26/} If plants, animals, or food are discovered or suspected, the passenger may be referred to yet another inspection conducted by the APHIS inspectors from the Department of Agriculture.

Either during the wait for the first or second inspection, arriving passengers are often faced with legitimate concerns. Will they make connecting flights at gates located on the other side of the airport? Will persons meeting them who have been driving in circles in the passenger pick-up area since the scheduled arrival time, understand and not be inconvenienced or worried about their whereabouts? Such worries are naturally exacerbated if the lines are long, their children fatigued, and the number of bags sufficient to require the pushing of baggage forward with feet and knees. Only after this second inspection and endurance test is concluded are passengers able to continue their journeys.

For experienced and inexperienced international travelers alike, this frustrating and fatiguing process is no shock. The inspection system has been the subject of innumerable newspaper and magazine articles. Few television viewers have not seen the newsclips of wall to wall, agitated passengers, inching along their suitcases in the crowded and noisy inspection areas. Public complaints about the system have been so vocal that the federal government has authorized and completed study after study, some described later in this analysis, recommending improvements that are, however, rarely, if ever, adopted. The airlines, themselves, have had to adjust their connecting schedules to accommodate delays. Upwards of 30% of international passengers need domestic connections.

While not as well known generally, the problems associated with the processing of international air cargo and express shipments are equally frustrating. Speed of delivery is the very lifeblood of the air cargo industry. But the advantages of being able to ship cargo and documents across the ocean in a matter of hours are greatly diminished when the system of inspection and documentation can delay delivery for days. Such delay can also result in the uneconomical acquisitions of more holding facilities when cargo is not promptly processed on a daily basis. Moreover, this warehousing of cargo greatly increases the potential for security problems.

Shipments must go through both an inspection and evaluation process. The inspection process is designed to ascertain the accuracy of the merchandise description and quantity and to assure that any import quotas are not exceeded, while the evaluation process is undertaken to make certain that correct duty is paid. There is no dispute about the necessity for a system of examination and evaluation. The question is whether the most advanced, efficient, and productive techniques have been and will be utilized to meet Customs' dual obligations of enforcement and the facilitation of the movement of international commerce. In the past, the answer has been no. Recent indications are that greater implementation of modernized procedures may be forthcoming, by utilizing, for example, far more than in the past, an automated approach for selective cargo examinations, and selective entry processing. Problems have also surfaced in the operation of programs which establish necessary controls on export shipments. For example, a lack of coordination between Customs and shippers has resulted in export shipments being detained without prompt notification being provided to the shipper,^{27/} or being subject to duplicative inspections.

It would be unfair merely to point to the well-known inadequacies of the passenger and cargo inspection systems, and imply that the federal government is indifferent to the situation. Federal inspectors are hard-working and responsible employees. Their supervisors clearly desire to carry out the requirements of the law. The problem is not a question of good intentions. It is a system which, in spite of good intentions, has become unwieldy, uncoordinated, incapable of adjusting quickly to the dynamic changes of the air transportation industry, and greatly in need of new instructions to carry out its enduring responsibilities.

Before considering what those instructions might be, it will be useful to examine with specificity the duties assigned to the inspection agencies.

^{27/} See Washington Report, December 7, 1983 at 13 (U.S. Chamber of Commerce).

III. REGULATORY RESPONSIBILITIES OF FEDERAL INSPECTION AGENCIES

In the nearly 200 years since the creation of the predecessor of the United States Customs Service,^{28/} Congress has passed many laws establishing an extraordinary variety of border management responsibilities. The traditional work of collecting duties on imports has expanded to include enforcement of hundreds of laws and regulations involving such diverse subjects as international trafficking in controlled substances and the importation of honeybees.

To achieve the statutory objectives, Congress has assigned responsibilities to a number of agencies. At airports, for example, officials from Customs, the Immigration and Naturalization Service (INS), the Drug Enforcement Administration (DEA), and the Animal and Plant Health Inspection Service (APHIS), are generally present. Other agencies with statutory obligations at the border utilize the services of agencies present to assure fulfillment of their legal mandates.^{29/}

To understand the breadth of inspection responsibilities at airports and the roles of the principal federal agencies involved, the following summary, highlighting the more important agency roles, is provided.

A. United States Customs Service

Customs is charged with assessing and collecting duties, excise taxes, fees and penalties associated with the importation of merchandise.^{30/} It is obligated to interdict and seize contraband, including narcotics, drugs, and certain

^{28/} 1 Stat. 29, July 31, 1789.

^{29/} The Fish and Wildlife Service does station inspectors at certain designated border areas. The Center for Disease Control provides inspectors or private doctors under contract as the needs of the public health require.

^{30/} See e.g. Tariff Act of 1930, as amended, 19 U.S.C. §1202 *et seq.* The current Tariff Schedule of the United States is nearly 800 pages long, exclusive of appendices. Several typical pages are annexed in Appendix K.

firearms.^{31/} It is authorized to inspect and search all persons, baggage, and merchandise arriving in the Customs territory of the United States.^{32/} It may board any aircraft arriving in the United States from a foreign country for the purpose of examining the manifest and other documents and searching the aircraft.^{33/}

Customs enforces laws designed to protect American business and labor. For example, Customs enforces orders of the International Trade Commission prohibiting unfair practices in the import trade^{34/} and excluding or changing the duties on imports from countries discriminating against the commerce of the United States.^{35/} Customs also is instrumental in preventing the importation of articles bearing a false notice of copyright and piratical copies of copyrighted works,^{36/} and in prohibiting the importation of foreign made articles bearing American-owned trademarks.^{37/} Customs enforces tariff rate and absolute quotas established by Presidential proclamations, Executive Orders and legislative enactments.^{38/} It also monitors compliance with country of origin marking requirements,^{39/} and is authorized to examine "all mail arriving from outside the Customs territory of the United States which is to be delivered within the Customs territory of the United States."^{40/}

^{31/} 49 U.S.C. §§781-787.

^{32/} See e.g. 19 U.S.C. §§1461, 1467, 1496, 1582; 19 C.F.R. §162.6.

^{33/} 19 U.S.C. §1581, 49 U.S.C. §1509; 19 C.F.R. §6.10.

^{34/} 19 U.S.C. §1337; 19 C.F.R. §12.39.

^{35/} 19 U.S.C. §1338; 19 C.F.R. §12.39.

^{36/} 17 U.S.C. §§106, 108; 19 C.F.R. §133.41.

^{37/} 15 U.S.C. §1124, 19 U.S.C. §1526; 19 C.F.R. §133.

^{38/} See 19 C.F.R. §132.

^{39/} See 19 U.S.C. §§1202, 1304; 19 C.F.R. §134.

^{40/} See 19 C.F.R. §145.2. Several types of mail are exempt, and restrictions apply to the opening of certain categories of mail.

In cooperation with other agencies, Customs assists in the enforcement of laws relating to the importation of certain foods and cosmetics,^{41/} pesticides,^{42/} hazardous substances,^{43/} cheeses,^{44/} milk and cream,^{45/} meats,^{46/} plants,^{47/} agricultural and vegetable seeds,^{48/} viruses, serums, and toxins,^{49/} domestic and wild animals,^{50/} whale products,^{51/} tea,^{52/} liquors,^{53/} motor vehicles and their engines,^{54/} and electronic products.^{55/} This listing is but a sample.

B. The Immigration and Naturalization Service

The Immigration and Naturalization Service (INS) is responsible for administering and enforcing the immigration and nationality laws of the United States. The agency is responsible for insuring that persons entering into or remaining in the United States are entitled to do so. At the airport this entails such duties as determining the admissibility of aliens,^{56/} examining entry documents,^{57/}

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- 41/ See 21 U.S.C. §801 et. seq.; 21 U.S.C. §381; 19 C.F.R. §12.1 (a).
 42/ See 7 U.S.C. §136(o)(c); 19 C.F.R. §12.1(b).
 43/ See 15 U.S.C. §1261; 19 C.F.R. §12.1(c).
 44/ See 7 U.S.C. §1854; 19 C.F.R. §12.6.
 45/ See 21 U.S.C. §§141-149; 19 C.F.R. §12.7.
 46/ See 19 U.S.C. §1306; 19 C.F.R. §12.8.
 47/ See 7 U.S.C. §§151-162; 19 C.F.R. §12.10.
 48/ See 7 U.S.C. §1592(b); 19 C.F.R. §12.16.
 49/ See 21 U.S.C. §§151-158; 42 U.S.C. §262; 19 C.F.R. §§12.17, 12.21.
 50/ See 18 U.S.C. §42; 19 C.F.R. §§12.24, 12.26, 12.28.
 51/ See 16 U.S.C. §916; 19 C.F.R. §12.30.
 52/ See 21 U.S.C. §§41-50; 19 C.F.R. §12.33.
 53/ See 27 U.S.C. §203; 19 C.F.R. §12.38.
 54/ See 42 U.S.C. §7521; 19 C.F.R. §12.73.
 55/ See 42 U.S.C. §263(f); 19 C.F.R. §12.91.
 56/ See e.g. 8 U.S.C. §§1103, 1182.
 57/ See e.g. 8 C.F.R. §§211, 212, 235.

imposing fines,^{58/} forwarding requests for asylum,^{59/} prohibiting the departure of certain aliens,^{60/} receiving arrival and departure manifests,^{61/} detaining aliens for observations and examinations related to mental and physical defects,^{62/} administering the deportation of excluded aliens,^{63/} and seizing vehicles or aircraft believed to have been used in violation of the Immigration law.^{64/}

C. The Drug Enforcement Administration

The Drug Enforcement Administration is the primary federal law enforcement agency responsible for combatting drug abuse. Among its responsibilities is the investigation and suppression of the illegal importation of illicit substances.^{65/} In support of this goal, DEA employs drug enforcement programs at airports^{66/} which utilize such tools as a drug courier profile.^{67/}

DEA has operational agreements with Customs and INS and the agencies exchange intelligence information on a regular basis.^{68/}

D. Animal and Plant Health Inspection Service
Of The Department of Agriculture

The Animal and Plant Health Inspection Service regulates the entry of agricultural products into the United States by inspecting passenger properties

^{58/} See e.g. 8 U.S.C. §§1221(d), 1330; 8 C.F.R. §280.

^{59/} See 8 U.S.C. §1182(d)(5); 8 C.F.R. §208.

^{60/} See 8 U.S.C. §1185; 8 C.F.R. §215.

^{61/} See e.g. 8 U.S.C. §1221(d); 8 C.F.R. §§231, 251.

^{62/} See 8 U.S.C. §1222; 8 C.F.R. §232.

^{63/} See 8 U.S.C. §1227; 8 C.F.R. §237.

^{64/} See 8 U.S.C. §1324(b); 8 C.F.R. §274.

^{65/} See e.g. Controlled Substances Act of 1970, as amended, 21 U.S.C. §801 et seq.

^{66/} See *United States v. Mendenhall*, 446 U.S. 544 (1980); reh. denied, 448 U.S. 908 (1980).

^{67/} See *United States v. Van Lewis*, 409 F. Supp. 535 (E. D. Mich. 1976), aff'd. 556 F.2d 385 (6th Cir. 1977).

^{68/} See Office of Drug Abuse Policy, *Border Management and Interdiction, An Interagency Review*, 1977 at App. C-5, 6; see e.g. 19 C.F.R. §162.

and shipments at major air, sea, border, and offshore points of entry.^{69/} Cargoes and personal possessions involving plants and plant products, as well as general cargoes, are examined for infested plants, agricultural pests, and for prohibited animal products.^{70/}

To accomplish such objectives, APHIS is empowered, for example, to issue notices of quarantine prohibiting importation of specified articles,^{71/} and establishing quarantine requirements for various kinds of animals.^{72/} APHIS works closely with Customs in carrying out its inspection function.

The foregoing examples of the responsibilities of the major inspection agencies demonstrate the diversity of border management concern.

* * * * *

The functions performed by the agencies are clearly designed to protect and promote the public interest, and, accordingly, are funded by the nation as a whole. From time to time, however, proposals are made to shift the costs of these public functions to specific "users" of the federal inspection process. Such proposals have been rejected firmly in the past, and should be in the future. The nation as a whole is the true "user" and primary beneficiary of the federal inspection process, and is properly responsible for funding its operation. Any shift in that longstanding responsibility would be inconsistent not only with very basic governmental principles and important federal statutes designed to promote travel and trade, but also with United States' international obligations, reflected in treaties and agreements.

^{69/} See e.g. 7 U.S.C. §§150bb, 150dd-ff; 7 C.F.R. §330, 9 C.F.R. §§91-96.

^{70/} See e.g. 7 U.S.C. §1622, 19 U.S.C. §1306, 21 U.S.C. §§102-105; 9 C.F.R. §§92-96.

^{71/} See 7 U.S.C. §§159, 160; 7 C.F.R. §319.

^{72/} See 9 C.F.R. §92.11.

Over the past 15 years, numerous studies prepared by a variety of authors have suggested improvements for the federal inspection process. A review of the more pertinent of those studies follows.^{73/}

IV. PREVIOUS REPORTS AND STUDIES ON FEDERAL INSPECTION AGENCY MANAGEMENT

While the federal border inspection process has been the subject of examination for many years, we have chosen for review pertinent studies conducted since 1968. That year witnessed the introduction of the Boeing 747, an advanced generation aircraft with substantially increased passenger and cargo capacity which imposed new burdens on the traditional federal inspection process.

A. U.S. Bureau of the Budget, Interagency Report on Inspection At Ports of Entry, 1968

The study of ports of entry was confined to activities relating to passengers and their baggage. It was designed to provide recommendations for border management improvement which could be implemented quickly to handle an "impending crisis",^{74/} an expected surge of travelers passing through undermanned and outdated inspection facilities.

For airports, the study recommended "a one-stop system of multiple inspection wherein arriving passengers are inspected by a single officer for all...agencies."^{75/} Such a system could be expected to expedite passage through the inspection area, provide better manpower utilization, improve space utilization, "place greater emphasis...on high-risk categories and less emphasis on low-risk categories,"^{76/} and "improve the Government image."^{77/} The study called

^{73/} A list of sample studies on the general subject of the federal border inspection process is found in Appendix L.

^{74/} Report at Chapter I.

^{75/} Report at 9.

^{76/} Report at 12.

^{77/} Report at 12.

for, inter alia, cross designation and training of personnel of the inspection agencies, and development of an interagency management information system "to update risk criteria and evaluate training..."^{78/}

While the report concluded that adoption of its recommendations could solve the "impending crisis", it went on to call for a single agency in the future. It noted that:

Planning is made ineffective because no single agency has broad enough jurisdiction to plan for most of the major changes that are needed. Changes are extremely difficult to effect because of the practical difficulties of obtaining unanimous agreement on what should be changed, by whom, when and how much. A single and effective voice to represent the total inspection function with the public, the travel industry, and other groups is entirely lacking.^{79/}

The report's recommendation for solving this problem was to consider the feasibility of assigning the complete responsibility for the inspection of passengers and baggage to "one of the...agencies now performing those activities."^{80/}

As the following review of more recent studies will show, the feasibility of assigning inspection duties to one agency has been carefully and comprehensively considered.

B. Comptroller General, A Single Agency Needed to Manage Port of Entry Inspections - Particularly at U.S. Airports, May 30, 1973.

Because of a predicted surge of international air arrivals, the Comptroller General reviewed the federal inspection system, primarily at John F. Kennedy International Airport. He found that "a fragmented approach to port-of-entry inspections will not allow the development of a more efficient and effective inspection system,"^{81/} and recommended that the agencies involved cooperate

^{78/} Report at 17.

^{79/} Report at 56.

^{80/} Report at 56.

^{81/} Report at 21.

in developing "single-agency management of port-of-entry inspections."^{82/} He concluded that the benefits of such a system would include uniform administrative policies and procedures, improved "scheduling, planning, and coordination", elimination of duplication, and reductions in space and staff requirements and inspection time.^{83/}

C. Office of Drug Abuse Policy, Executive Office of the President, Border Management and Interdiction: An Interagency Review, 1977.

This report was prepared by the Office of Drug Abuse Policy in coordination with the Office of Management and Budget. It followed a comprehensive review of federal border control and law enforcement activities. The Review Team included full-time representatives from the Departments of Justice, Treasury, and Transportation, as well as Customs, INS, and DEA.

The Review Team recommended a consolidation of Customs and INS "into a border management agency to provide control management over the key border functions and resources."^{84/} Such a consolidation was recommended for two principal reasons. First, the Review Team found a lack of coordinated border management.

Each of the border agencies is responsible for a specific part of border control and each agency pursues its own mission, sometimes in competition with the other Federal border agencies and interests. When conflict between agencies appears, there is no effective mechanism to resolve the problem...[e]ven though interagency agreements exist in writing.^{85/}

^{82/} Report at 21.

^{83/} Report at 21.

^{84/} Report at iii. The recommendation included the suggestion that the activities of Agriculture, Fish and Wildlife and the Center for Disease Control not be consolidated immediately, but be considered for future consolidation. See Report at 51.

^{85/} Report at 38.

The second reason for the recommendation of consolidation was a finding of considerable overlap and duplication of effort. The report found that:

A merger of the principal border enforcement agencies would significantly reduce overlap and duplication of effort and greatly enhance the overall effectiveness of border operations. It would allow management greater flexibility in responding to peak workloads and to immediate crises. A single border management agency would also allow consolidation of management and support functions which should create significant savings.^{86/}

With respect to airports, the report found that "elimination of the duplicative management structure and the potential efficiencies in a consolidated inspection force could improve airport inspection."^{87/}

In arriving at its conclusion, the report rejected three other options:^{88/}

- 1) that no consolidation be initiated, but additional funds be provided the agencies to improve their present performances;
- 2) that a limited consolidation take place with responsibility for ports of entry given to either Customs or INS, and responsibility for patrol of land borders given to the other agency;
- 3) that the consolidation of Customs and INS be augmented by the inclusion of the Coast Guard.

The report found that merely increasing funds would not cure the absence of central management and the presence of overlap and duplication of effort;^{89/} that a limited consolidation of specific functions would not eliminate "competition between agencies" and would "continue[d] duplication on part of the management structure;"^{90/} and that inclusion of the Coast Guard would raise more problems than it would solve.^{91/}

^{86/} Report at 45.
^{87/} Report at 41.
^{88/} See Report at 46-56.
^{89/} Report at 48.
^{90/} Report at 50.
^{91/} Report at 56.

The mechanism for enacting the Report's recommendation for the consolidation of Customs and INS in a new agency was "an appropriate reorganization plan [which would place] the consolidated border management agency in a Cabinet department consistent with overall reorganization planning."^{92/}

D. President's Reorganization Project, Reorganization Options Related to Border Management, 1977. ^{93/}

This draft report made findings on the status of federal border management and developed options for improvements. The premise of the report was "that improved control of the national borders could benefit the many Federal domestic programs which are linked to border activities."^{94/} The authors found that among the factors requiring improvement were "[s]erious problems of overlap, duplication of effort, and lack of coordination...between the two principal agencies involved at the land borders, Customs and INS."^{95/} The authors found that "[t]hese problems significantly hamper effective border control."^{96/} In the airport context, the report noted that "[n]arcotics slip through ports of entry because of the confusion and delay inherent in the duplicate inspection process carried out by INS and Customs at international airports."^{97/}

The report set forth four solution options which it believed were worth examining. They were very similar to those considered by the Office of Drug Abuse Policy described, supra. The first option was to make "no organizational change but improve coordination and increase resources to selected functions and agencies."^{98/} The advantages of this approach included that it was the

^{92/} Report at 59.

^{93/} This Report was released to the public in draft form.

^{94/} Report at 2.

^{95/} Report at 4.

^{96/} Report at 5.

^{97/} Report at 11.

^{98/} Report at 12.

least disruptive and permitted agencies to "continue emphasis in areas of specific expertise."^{99/} Its disadvantages were said to include a continuation of "the fragmented approach of the past" and "duplicative management and support structures and overlapping responsibilities with loss of economies which could result from consolidation."^{100/}

The second option was to combine and unify "the patrol functions of Customs and INS in one department (Justice or Treasury); and the inspection functions of Customs and INS in the other department (Treasury or Justice)."^{101/} The advantages were said to be, *inter alia*, an elimination of "overlap and duplication in selected functions," and "minimal disruption to existing organizational structures."^{102/} The disadvantages included failure "to recognize the interrelationship of patrol and inspection functions to overall border management" and continuation of "duplicative management and support structures."^{103/}

The third option was the establishment of a Border Management Agency containing the patrol functions of Customs and INS in one unit, the inspection functions of Customs and INS in another unit, and "the remaining functions and support activities of either Customs (if in Treasury) or INS (if in Justice)."^{104/} The agency (Customs or INS) no longer having inspection or patrol responsibilities would retain its organizational identity in its present department, and would continue to perform its non-border regulatory functions.

^{99/} Report at 12.

^{100/} Report at 13.

^{101/} Report at 13.

^{102/} Report at 14.

^{103/} Report at 14.

^{104/} Report at 15.

The advantages of the approach were said to include the provision of "a single manager responsible for the major functions of inspection and patrol" and a reduction of overlap with an increase in efficiency.^{105/} The principal disadvantage was found to be creation of "personnel turbulence and disruption during changeover."^{106/}

The final option was the establishment of a Border Management Agency "combining all of Customs and INS."^{107/} The advantages and disadvantages were said to be essentially the same as those of the third option.^{108/}

Although the authors did not single out any of the options as preferable, they recognized that changes in border management policy were necessary, and that the duplicative inspection system at airports was hindering efficient narcotics control.

E. National Immigration and Naturalization Service Council, Managing Consolidated Border Enforcement Resources, 1977.

In response to a request for comments on the President's Reorganization Project's Draft described, supra, the National Immigration and Naturalization Service Council of the American Federation of Government Employees prepared a paper advocating the transfer of "Custom's Patrol Agents, support employees and equipment now deployed along both borders and the Gulf Coast and those Customs Inspectors, employees and equipment now deployed at United States ports of entry" to INS.^{109/} The report acknowledged that some problems would result including those associated with integrating Customs and INS supervisors, training for new responsibilities, redesigning of facilities for one-stop inspection, transferring collected duties to the Treasury Department, and adopting common overtime schedules.^{110/}

^{105/} Report at 16.

^{106/} Report at 16.

^{107/} Report at 17.

^{108/} Report at 17-18.

^{109/} See Report at 1.

^{110/} See Report at 1-7.

The Council was confident that such problems could be solved "with little disruption of service."^{111/} Apart from pointing to possible areas of temporary difficulties, the significance of the report is that knowledgeable federal government employees believed that consolidation was feasible and would enhance the federal inspection process.

F. Comptroller General, Illegal Entry at United States-Mexico Border, Multiagency Enforcement Efforts Have Not Been Effective in Stemming the Flow of Drugs and People, 1977.

The focus of this study was "the activities and resources of Federal agencies having direct, indirect, and supporting responsibilities for law enforcement along the United States-Mexico border."^{112/} The examination found "costly overlapping and poorly coordinated enforcement activities and support systems..."^{113/} The report emphasized that:

Separate agencies with different orientations continue to identify the best activities to meet their missions with limited consideration for the activity of others. This has led to the development of separate but similar lines of effort that continue to dilute border coverage and impact. Little consideration is given to overall border security.^{114/}

The report concluded that action was needed to obtain maximum border security with available resources by minimizing unnecessary duplication and overlapping. The solution of the problem was said to include "law enforcement interdiction at every port-of-entry...handled by one agency, whether it be Customs or INS."^{115/} Besides managing the day-to-day operations of the ports of entry, the agency should be responsible "for the research and development of all new techniques and devices to improve detection of people, drugs, and other contraband entering illegally."^{116/}

^{111/} See Report at 7.

^{112/} Report at 4.

^{113/} Report at 18.

^{114/} Report at 50.

^{115/} Report at 50.

^{116/} Report at 51.

The crux of the report was that the system of disparate federal agencies, having separate statutory responsibilities and competing for limited Congressional funds, was simply not providing the efficient and effective border management the United States required. The study recommended that Congress hold hearings and enact new legislation.

G. Comptroller General, Customs' Cargo Processing — Fewer But More Intensive Inspections Are In Order, 1978.

In view of the "rapidly increasing volume of imports", the Comptroller General examined Customs "traditional approach to inspecting cargo"^{117/} and found it to be inadequate. He found that the statutory requirement that Customs inspect a portion of each cargo shipment and an increasing workload had combined to "force(s) Customs either to perform very limited inspections or to seriously impede the flow of imported cargo."^{118/}

The report found that if "Customs is to successfully enforce the import laws and not impede the flow of cargo...it needs to adopt a comprehensive selective cargo inspection system."^{119/} Such a system would include "elements of scientific random selection, specific selection, and post audit(s)."^{120/} It would allow Customs to perform fewer, but more comprehensive inspections, and would deter import violations "because importers would never know which shipments would be inspected."^{121/}

^{117/} See Report at i.

^{118/} Id.

^{119/} Report at iv.

^{120/} Report at 23.

^{121/} Id.

H. Comptroller General, More Can Be Done to Speed the Entry of International Travelers, 1979.

As part of the Customs Procedural Reform and Simplification Act, P.L. 95-410, Congress ordered the Comptroller General to "study the clearance process for individuals entering the United States and recommend ways to expedite the process, particularly for air and sea travelers."^{122/} To examine the problems of air travelers, the report concentrated on airports located in New York, Miami, and Los Angeles.

The investigators found that "air travelers, in particular, are dissatisfied with long delays, and their dissatisfaction is heightened by the comparisons they can make with foreign inspection systems, which move people much quicker."^{123/} They also found that a serious lack of inter-agency cooperation contributed to delays.^{124/}

The report recommended that agencies improve their cooperation, and that primary inspections be conducted "before travelers claim their checked baggage."^{125/} It also recommended that "inspectors selectively inspect travelers and their possessions for agricultural products."^{126/}

The report concluded that if the absence of agency cooperation continued, and the aforementioned recommendations were not implemented satisfactorily, two alternatives should be considered:

^{122/} Report at 1.
^{123/} Report at 6.
^{124/} Report at iii.
^{125/} Report at iv.
^{126/} Id.

One is to adopt the red/green system...Another is for the President, through reorganization authority, or the Congress, through legislation, to make one agency responsible for inspections.^{127/}

I. Comptroller General, One-Stop Inspection System Speeds the Entry of International Travelers, 1982.

In response to a request from the Chairman of the Subcommittee on Trade of the House Committee on Ways and Means, the Comptroller General monitored a six-month test of a one-stop inspection system utilized by Customs, INS, and APHIS, at airports in Miami and Los Angeles. The test was mandated by the fiscal year 1982 authorization report for Customs.^{128/} It was not intended to examine the desirability or feasibility of a consolidation of agencies, but merely to evaluate the test.

Under the test, travelers would go to a primary inspection station, immediately upon deplaning, without their checked baggage. One inspector would then conduct the primary inspection for all the agencies. Depending upon the results of the primary inspection, travelers would either be permitted to claim their baggage and exit through a Customs control point, or be required to undergo a more detailed inspection. Referrals for this secondary inspection could also be made by roving inspectors once checked baggage had been claimed.

The report found that this one-stop "sped the entry of travelers, and provided a more efficient use of the Customs and Immigration inspectors."^{129/} From a law enforcement perspective, the one-stop system resulted in an increase in seizures at one airport and a decrease at the other. Seizures of non-admissible agricultural products increased at both airports.^{130/}

^{127/} Report at iii.

^{128/} Report at 2.

^{129/} Report at 7.

^{130/} Report at 12.

The report concluded that "because of the clearly demonstrated gains of the one-stop system regarding timeliness and efficiency and the uncertain and perhaps non-existent drawbacks from a law enforcement standpoint, we believe the one-stop inspection system is an improvement over the procedures used in the past."

* * * * *

Each of the foregoing studies saw a need for improvement, and proposed solutions. That need continues to exist. The following section will set forth a series of options which, individually or in combination, should be considered as possible methods to improve the federal border inspection process now and in the future.

V. ORGANIZATIONAL OPTIONS AND ALTERNATIVES WITH RESPECT TO FEDERAL INSPECTION AGENCY MANAGEMENT AT AIRPORTS

Historically, airport inspection control has been exercised by the agencies charged with enforcing each separate substantive law and its related domestic program. At one time separate airport inspections were conducted by the Public Health Service (now the Center for Disease Control in the Department of Health and Human Services), Customs, INS, and APHIS. Today at many United States airports of entry, separate and largely uncoordinated inspections continue to be made by Customs, INS, and APHIS.^{131/}

The effect of such a narrow, program-oriented system for performing similar airport inspection functions has been waste and inefficiency, not only in the performance of the functions, but also in the need to acquire state of the art systems and facilities to support these functions, such as advanced telecommunications and computer hardware. Fragmentation of inspection control

^{131/} The Center for Disease Control and other agencies may participate in the inspection process under special circumstances.

at airports has also meant a lack of overall planning, with the present disjointed organizational structure resulting all too often in the lack of any overall policy for managing the flow of travelers and goods entering U.S. gateway airports.

With regard to airports, effective control of the United States' border has a direct impact on a wide range of government programs, including narcotics control, alien regulation, contraband interdiction, and protection of the economic, health, and agricultural interests of the United States.

Customs, INS, and APHIS have separate inspection units which perform comparable duties, often in the same location, at the same time, employ similar enforcement techniques, and require similar support systems and airport facilities.

The results are:

- * An outdated and cumbersome federal inspection process;
- * A duplication and overlap of agency functions;
- * Separate and uncoordinated managers and management policies; and
- * Excessive federal overhead caused by such factors as duplicative facilities, investigatory tools, and supervisory personnel.

With this background, we believe that the following options, which are presented without an order of preference, merit consideration.

- A. Make no organizational change, but improve inspection techniques and agency coordination, and increase inspectors and resources for preclearance and U.S. gateway airports.

Some important improvements can be made without an overhaul of current organizational structure. Universal implementation of ASIST, the one-stop inspection process used at Los Angeles, particularly when combined with the dual channel system in place at Houston, would reduce significantly passenger inspection delays. The expedited and extensive utilization of a machine readable passport system would also cut processing time. Widespread employment of an automated and selective system of cargo clearance, with a concurrent

simplification of forms and other paperwork, would greatly expedite the movement of freight.

Better inter-agency and intra-agency coordination on the headquarters, regional, and local level on such matters as workload, hours of service, and sharing of information would bring about improvements. Better coordination with the public is also essential. Programs establishing necessary controls on exports, for example, should require inspectors who detain a shipment to notify the shipper promptly, should assure that inspectors understand fully the nature of cargo subject to the program, and should prevent unnecessary or duplicative inspections of the same shipment. Similarly, better coordination with the airline industry in such matters as facility modification would generate greater cooperation leading to a more efficient system. When facilities are to be modified, the carriers who pay for such modifications should be consulted from the initial design stage through the final construction phase.

As noted earlier, the number of inspectors has not kept pace with the increase of passengers and freight, and current budget proposals call for a substantial decrease in inspectors. An increase in authorized inspectors, having greater access to improved computer information systems, would certainly expedite the inspection process. Greater cross-utilization of inspectors would improve the system. To a large extent, inspectors working along the contiguous U.S.-Mexican and U.S.-Canadian land borders are trained to perform the functions of each agency. That approach could be followed at international airports as well. Indeed, cross-trained inspectors are the cornerstone of the accelerated specialized inspection system which has worked so well in Los Angeles.

Implementation of the Canadian Inspection System, or variations thereon, is also worthy of consideration. Basically, it works as follows:

- a) Upon deplaning, arriving international travelers proceed to a primary booth manned by a Customs inspector who has been cross-trained to perform immigration, health, and agriculture quarantine primary functions. Each traveler, whether a returning citizen, a visitor, or an immigrant is queried, and hand-carried baggage is subject to inspection by this Customs primary inspector.
- b) Travelers without immigration, customs or agriculture problems proceed directly to the airline baggage carousels or belts to claim their baggage and then are free to depart from the inspection facilities.
- c) Travelers having special immigration, customs, or agriculture problems are referred to a secondary inspection.

The Canadian system, then, is generally a one-stop system utilizing cross-trained Customs inspectors and providing speedy inspections and increased inspector productivity.

While not eliminating duplicative functions and management, this approach of improving techniques and coordination and increasing the number of inspectors and amount of resources could improve efficiency without the possible personnel and organizational questions prompted by a consolidation of agencies or functions, although it would require an increase in federal expenditures.

B. Establish a Single Management Concept for Airports

This approach would: eliminate the current overlap and duplication of agency functions; curtail excessive federal overhead by ending redundant facilities, investigatory tools, and supervisory positions; create a single policymaker accountable for all airport inspection performance; and provide an opportunity for initiating new approaches to the inspection process without the obstacle of differences of opinion among agencies. The Single Management Concept for Airports could be established in any of the following ways:

1. Combining the workforces of Customs, INS, and APHIS and placing the new agency in a Cabinet Department

Placement of the new combined agency in Treasury, Justice, or Agriculture would provide the obvious advantage of experience which would reduce transition problems. Each of those agencies has a substantial familiarity with the responsibilities and techniques of the other agencies, based on day-to-day operations. Each is aware of training requirements and is cognizant of the use and value of advanced technology in the performance of inspection functions.

The list of potential parents should not end there, however. Consideration could also be given to the Departments of Transportation (DOT) and Commerce.

The placement of the agency in DOT would be consistent with its statutory duties "to provide general leadership in the identification and solution of transportation problems"^{132/} and to regulate "air commerce in such manner as to best promote its development."^{133/} DOT also has experience in border management responsibilities as the supervisory Department of the Coast Guard, which was transferred to DOT from the Department of the Treasury seven years ago.^{134/}

Placement of the agency in the Department of Commerce would enhance Commerce's ability to meet its statutory duty to "carry out a comprehensive program designed to stimulate and encourage travel to the United States...(and to) encourage the simplification, reduction, or elimination of barriers to travel, and the facilitation of international travel generally."^{135/} Commerce is familiar with border management issues through its export control and foreign trade data obligations which are carried out with the assistance of Customs.^{136/}

^{132/} See 49 U.S.C. §1651(b)(1).

^{133/} See 49 U.S.C. §1303(a).

^{134/} See 49 U.S.C. §1655(b).

^{135/} See 22 U.S.C. §2122(i), (4).

^{136/} See 19 C.F.R. §161.2(a)(5).

From a Congressional oversight perspective, the new agency would be subject to a single budget, instead of three, and one, instead of three committees in each body of Congress. Placing the new agency in any single Department would necessitate the combination and transfer of federal employees, which could create employee dislocations and administrative difficulties. Such concerns would have to be weighed along with the potential benefits to the inspection process and the traveling and shipping public.

2. Combining the workforces of Customs, INS, and APHIS to create a new, independent "United States Inspection Service."

As with the previous option, this approach would establish a single manager eliminating overlap and duplication, and establishing clear accountability for inspection performance. By ending inter-agency problems with coordination, and competition, it would enhance efficiency and effectiveness. It would also be subject to the same budgetary and Congressional committee considerations. While, for the purposes of this analysis, its jurisdiction would not extend beyond airports, it is possible that such an agency could assume the entire federal inspection duty.

Since no one agency would be either "submerged" or "surviving", inter-agency disputes based on tradition and loyalty would be less likely to surface. It would be anticipated that identical salaries and fringe benefits including a standard inspector uniform would be adopted under this program.

Other than for cross-training, there would be no need for training programs in view of the experience of the staff. The problems associated with employee transfers, such as reconciling seniority disputes, would probably exist. Some administrative problems, inherent in establishing any new agency, would no doubt arise, but should be minimized because of the experienced workforce.

3. Establish a private or quasi-governmental organization to perform the functions of the inspection agencies.

Another concept would be a contractual arrangement with a private entity or establishment of a quasi-governmental organization. In either case, new legislation would be necessary. Under this approach, Congress could authorize a private entity to perform the inspection functions. At airports today, the airline industry is required by federal laws and regulations to conduct inspections designed to prevent air piracy and crimes aboard aircraft. In addition, experts from the private sector perform vital governmental air safety functions as designated engineering representatives and examiners under authorization from the FAA. One, or several other private entities, could be empowered to perform other inspection functions.

Unencumbered by years of traditional governmental inspection methods and management, a private or quasi-governmental entity could generate fresh ideas and new techniques to accomplish the statutory objectives. The entity could be supported, for example, under contractual arrangements funded by duties collected.

This option could provide the following advantages: elimination of current duplication and overlap; installation of a single manager with total accountability for performance; existence of profit incentive as motivation for greater productivity and efficiency; and reduction of federal budget requirements. Skeleton federal staffs would have to be available to exercise federal enforcement and arrest powers. Disadvantages could include federal employee dislocations, administrative problems inherent in any new organization performing a complex task, and the absence of a readily available fully-trained workforce. This option would be difficult to implement, and would be controversial.

C. Establishment of an Interagency Facilitation Board

An alternative to the consolidation and transfer approach is the creation of an Interagency Facilitation Board. This Board would oversee the federal inspection process of passengers and cargo at U.S. gateway airports-of-entry and preclearance airports to insure that the most expeditious procedures are followed consistent with inspection agency enforcement requirements. Although such a concept would not solve all inter-agency differences and would not achieve the efficiency and productivity increases, and potential cost savings, of a consolidation, it would be a step in the right direction and could lead to an eventual consolidation of the agencies.

The Interagency Facilitation Board would select a Chairman from a panel comprised of the Secretaries of State, Commerce, Transportation, Treasury, Agriculture, and the Attorney General to serve a two-year term. The Chairman would be responsible for the coordination of the several inspection agencies in developing and implementing an efficient passenger and cargo processing system.

Each agency would provide an equal number of management specialists who would comprise a select management group, divided into regional teams to oversee the inspection operations of INS, Customs, and APHIS at the airports-of-entry and preclearance airports within their particular region.

The individuals making up the management teams would be given management authority over all inspector personnel so that maximum efficiency in carrying out the inspection process would be realized. Congressional oversight for the proper functioning of the combined inspection process (i.e., Customs, Immigration, and Agriculture) would be given to the Government Operations Committees with primary legislative authority to the appropriate jurisdictional committees.

Under this approach, leadership would be provided at the working level where the coordination problems actually exist; the cost of providing several management specialists from each agency would be minimal, budgetary impact on any one agency would be less; and each agency would maintain its own identity, responsibility, expertise, and authority.

Congressional committees would maintain oversight authority over the individual inspection agencies. The Board would be required to report annually to the President. Finally, the Interagency Facilitation Board could serve as a working model and intermediate step to the eventual consolidation of Customs, Immigration, and APHIS into a single inspection agency.

D. Assign to One Existing Agency Responsibilities to Process Air Travelers and to Another, Responsibilities to Handle Air Freight.

The concept of separate "people" and "freight" airport inspection agencies may have appeal because it would be simple to implement and is a straightforward alternative. Basically, the concept envisages one inspection agency to be solely responsible for the processing of all air travelers and their baggage entering U.S. gateway airports or at pre-clearance airports. The second agency would have complete responsibility for the processing at airports of all goods and merchandise other than that accompanying air travelers. One possible complicating factor is that some freight is carried by passengers acting as couriers.

This approach recognizes that people and their baggage are different from freight and merchandise, and that different inspection facilities, techniques, and objectives apply. It should be noted that over twenty-five percent of arriving air travelers are processed at preclearance locations, but no freight is processed at these locations. A continuation of the passenger preclearance process under this option, as well as all other options, is necessary.

Under this concept, APHIS would continue to perform its functions. This option would result in the continued existence of several inspection agencies, but it would eliminate some duplicative effort, permit better scheduling for peak workloads, and avoid employee dislocations caused by consolidations.

* * * * *

No option has addressed the transfer or consolidation of the Drug Enforcement Administration or its functions. DEA's activities at airports are of a different nature than those of the primary inspection agencies, and are outside the scope of this analysis. Similarly, other agencies, such as the Fish and Wildlife Service and the Center for Disease Control should be able to accomplish their statutory objectives without any difficulty should any of the foregoing options be adopted.

VI. RECOMMENDED METHOD OF PROCEEDING

The national policy to encourage and strengthen U.S. international travel and trade requires immediate and longer term actions to improve federal inspection services at gateway airports.

This analysis reviews the federal inspection system, current regulatory responsibilities, previous reports and studies on inspection agency management, and explores possible interim relief measures as well as organizational options. Its prompt consideration by appropriate agencies of the federal government and committees of Congress is both needed and urged.

Also needed and urged are definitive plans and schedules for the immediate and longer term actions necessary to improve federal inspection services. The following method of proceeding is recommended:

- A. Prompt appropriation by this Congress of sufficient funds to assure an adequate number of federal inspectors at U.S. gateway airports

and firm direction to federal inspection agencies to assign such inspectors in a manner consistent with passenger and cargo traffic demand.

- B. Within the next 60 days, action directed by a Presidential Executive Order or by Congressional Resolution to require federal inspection agencies to:
- provide equal priority in the performance of their duties to the facilitation of international air commerce and law enforcement;
 - initiate action to implement a one-stop inspection procedure for passengers at all U.S. gateway and preclearance airports;
 - develop plans for the installation of an automated system for selective cargo examinations and entry processing at all U.S. gateway airports;
 - expedite efforts to utilize machine readable passports and implement a similar system for machine readable visas and border crossing cards; and
 - improve coordination of necessary controls on export shipments.
- C. Within the next 60 days, appointment of a high level panel to report within 90 days on how to reorganize the federal inspection agencies or implement other procedures to increase efficiency and productivity which would assure that the need to facilitate international air commerce is met for the remainder of this century. Such a panel might include Secretaries from the appropriate Departments, members of Congress, representatives from the White House and OMB, and leaders from national organizations, both public and private, directly interested in this endeavor.

The airline industry stands ready to provide any assistance which will promote progress in this important effort.

AIRLINE PASSENGER AND AIRCRAFT
ARRIVALS IN U.S. FROM FOREIGN COUNTRIES

<u>FY</u>	<u>Passenger Arrivals (Millions)</u>	<u>Aircraft Arrivals* (Thousands)</u>
1975	15.5	211.7
1976	16.5	215.9
1977	18.4	216.8
1978	21.6	261.1
1979	24.4	271.8
1980	25.8	262.6
1981	26.8	277.8
1982	26.0**	259.8

* Includes passenger and all cargo aircraft

** ATA estimate

Note: Above passenger data excludes crew members which in
FY 1981 amounted to 2.8 million

Source: U.S. Customs Service

U.S. AIRBORNE IMPORT SHIPMENTS

<u>FY</u>	<u>Weight</u> (Lbs. Millions)	<u>Value</u> (\$ Millions)
1975	1,063	8,917
1976	1,212	10,920
1977	1,311	12,578
1978	1,506	17,923
1979	1,439	22,037
1980	1,344	28,044
1981	1,603	29,968
1982 pre.	1,688	30,933

Source: U.S. Bureau of Census, "United States Airborne Exports and General Imports"

<u>FY</u>	<u>U.S. Customs' Duties</u> (\$ Millions)
1978	6,729
1979	7,652
1980	7,482
1981	8,511
1982	9,278

Source: U.S. Customs Service, "Customs U.S.A." 1982

OPERATING BUDGETS FOR FISCAL YEAR 1982

1.	U.S. Customs Service	-	\$527,173,000
2.	Immigration and Naturalization Service	-	\$441,527,000
3.	Animal and Plant Health Inspection Service	-	\$277,382,000
	<u>Total</u>		\$1,246,082,000

Source: U.S. Customs Service
Immigration and Naturalization Service
Animal and Plant Health Inspection Service

**MEASURES OF FOREIGN
VISITORS' ECONOMIC CONTRIBUTION**
1981

Expenditures in U.S.	\$12.2 Billion
Payroll Income Generated	\$2.5 Billion
Employment Generated	320 Thousand
Federal Tax Revenue Generated	\$650 Million
State Tax Revenue Generated	\$330 Million
Local Tax Revenue Generated	\$130 Million

Source: U.S. Travel Data Center, "The 1981-82 Economic Review of Travel in America"

Miami Herald, 1/8/83, Editorial

The Miami Herald

JOHN G. KNIGHT (1924-1981)

JAMES L. KNIGHT, Chairman Emeritus

RICHARD G. CAPEN, Jr., Chairman and Publisher

BEVERLY CARTER, President and General Manager
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HEATH J. MERTWETHER, Managing Editor

End the Stackup

AMONG international travelers, Miami International Airport (MIA) is fast developing a reputation as a great place to suffer. Inexcusably irresponsible failures by U.S. Immigration and Naturalization Service (INS) and Customs officials are solely to blame. Their callous disregard for efficiency threatens not only the comfort, convenience, and safety of the travelers that they serve so poorly. These officials also endanger the reputation and economic-development potential of Greater Miami.

Few times are more predictable as peak-travel periods than the first several days after Jan. 1. At MIA's international-arrivals center on those days this year, however, the peak load almost became a mob. Credit inadequate INS and Customs staffing for that.

Travelers entering that MIA facility had just escaped up to 10 hours cramped in airliner seats, bear in mind. Because of the INS-Customs breakdown, this is what they found:

All halls were jammed. Few seats were available. Access to restrooms was restricted. People became ill. Tempers frayed. Eventually police were summoned to control the crowds, lest they riot.

The average international traveler being processed through MIA then had to wait 2½ hours to gain clearance. Some people waited as long as four hours. Who wouldn't be outraged?

The INS was most to blame. Even under normal conditions, INS staffing at MIA is skimpy. This time it was worse. For extended periods during the peak, only 13 INS agents staffed the 34 avail-

able inspection booths. INS's best effort was to man 19 booths. Even that level seldom was attained. One reason was the unprecedented amount of sick and funeral leave taken then by INS staff.

Customs provided 32 agents at peak. Because of strict, inefficient procedural rules, however, the Customs staff is prohibited from doing INS work, so the larger Customs staff made little difference.

This kind of outrage causes many serious ripple effects. The bad word travels fast and far. International travelers often are trend setters and opinion leaders back home.

Many of them missed connecting flights. Neither they nor the airlines need that. Airlines either make money or move operations elsewhere. Many are transferring their international business from MIA to Houston, Atlanta, Dallas Ft. Worth, even Tampa and Orlando. Loss of that market share will affect passenger and cargo traffic at MIA.

It's simply intolerable that Miami should have to bear this unwarranted burden. Bureaucratic bungling of Federal agencies is principally at fault. From Customs and INS must come the obvious solution — and fast. They must assure sufficient staff at MIA to eliminate this recurring debacle.

Bureaucrats can be slow to move unless the political blowtorch of budgetary pressure is set alight beneath their backsides. South Florida's representatives in Washington have plenty of fuel and many matches. They should not hesitate to turn the heat high.

1/25

Journal of Commerce, 1/25/83

Seattle Seeks Hike In Customs Manpower

Journal of Commerce Special

SEATTLE — Port of Seattle officials, concerned about delays in clearing cargo and airline passengers, are seeking increased manpower allocations for the U.S. Customs Service.

Port officials are also advocating a streamlining of Customs procedures.

A rapid growth in container traffic through the port — amounting to almost 20 percent during the past four years — has resulted in delays in Customs processing, port officials said. Port Executive Director Richard D. Ford noted that port activity has increased since 1979 when a hiring freeze was placed on most U.S. government positions, including those in the Customs Service.

He said Customs has not shifted personnel to ports such as Seattle where substantial growth has been experienced, so Seattle has experienced a considerable number of delays due to a Customs manpower shortage.

The Port of Seattle, being the closest major U.S. port to Asia, frequently waxes its geographic advantage in terms of fast cargo throughput to inland U.S. destinations. However, Customs delays have at times tended to offset that advantage.

"It's fine and dandy to be a day closer (than California) but if it takes two days to do the paperwork, your one day of advantage turns into one day of disadvantage," Mr. Ford acknowledged.

Adding to the problem, he said is the government's greater attention to drug confiscation interception inbound and snagging high-technology exports not permitted under licensing arrangements shippers have with certain countries.

"The policy makers at Customs have not really matched up the importance of trade with the requirements for more enforcement and allocation of manpower," Mr. Ford said in an interview.

Seattle's problem certainly is not limited to the waterfront. It also involves both cargo and passenger traffic at Seattle-Tacoma International Airport, owned and operated by the port.

"We've seen some diversion of air freighters (to San Francisco) because of problems in clearing the cargo here," Mr. Ford said.

Of highest priority at this time, however, is to assure that there is ample Customs manpower to handle an expected crush of trans-Pacific airline passenger traffic this spring.

Sea-Tac's flights to and from Japan will more than double on April

Customs has not shifted personnel to ports such as Seattle where substantial growth has been experienced, so Seattle has experienced a considerable number of delays due to a Customs manpower shortage.

1. Under the bilateral agreement between the United States and Japan, United Airlines will offer flights to Tokyo and Hong Kong and Japan Air Lines will enter the Seattle-Tokyo market.

Mr. Ford said all of the extra flights will involve wide-bodied aircraft and that the flights will arrive and originate during two peak periods of the day. Already, he noted, long lines of tourists waiting to clear Customs occur at peak international flight arrival periods.

Beyond addressing the Customs manpower shortage, however, there is a need for a fundamental revision of Customs procedures, Mr. Ford believes.

"They (government officials) trust us on our income tax reporting," he said. "Why not have the companies (receiving import goods) send in their checks? Then, Customs could do some spot audits."

Closer inspection might be required of small and new companies but larger importers should be required to produce documents that can be audited later, more in the manner of individuals seeking to their annual tax forms, Mr. Ford said.

"It's pretty hard for a big company to engage in fraud because too many people would be involved," he contended. "Somebody would blow the whistle."

As for contraband, spot Customs officer checks and undercover investigations are performed anyway and could be continued under revised Customs procedures, he suggested.

Nearly a year ago, Mr. Ford organized a meeting in Washington, D.C., of three dozen representatives of the maritime, air travel and related industries who expressed concern with delays involving Customs, Immigration and Agriculture inspection services.

However, no concentrated effort to lobby for a change in Customs procedure resulted from the get-together, Mr. Ford said. Presently, he said, the Port of Seattle is working the problem on its own.

Clearing Customs: Still a Hurdle

By PAUL GRIMES

If, when international flights are operating normally, you enter the United States at Kennedy International Airport in New York, you may be walking out of the arrivals terminal less than half an hour after your plane parks at the arrival gate. But you stand an equal chance of being delayed two hours or longer. You may spend perhaps 45 minutes of that time in the



parked plane because a lot of wide-bodied jetliners have landed within a few minutes of each other and the terminal facilities are jammed.

These estimates come from a variety of sources: Federal and trade surveys, customs and immigration reports and the observations of airline executives stationed at Kennedy. According to the latest figures of the United States Customs Service office in New York, the average time it takes to clear all formalities at Kennedy, including the claiming of baggage, is 45 minutes.

All sources agree that delays are most likely to be encountered in late afternoon and early evening, when most planes from Europe arrive. The busiest time of the year is right now, when international travel is normally at its peak. Despite increased inspection staffs, delays are often "tremendous," in the words of Donald Burns, manager of public services of the Kennedy for the Port Authority of New York and New Jersey.

Federal authorities are, however, trying to speed up the customs and immigration procedures at Kennedy, as well as at other major gateway airports. A system intended to speed immigration procedures for U. S. citizens has already been put into effect at Kennedy, and an experimental program in which one inspector does both customs and immigration clearances is being tried in Miami and Los Angeles. Other improvements, like adding more airports to those — such as those serving Toronto and Bermuda — where customs and immigration procedures are completed before boarding the plane, are being studied.

Earlier this year the Federal Office of Management and Budget had proposed deep cuts in the budget for customs and immigration inspections. Following protests by the airline and tourism industries the Customs Service was permitted to have its normal 176-inspector complement at Kennedy, and the immigration staff was increased from the usual 136-inspector complement to 170.

While the short-term prospect is for attempts to be made to improve the system as it now exists, more sweeping changes may be on the way. Last June David A. Stockman, director of the Office of Management and Budget, wrote to Attorney General William F. Smith to say, "The time is ripe for an overhaul of the inspection process." Jacobus J. Dekker, vice president and general manager for the United States for KLM Royal Dutch Airlines, is chairman of a group called European North Atlantic Carriers, representing 13 airlines that fly to and from this country in this capacity. He recalled to a House subcommittee in June that many of the present immi-

gration and customs rules and procedures were established in steamship days when intercontinental travel was leisurely and relatively rare.

"Travel to the United States," he said, "was typified by a few businessmen, well-to-do vacationers and the great masses sometimes referred to as the 'wretched refuse' from those 'learning shores' overseas. In those days, customs and later immigration procedures could develop leisurely approaches to the problem. Today, however, wide-bodied aircraft bring more passengers into the United States in a few hours than came in over months by steamship."

Mr. Dekker's committee — in fact, virtually everyone it questioned except United States officials — favored what insiders call the "red door/green door" inspection system. According to a list provided by the International Air Transport Association, it is used at international airports in 41 countries, ranging from underdeveloped New Caledonia in the Pacific to super-security-minded Israel to virtually all countries in Western Europe.

Under this system a passenger with something to declare is directed by red signs to a declaration area, where the appropriate duties are collected. A passenger with nothing to declare walks under a green sign labeled "nothing to declare." He proceeds through a series of gates and aisles, past observing customs officials who,

billion agricultural resources to protect."

A high European airline official, who declined to be quoted by name, reported that many other countries have heavy dependence on agriculture and very strict health controls. He said baggage checks at airports did little to deter the spread of agricultural diseases or narcotics. "Most crackdowns against drug traffickers," he said, "come from U. S. and international police cooperation, not from inspecting baggage."

The six-month test program that began Aug. 4 in Miami and Los Angeles (and was soon inspired by the air controllers' strike) is a sort of compromise between red door/green door and rigid American procedures. As described by Sidney Rayne, director of the passenger processing division at United States Customs Service headquarters in Washington, the program, which bears the name ASIST — the acronym for "accelerated special inspection system test," works this way.

Certain immigration and customs inspectors are trained to do each other's job. When a passenger leaves a plane, he is first interviewed by one or the other, and all hand baggage is inspected thoroughly for agricultural problems. The interview determines what happens next: Most travelers pay any assessed customs duty, then are cleared to pick up their checked baggage and head for the exit; a few

create delays for all. According to a Customs Service survey, it takes arriving foreigners an average of only 16 minutes longer (than Americans) to clear all formalities at Kennedy.

As one way to speed arrivals in the United States, the Air Transport Association is advocating preclearance operations such as those under which, by international agreement, travelers go through American immigration and customs procedures at airports in Canada, Bermuda and Freeport and Nassau in the Bahamas. Mr. Gerson cited Tokyo as a departure gateway where American preclearance might be feasible, since flights leave there for Guam, Honolulu, Los Angeles, Seattle, San Francisco, Anchorage, Chicago and New York.

Mr. Dekker of KLM cautions, however, that an American traveler waiting connecting flights to return home from Europe would, under a preclearance system, "have to recheck his luggage to be loaded at his last European stop, wait for the luggage to come down the carousel, stand in a customs line, then load his baggage once again." He sees this as a waste of time and effort by the passenger and a substantial cost to airlines.

While Government agencies study procedures to speed up the inspection and clearance process, committees made up of industry, government and airport officials have been formed to improve procedures generally, notably the unloading of baggage and its ground transport, two procedures that frequently cause long delays.

A particularly nettlesome problem, in these days of wide-bodied jets and computerized ticketing, is the shortage of shopping carts for innumerable passengers. In letters to newspapers and complaints reported by Federal agencies, have told of frequent scarcities of shopping carts in the International Arrivals Building at Kennedy, where passengers must claim their baggage themselves and carry it through customs, porters are not permitted inside the inspection area. "It isn't a case that physically we don't have enough carts," said Mr. Burns, the public services manager. "It's a problem of having them in the right place at the right time." He said it often was a problem of getting carts from the customs-inspection area, where passengers abandon them, back to the baggage-claim area, where newly arrived travelers need them.

Until some improvements in the customs and immigration clearance system are finally installed, Mr. Gerson says, passengers should do as much as possible to help themselves. He urges travelers to:

1. Be alert to the requirements of each country they visit, including their own.

2. Be aware that they can speed up American formalities considerably if they do not carry fruits or, say, "a tasty sausage from Italy," which could serve as a trigger to customs inspectors to search their belongings thoroughly.

3. Be sure that foreign-made cameras that they take from home are registered with customs before they leave. The registration slip will prove that the cameras are not dutiable upon one's return home.

4. Keep a list of purchases abroad, including prices paid. Receipts also may be helpful.

For detailed tips there is nothing better than the periodically-updated Customs Service leaflet "Know Before You Go." You can get a free copy by asking for it by name on a 12-cent postcard addressed to the United States Customs Service, P. O. Box 7114, Washington, D. C. 20544.

Ways to speed up procedures are under study, but how fast a passenger gets through remains a matter of chance.

based on their training, pick out individuals here and there for spot checks.

Mr. Dekker says that after the system was adopted in Amsterdam, customs revenues there surged at a rate 20 percent higher than they had been before and that "substantial increases" under the system had also been reported elsewhere. The gates, he said, "have been attributed by some to the fact that individuals tend to feel a greater sense of responsibility when customs responsibilities are placed directly on them."

Mr. Dekker added, "It would seem that previously in Europe, when every passenger had to privately confront a customs official, as they still do in the United States, some passengers apparently took the position that it was the customs official's responsibility to find that extra bottle of liquor or that Bologna sandwich. The red door/green door system relies on the passenger's desire to avoid the more public embarrassment of being fined for the extra bottle of liquor while standing under the green sign."

The main United States objection to red door/green door is based on our rigid agricultural and narcotics laws, under which customs officials feel that at least some contact between a passenger and an inspector is essential. James R. Gerson, director of facilitation for the Air Transport Association, an organization of the American airline industry, says that while his group favors red door/green door, it recognizes that the United States "has a 20

are asked to undergo further inspection. Everyone who has been cleared, however, must pause briefly at the exit gate, and those without a clearance card or who have aroused suspicion may be turned back.

The anticipated saving in time lies in the fact that the arrival interview takes place before delivery of checked baggage. The main is on the airlines, therefore, not the Government. If baggage is not available when the interview ends, a few days after the test began, however, George Spofford, deputy director of the Dade County (Fla.) Aviation Department, complained in an interview that inspection of hand baggage was so much more rigorous in Miami than earlier that new delays were occurring.

While the experimental programs in Miami and Los Angeles were just getting under way when the air controllers' strike began, the so-called "citizens' bypass" program has been in effect at Kennedy for about a year. Airport officials say, however, that the Kennedy program has had very little effect. Under the "citizens' bypass" procedure, United States nationals have been exempted from the immigration procedures imposed on foreigners. Baggage, however, has to be picked up before customs clearance, and delays at claim areas often mean that foreign passengers frequently catch up with Americans by the time checked baggage is available. This recently taxed customs inspection and

**ESTIMATED COST OF PROCESSING
DELAYS TO TRAVELERS
FY 1982**

<u>Location</u>	<u>Average Processing In Excess of 45 Minutes*</u> (Minutes)	<u>Value of Time**</u> (¢ Per Minute)	<u>Number of Travelers FY 1982***</u> (Millions)	<u>Total Cost To Travelers</u> (\$ Millions)
New York (JFK)	7	.28	6.3	12.3
Miami	15	.28	3.3	13.9
				26.2

* Source: GAO Report "More Can Be Done to Speed Entry of International Travelers" August 30, 1979

** Based on value of passenger time of \$16.70 per hour as set forth in "DOT's Aviation Cost Allocation Study Benefits" October 1972 and adjusted for inflation.

*** ATA estimate

Los Angeles was also included in the 1979 GAO study. Delays there were even greater than those in New York and Miami. Since that time, however, Los Angeles has implemented a one-stop inspection process which has reduced delays, which warrants its exclusion from this Appendix.

57.07-17A

TO: Honorable Mayor and Board of County Commissioners

DATE: January 7, 1983

FROM: M. R. Stierheim
County Manager

SUBJECT: Federal Inspection Process
Miami International Airport

Miami International Airport has for well over 20 years suffered with regard to the ability to process arriving international passengers at an adequate rate. This is basically the result of far greater growth at MIA than elsewhere and continuation of historical staffing patterns by the federal agencies favoring areas such as New York. The problem is further complicated at Miami by a much higher percentage of alien arrivals as compared to other major gateways, more difficult processing because of points of origin and, more recently, because of narcotics control measures.

In spite of tremendous local investment in facilities, extensive efforts to obtain improved agency staffing levels and to obtain improved processing procedures, the problem is now worse than ever. On the three days following New Years day the situation at MIA was a disaster. Delays of up to four hours were recorded with average clearance times during some periods exceeding 2½ hours. The established goal for Miami is 45 minutes for peak periods; i. e., worst case.

The effects of this situation are many, serious and long lasting:

1. The international arrivals facility is designed to meter the flow of passengers from the aircraft to the federal inspection passenger processing stations in Immigration and Customs. As a consequence, only limited seating is necessary and, therefore, available.

All halls and passageways were jammed. Access to rest rooms was restricted. Seating for the elderly or infirm was non-existent. People became ill. Police were required to control the crowds to prevent a riot. Safety and health were endangered. Passengers, some completing a lengthy and tiring trip of up to 10 hours, were forced to stand for well over two hours. For the first time in the history of Miami International Airport, passengers had to be held on aircraft as there was no space for them in the international arrivals area.

2. Connecting schedules are based on allowing 1 1/2 hours between flights. Many passengers missed connections because of delays in processing. Many faced either added costs or great inconvenience waiting for another flight.

Airlines, already in a highly tenuous financial plight, were forced to leave with empty seats while the passenger holding the ticket stood in a line for processing and, in many cases, pay for overnight accommodations.

3. One of the major strengths of Miami's air traffic system and the economies of our air carriers is the international hubbing and connecting traffic patterns which have been carefully developed during the decade of the 70's. This connecting traffic supports the routes which provide service for terminating passengers visiting South Florida and also the cargo lift crucial to our community.

The current problem has been an inability to meet volume demands with the staffing available and procedures utilized by one of the four federal agencies involved in the federal inspection process at MIA; namely, Immigration, a part of the U.S. Justice Department responsible to the Attorney General. It should be pointed out that the staffing by Immigration during the worst portion of our recent crisis totaled 13 inspectors. This is equal to the number of inspectors available for the same period in 1970, thirteen years ago. Permanent staffing at the Airport by INS is not acceptable even for the off peak traffic periods. Miami absolutely cannot tolerate this situation.

- Permanent staffing assigned to the Airport by Immigration must be brought to or maintained at levels commensurate with traffic volume and levels at other major international gateways. This means that actual trained, available inspectors must meet these levels, not "approved positions", "inspectors on temporary assignment elsewhere", "at the training academy", etc.
- Regional/District management must recognize the peak traffic periods that repeat like clockwork year in and year out at the Airport and take steps to meet them well in advance. Personnel must be assigned temporarily part time to the Airport from other duties. Vacations must be scheduled taking traffic levels into account, abuses of sick and funeral leave must be dealt with as a disciplinary matter. Unusual conditions must be anticipated and contingency staffing plans and procedures developed in advance.

A pool of part time inspectors must be budgeted, hired and trained. They should be qualified aviation/airport employees so that they are available for any emergency. We have offered that the employees of the Aviation Department be trained for such part time requirements. We have even offered to pay the cost of the part time emergency employees.

The alternate solution and the only one that will be cost effective and provide the framework and management system to prevent continuous recurrence of incredible inspection clearance delays, is to change the system of inspection by creating one federal inspection agency with one management team, one budget and one responsible agency. The four federal inspection agencies have shown little willingness in the past to pursue this idea of a single inspection agency for a major airport even though the concept is used at smaller airports and land border crossings, and Congress has not been willing to legislate the single agency concept despite strong recommendations for such an inspection system from the General Accounting Office, various Congressional Oversight Committees, the Office of Management and Budget, Air Transport Association, fact finding committees, and numerous business leaders of national repute who have only needed to observe the existing four separate agency federal inspection system for a few hours, or be briefed that such a monster exists, to recommend the one agency concept. We understand that one of the inspection agencies (Customs) is now in support of the one agency concept at airports and would strongly support a test of such a system. Why not Miami and why not now? The more complicated question of whether there should be a single agency for the entire country can be dealt with separately.

Miami has the best international facilities in the world. It has the greatest international market potential. It, unfortunately, has the worst reputation among international travelers. This makes the first item meaningless and will destroy the second.

**INTERNATIONAL STANDARDS
AND RECOMMENDED PRACTICES**

FACILITATION

ANNEX 9

TO THE CONVENTION ON INTERNATIONAL CIVIL AVIATION

EIGHTH EDITION – JULY 1980

**This edition incorporates all amendments adopted by the Council
prior to 20 March 1980 and superseded, on 15 October 1980, all
previous editions of Annex 9.**

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Annex 9 - Facilitation

3.8.5 Recommended Practice. — *Visas should in all cases include the following information given in the order shown:*

- a) number of visa;
- b) type of visa;
- c) date of issue, showing day, month and year in that order;
- d) date of expiry, showing day, month and year in that order;
- e) number of entries permitted;
- f) authorized duration of each stay.

3.8.6 Recommended Practice. — *Numerals 1, 2, 3, 4, 5, 6, 7, 8, 9, 0 and the Gregorian calendar (with months being spelled out in full) should be used in furnishing the information listed in 3.8.5.*

3.8.7 Recommended Practice. — *When the text of the visa is in a national language other than English, French or Spanish, one of these three languages should also be used.*

III. — ADDITIONAL DOCUMENTATION

3.9 Recommended Practice. — *Contracting States should not require either from temporary visitors travelling by air, or from operators on their behalf, any information in writing supplementary to or repeating that already presented in their identity documents.*

3.10 A Contracting State which continues to require written supplementary information from temporary visitors travelling by air, shall limit its requirements to the items and shall follow the format set forth in Appendix 3 — Embarkation/Disembarkation Card. Contracting States shall accept the Embarkation/Disembarkation Card when completed by temporary visitors and shall not require it to be completed or checked by the operator. Legible hand-written script shall be accepted on the card, except where the form specifies block lettering.

3.10.1 Recommended Practice. — *Contracting States which require the presentation of Embarkation/Disembarkation Cards should provide them to airline operators for distribution to passengers.*

IV. — PUBLIC HEALTH REQUIREMENTS

3.11 In cases where evidence of protection against yellow fever is required from persons travelling by air, Contracting States shall accept the International Certificate of Vaccination or Revaccination in the form set out by the World Health Organization in Appendix 2 of the International Health Regulations (1969).

3.12 Recommended Practice. — *Medical examination of persons arriving by air should normally be limited to those disembarking and coming within the incubation period of the disease concerned, as stated in the International Health Regulations (1969), from an area infected with one of the three quarantinable diseases (plague, cholera and yellow fever).*

15/10/80

Appendix I

2 of 4
3. — Entry and Departure of Persons

V. — CLEARANCE PROCEDURES

3.13 Except in special circumstances, Contracting States shall not require that identity documents be collected from passengers or crew before they arrive at the passport control points.

3.13.1 After individual presentation by passengers and crew of the identity documents, the public officials concerned shall, except in special individual cases, hand back such documents immediately after examination, rather than withholding them for purposes of obtaining additional control.

3.14 In giving effect to paragraph 3.2, Contracting States shall ensure that examination by clearance control officials is performed as expeditiously as possible.

3.15 Each Contracting State shall make arrangements whereby the identity document of a temporary visitor need be inspected by only one official at times of entry and departure.

Note. — This provision is intended to ensure inspection of the identity document of a temporary visitor by only one official on behalf of both the Immigration and Police authorities. It is not intended to discourage Health and Customs officials from examining the identity document whenever this may facilitate health and customs clearance of the temporary visitor.

3.16 Contracting States shall accept an oral declaration of baggage from passengers and crew

3.17 Contracting States shall normally accomplish inbound passenger baggage inspection on a sampling or selective basis.

3.17.1 Recommended Practice. — *Contracting States should adopt the dual-channel baggage-clearance system at international airports where the volume of passenger traffic justifies its installation.*

Note. — See Appendix 5 — Dual-Channel System as recommended by the Customs Co-operation Council.

3.18 Recommended Practice. — *Contracting States should make arrangements whereby a passenger and his baggage, on an international flight making two or more stops within the territory of the same State, should not be required to be cleared through governmental formalities at more than one airport of the State concerned. Similarly, the State concerned should, insofar as is possible, make arrangements whereby these formalities are effected at the passenger's airport of destination on that flight, except in special circumstances determined by the authorities concerned.*

3.19 Contracting States shall facilitate the return of mishandled baggage to passengers or crew concerned and shall not hold operators liable for penalties, fines, customs duties and taxes, on the basis that the baggage was mishandled.

Note. — The provision of storage facilities for unclaimed and mishandled baggage is covered in paragraph 6.31.2.

APPENDIX 5.—RECOMMENDATION OF THE CUSTOMS CO-OPERATION COUNCIL

For a Simplified Customs Control, Based on the Dual-Channel
System, of Passengers Arriving by Air (8 June 1971)

THE CUSTOMS CO-OPERATION COUNCIL,

Having Regard to Recommendation No. B-3 of the Seventh Session of the Facilitation Division of the International Civil Aviation Organization, as adopted by the Council of that Organization in December 1968, relating to the establishment at international airports of dual-channel systems for speedy clearance of inbound baggage;

Having Regard to Recommendation No. 11 adopted by the Second Intermediate Session of the European Civil Aviation Conference in July 1969 on the dual-channel or red/green system;

Desiring to contribute to the efforts to improve the flow of passenger traffic at international airports;

Considering that this aim can be achieved by introducing a simplified procedure, based on the dual-channel system, for the Customs control of passengers and their baggage;

Considering that such a system can be adopted without reducing the effectiveness of the control and that it enables Customs authorities to deal efficiently with an increasing number of passengers without a corresponding increase in the number of Customs staff;

Considering that harmonization of the features of this system, as between the various countries, is essential to its smooth operation;

Recommends that Members introduce, at their major international airports, in close co-operation with the airport operators and other agencies concerned, the dual-channel system outlined below for the clearance inwards of passengers and their baggage:

- 1) The system shall allow the passengers to choose between two types of channels:
 - a) one (green channel) for passengers having with them no goods or only goods which can be admitted free of import duties and taxes and which are not subject to import prohibitions or restrictions; and
 - b) the other (red channel) for other passengers.
- 2) Each channel shall be clearly and distinctively marked so that the choice between them can easily be understood by passengers. The basic distinctive marking shall be:

a) for the channel referred to under 1) a), green, in the shape of a regular octagon, and the words "NOTHING TO DECLARE" ("RIEN A DECLARER");

b) for the channel referred to under 1) b), red, in the shape of a square, and the words "GOODS TO DECLARE" ("MARCHANDISES A DECLARER").

In addition, the channels should be identified by an inscription including the words "CUSTOMS" ("DOUANE").

3) The texts referred to in paragraph 2) shall be in English and/or French and in any other language or languages deemed useful for the airport concerned.

4) Passengers must be sufficiently well informed to choose between the channels. For this purpose it is important:

a) that passengers be informed about the functioning of the system and about the descriptions and quantities of goods they may have with them when using the green channel. This may be done by means of posters or panels at the airport or by means of leaflets available to the public at the airport or distributed through tourist agencies, airlines and other interested bodies.

b) that the route to the channels be clearly signposted.

5) The channels shall be located beyond the baggage delivery area so that passengers have all their baggage with them when choosing their channel. Moreover, the channels shall be so arranged that the passenger flow from that area to the exits from the airport is as direct as possible.

6) The distance between the baggage delivery area and the entrances to the channels shall be sufficient to allow passengers to decide which channel to choose and to move into that channel without causing congestion.

7) In the green channel passengers shall not be subject to any Customs formalities but the Customs may make spot checks; in the red channel passengers shall accomplish the formalities required by the Customs;

Points out that the dual-channel system is not necessarily incompatible with the application of other

Annex 9 - Facilitation

controls, for example, exchange control, unless the relevant regulations require full control of the passengers and their baggage;

Requests Members who accept this Recommendation to notify to the Secretary General:

- a) their acceptance and the date from which they will apply the Recommendation;

Appendix 5

- b) the names of the airports where the dual-channel system is applied.

The Secretary General will transmit this information to the Customs Administrations of Members, to the Secretary General of the International Civil Aviation Organization (ICAO) and to the Director General of the International Air Transport Association (IATA)."

EXCERPTS FROM THE REPORT
OF THE AIRPORT ACCESS TASK FORCE
ON GROUND SIDE CONGESTION

Federal Inspection Services

Federal Inspection Services (FIS) at U.S. airports are a significant cause of groundside congestion and delay for international air passengers and shippers. FIS congestion and delay detrimentally impact international passenger and cargo facilitation, disrupt the ability of arriving international air passengers to make planned domestic flight connections, significantly affect the movement of urgent shipments in international commerce and can affect the capacity of an airport to accommodate international traffic.

The Airport Access Task Force recommends that:

1. The Federal Government, through the Secretary of Transportation, ensure that studies funded through Federal planning grants to states, regional agencies, and local entities address airport ground access problems and solutions. Such studies include those efforts which lead to the development of state, regional, and local land use, transportation and airport master plans. Timely and effective review and coordination between the various Federal agencies (FHWA, FAA, UMTA, etc.) that provide Planning funds should be accomplished to ensure identification of potential problems involving groundside congestion;
2. Congress encourage and support the concept of coordinated and cooperative or joint funding of projects to develop airport ground access facilities by such agencies as the Federal Aviation Administration, Federal Highway Administration, Urban Mass Transportation Administration, state and local governments—since many access problems are not just airport problems;
3. Congress encourage and authorize the use of Federal funds through existing programs for projects to install ground transportation information systems in airport and off-airport terminals. Such information systems should provide up-to-date information about available ground transportation alternatives for the air traveler;

4. Congress support and encourage the development of off-airport terminal facilities by authorizing the use of Federal funds for the development of such facilities. Further, that the Federal Government support and encourage the development of these facilities by ensuring that, during the planning and project development of such facilities, state and local, as well as Federal authorities, are made aware of available funding and coordinate planning and development activities. Further, that airports and airlines recognize that these facilities can be a cost-effective means of relieving congestion at the terminal, approach roads, and parking lot of an airport. Finally, efforts should be focused on overcoming problems associated with remote baggage handling, ticketing, and other passenger services;
5. Services' procedure be modernized and simplified to maximize the efficient use of resources (e.g., dual channel "red/green door" and "one-step" procedures and automated systems such as the National Cargo Control System) and that cross-training of FIS employees be required;
6. Congress consider the consolidation and streamlining of the Federal Inspection Services so as to expedite passenger and cargo flow through ports as well as reduce operating costs;
7. Priority go to staffing that is commensurate with the activity of the port of entry so as to minimize delay; and
8. FIS costs continue to be recognized as costs to be borne by all taxpayers, since the Federal laws requiring inspection were enacted to protect the nation and all of its citizens.

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1963)
SCHEDULE 6. - METALS AND METAL PRODUCTS
Part 2. - Metals, Their Alloys, and Their Basic Shapes and Forms

Page 493

6-2-C
612.02 - 612.11

C S P	Item	Stat. Suf- fix	Articles	Unit of Quantity	Rates of Duty				
					1-a		1-b		2
					1	196C	1	196C	
A	612.02		Drawn copper: Current copper and copper precipitates.....	.....	1.72 ad val. on the value of the copper content		1c per lb. on copper content (see head- note 6)		6d ad val.
		20	Copper content.....	Lb.					
		40	Gold content.....	Gr. troy					
		60	Silver content.....	Gr. troy					
A	612.03		Black copper, blister copper, and anode copper.....	.....	1.72 ad val. on the value of the copper content	12 ad val. on the value of the copper content	0.85c per lb. on 99.61 of the copper content	0.7c per lb. on 99.61 of the copper content	6d ad val.
		30	Black copper, blister copper, and anode copper.....	Lb. v					
		40	Refinable copper content..	Lb.					
		60	Gold content.....	Gr. troy					
		80	Silver content.....	Gr. troy					
A	612.05		Nickel silver.....	Lb. v	3.72 ad val.	4.61 ad val.	0.8c per lb. on copper content + 4.32 ad val.	0.7c per lb. on copper content + 3.52 ad val.	2c ad val.
		90	Copper content..	Lb.					
A*	612.06		Other.....	.....	12 ad val.		0.75c per lb. on copper content		6d ad val.
		10	Alloyed: Beryllium copper.....	Lb. v					
		30	Other.....	Lb. v					
		40	Other.....	Lb.					
A	612.08		Copper waste and scrap: Nickel silver.....	Lb. v	6.22 ad val.	2.62 ad val.	0.7c per lb. on 99.61 of the copper content + 3.52 ad val.	0.4c per lb. on 99.61 of the copper content + 22 ad val.	2d ad val.
		90	Copper content..	Lb.					
A	612.10		Other.....	.....	0.82 ad val.	Free	0.7c per lb. on 99.61 of the copper content	0.4c per lb. on 99.61 of the copper content	6d ad val.
		30	Unalloyed.....copper content..	Lb.					
		40	Alloyed: Brass.....	Lb. v					
		60	Other.....	Lb. v					
			copper content..	Lb. v					
	612.11		If the product of Cuba (except alloy waste and scrap).....	.....	Free (c)		Free (c)		

(c) = Suspend. See general headnote
3(b).

Note: For explanation of the symbol
"A" or "A*" in the column entitled "CSP",
see general headnote 3(c).

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1983)

Appendix K

SCHEDULE 5. - NONMETALLIC MINERALS AND PRODUCTS

Page 487 2

Part 3. - Glass and Glass Products

5 - 3 - C, D
547.11 - 547.05

GSP	Item	Stat Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDPC	2
			Clock and watch glasses and other protective glasses, including glasses for noncorrective spectacles, all the foregoing, with one or both surfaces curved but not optically worked (except blanks for corrective spectacle lenses):				
			Watch glasses:				
A	547.11	00	Round.....	Dos.....	6.2% ad val.	4.9% ad val.	60% ad val.
A	547.13	00	Other.....	Dos.....	16.8% ad val.	9.4% ad val.	60% ad val.
A	547.15	00	Other.....	X.....	8.8% ad val.	5% ad val.	60% ad val.
	547.16	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6A, schedule 6).....	X.....	Free		
A	547.21	00	Gauge glasses, whether tubular or nontubular.....	X.....	7.9% ad val.	5.8% ad val.	60% ad val.
			Glass envelopes (including bulbs and tubes), without fittings, designed for electric lamps, vacuum tubes or other electrical devices:				
A	547.31	00	Bulbs for incandescent lamps.....	No.....	4.4% ad val.	3.7% ad val.	70% ad val.
A	547.37	00	Other.....	No.....	9.6% ad val.	6.6% ad val.	55% ad val.
		20	Glass envelopes for cathode-ray tubes.....	No.			
		40	Other.....	No.			
			Glass electric insulators with or without fittings:				
A	547.41	00	With metal fittings.....	No.....	6.2% ad val.	4.9% ad val.	35% ad val.
A	547.43	00	Without metal fittings.....	No.....	7.9% ad val.	5.8% ad val.	50% ad val.
A	547.51	00	Glass ampoules.....	Gross.....	12.5c per gross		50c per gross
			Pharmaceutical, hygienic, and laboratory glassware, whether or not produced or calibrated:				
A	547.53	00	Containing over 95 percent silica by weight.....	X.....	7.9% ad val.	5.8% ad val.	50% ad val.
A	547.55	00	Other.....	X.....	14.7% ad val.	8.4% ad val.	65% ad val.
		10	Microscope slides and micro cover glasses.....	X			
		20	Other.....	X			
Subpart D. - Glass Articles Not Specially Provided For							
			Articles not specially provided for, of glass:				
			Tubes and tubing with ends processed:				
A	548.01	00	Containing over 95 percent silica by weight.....	X.....	5.9% ad val.	4.7% ad val.	10% ad val.
A	548.03	00	Other.....	X.....	11.8% ad val.	7.5% ad val.	60% ad val.
A	548.05	00	Other.....	X.....	9.6% ad val.	6.6% ad val.	5% ad val.
<p>Note: For explanation of the symbol "A" or "AX" in the column entitled "GSP", see general headnote 3(c).</p>							

THE FEDERAL INSPECTION PROCESS

	<u>Title</u>	<u>Author</u>	<u>Date</u>
1	Interagency Report	BOB	May 1968
2	System Concept for Drug Interception —U.S. Mexican Border	Mitre	October 1972
3	Heroin Being Smuggled Into New York City Successfully	GAO	December 7, 1972
4	A Single Agency Needed to Manage Port-of-Entry Inspectors—Particularly at U.S. Airports	GAO	May 30, 1973
5	More Needs to be Done to Reduce the Number of Adverse Impact of Illegal Aliens in the United States	GAO	July 31, 1973
6	Need for Improvements in Management Activities of the Immigration and Naturalization Service	GAO	August 14, 1973
7	U.S. Customs Service—A Summary Strategy for Border Law Enforcement Operations	Customs	February 6, 1974
8	A Secure Border; An Analysis of Issues Affecting the U.S. Department of Justice	Justice	March 4, 1974
9	Study of Law Enforcement Along Southwest Land Border	OMB	June 5, 1974
10	Law Enforcement on the Southwest Border (Problems of Coordinating Between Immigration and Naturalization Service and Customs Service)	Committee on Government Operations	December 14, 1974
11	Better Controls Needed to Prevent Foreign Students from Violating the Conditions of Their Entry and Stay While in the United States	GAO	February 4, 1975
12	Premium Pay for Federal Inspectors at U.S. Ports-of-Entry	GAO	February 14, 1975
13	Administration of the Alien Labor Certification Program Should be Strengthened	GAO	May 16, 1975

	<u>Title</u>	<u>Author</u>	<u>Date</u>
14	Need to Reduce Public Expenditures for Newly Arrived Immigrants and Correct Inequity in Current Immigration Law	GAO	July 15, 1975
15	Aliens Are Illegally Entering the U.S. Mainland Through Puerto Rico and the U.S. Virgin Islands	GAO	September 8, 1975
16	Federal Drug Enforcement Strong Guidance Needed	GAO	December 18, 1975
17	Smugglers, Illicit Documents, and Schemes are Undermining U.S. Controls over Immigration	GAO	August 30, 1976
18	Illegal Alien Study, Part 1: Fraudulent Entrants Study	INS	September 1976
19	Immigration-Needed to Reassess U.S. Policy	GAO	October 19, 1976
20	Preliminary Report	Domestic Council Comm.	December 1976
21	The Immigration and Naturalization Service	Justice	May 1977
22	If Defense and Civil Agencies Work More Closely Together, More Efficient Search/Rescue and Coastal Law Enforcement Could Follow	GAO	May 26, 1977
23	Illegal Entry at United States-Mexico Border-Multiagency Enforcement Efforts have not been Effective in Stemming the Flow of Drugs and People	GAO	September 1977
24	The Illegal Alien Assault: The U.S. Retreats From the Border	Crim. Law Review V.14,#4	September 1977
25	Border Management and Interdiction, An Interagency Review	Drug Abuse	September 1977
26	Customs' Cargo Processing-Fewer But More Intensive Inspections Are in Order	GAO	September 1978
27	More Can be Done to Speed the Entry of International Travelers	GAO	1979
28	One-Step Inspection System Speeds the Entry of International Travelers	GAO	1982

Mr. GORSON. The analysis reviews a Federal inspection system, current regulatory responsibilities, previous reports, and studies on inspection agency management, and explores possible interim relief measures. The analysis also suggests a number of options and alternatives with respect to Federal inspection agency management at airports and as to how some of these options and alternatives might be accomplished.

We note that fiscal year 1984 budget message contains the following directives:

Inspection and control activity at Customs must: Accommodate the growth of persons and cargo entering this country; must open new ports of entry and expand service at existing ports; must improve selectivity of Customs inspectional enforcement programs to improve techniques; and must achieve maximum utilization of Customs' resources with minimum disruption of international trade and travel.

We submit that the proposed reduction of 820 Customs' inspectors is inconsistent with these directives. And unless a portion of these inspectors can be restored or other reallocation of resources can be arranged, severe congestion and delays in the processing of international air commerce will continue to result.

The Commissioner of Customs in his written statement this afternoon noted that he plans to allocate sufficient resources to accommodate the needs of the 1984 summer Olympics at Los Angeles. However, we would like to point out that the Louisiana World Exposition will also be held in 1984 at New Orleans from May 12 to November 11, and Customs' staffing will also be needed to process this activity.

Of an equal if not greater urgency are reports of proposed termination of Customs' preclearance operations at U.S. Air Force bases around the world. Preclearance of service personnel, their dependents and military cargo is conducted by military Customs' inspectors under the supervision of the U.S. Customs' officials at these locations. If termination of overseas preclearance goes forward beginning this summer, military air command flights will be processed on arrival in the United States. In cases where these flights land at commercial airports, such as at St. Louis, they will compete with international commercial flights for Customs' services which are already inadequate. In fact, the Customs' staffing situation, Mr. Chairman, is so critical at St. Louis that Customs plans to curtail hours of service by refusing to clear commercial and military contracts flights at St. Louis between 7 a.m. and 5 p.m. daily. With the closing of necessary military preclearance, Customs will be faced with a greatly increased workload with substantial decrease in the number of available inspectors.

We ask the help of this committee in continuing Customs' preclearance at U.S. Air Force bases overseas.

I would like to add finally that U.S. airlines, as good citizens, strongly supports U.S. Customs law enforcement measures. In order for enforcement to be effective, however, Mr. Chairman, Customs must have available sufficient resources, including adequate numbers of inspectors at airports.

Senator DANFORTH. Thank you very much.

[The prepared statement of Mr. Gorson follows:]

Statement of James R. Gorson
Director - Facilitation
Air Transport Association of America
Before the Subcommittee on International
Trade of the Finance Committee
U. S. Senate
On the FY 1984 Authorization for the U. S. Customs Service
17 March 1983

My name is James R. Gorson. I am Director of Facilitation of the Air Transport Association of America, which represents the scheduled airlines of the United States.

My responsibilities include coordinating airline industry efforts to facilitate international air travel and trade, and I work directly with the federal inspection agencies of the U.S. government in this regard.

We appreciate the opportunity to appear before the Subcommittee to discuss the FY 1984 budget proposals for the U. S. Customs Service because seventeen of our member airlines provide regularly scheduled air service between the United States and more than 70 countries.

Air transportation is the principal mode of transportation to and from the United States for international travelers. Air transportation also represents an extensive, increasingly important and growing international air freight and worldwide mail distribution system. Customs requirements impact upon this international air commerce, for inspections are mandatory at U.S. airports of entry and preclearance airports. The airlines are therefore interested in budget considerations covering Customs staffing and procedures at gateway airports.

Modernization and simplification of federal inspection procedures have gone forward during the past year. We commend the Customs Service for implementing the red/green dual channel expedited passenger processing system at the Chicago and Houston airports and we welcome plans to extend this modern system to other airport locations, including several of the passenger terminal facilities at John F. Kennedy International Airport in New York. We are also pleased that the Accelerated Specialized Inspection System Test (ASIST) has been successful and is continuing at Los Angeles. However, we are dismayed that the Customs Service, for whatever reasons, unilaterally withdrew from the ASIST program in Miami last November. Even though a modified red/green dual channel system has now been introduced at Miami International Airport, it must be recognized that continual inspection agency facility changes are disruptive to passenger processing, and are costly.

The dual channel and ASIST systems have been important first steps toward the development of a more selective, expeditious passenger inspection system which now should be expanded nation-wide. Efficiencies in Customs cargo processing must also continue, and we are pleased to note recent intensified Customs/airline efforts to facilitate air freight imports and exports. A joint Customs/airline cargo

facilitation working group has been established to simplify and modernize Customs cargo processing, and initial results are promising.

However, the numbers of Customs inspectors at U. S. gateway and preclearance airports have not kept pace over the past several years with the growth in international air commerce because of budget actions. The fiscal year 1984 Customs budget proposals, for example, include further expenditure reductions which, we understand, will reduce airport inspector levels by roughly ten percent. Inspector staffing levels today, for the most part, are inadequate to meet current airport inspection loads. Despite improvements in passenger processing, this situation will deteriorate significantly in the coming peak international travel season. Steps to resolve it are needed now: either adequate number of Customs inspectors must be authorized, or a high priority program to reduce inspector workload through continued modernization and simplification of current practices and procedures must be initiated, or both. For the longer term, consolidation of the several inspection agencies or their functions or, at a minimum, a greater interagency coordination, must be obtained.

At a joint government/airline facilitation conference last November, ATA was requested to develop an analysis on how further efficiencies could be realized. The ATA analysis is being finalized, and we will be glad to supply a copy for the

record, when it is completed. The analysis reviews the federal inspection system, current regulatory responsibilities, previous reports and studies on inspection agency management, and explores possible interim relief measures. The ATA analysis also suggests a number of options and alternatives with respect to federal inspection management at airports, and notes how some of these options and alternatives might be accomplished.

The peaking of international flight arrivals has received considerable attention by this committee and the Congress. While individual airlines acting individually can make some adjustments in their international flight arrivals, we believe the best long-term solution is to facilitate the clearance procedures of Customs and the other U. S. inspectional agencies. The peaking of modern airline arrivals is expanded upon in the attachment to our statement, which points out that of all of the aspects of modern airline operation, none is more complex than scheduling.

We were pleased to note that the fiscal year 1984 budget message contains the following directives:

In enforcing the provisions of the Tariff Act of 1930, as amended, the inspection and control activity must: (1) accommodate the growth of persons and cargo entering this country; (2) open new ports of entry and expand service at existing ports to meet the needs of the traveling and importing public; (3) improve selectivity of Customs inspectional enforcement programs through improved techniques and equipment; and (4) achieve maximum utilization of Customs resources with minimum disruption of international trade and travel.

The proposed \$21 million cut in allocation for Customs inspectors is inconsistent with these directives, and unless a portion of the recommended cut can be restored, or other reallocation of resources can be arranged, severe congestion and delays in the processing of international air commerce will continue to result.

In fiscal year 1982, Customs collected \$9.9 billion, an increase of 8.5% over fiscal year 1981. This represents a return of almost \$19 for every appropriated dollar spent in carrying out Customs requirements and responsibilities. In view of this remarkable revenue generating record, we find it difficult to reconcile proposals to reduce Customs manpower by some 820 inspectors, which, in turn, will impact adversely on Customs revenue collections.

In conclusion, we urge the subcommittee to assure authorization for adequate Customs inspector personnel at our gateway airports, to require Customs to establish initiatives to further simplify or combine the inspection process and otherwise provide facilitation leadership in international commerce -- leadership which this country enjoyed in the past for many years.

* * * *

THE
PEAKING
OF
INTERNATIONAL
FLIGHT ARRIVALS

The Best
Long-Term Solution

"The convenience of air passengers and shippers is the most important factor in developing airline schedules. To the extent that this results in a peaking of arrivals and departures of international flights, the best long-term solution is to facilitate the clearance procedures of Customs and other U.S. inspectional agencies."

Many of the nation's airports—cities in themselves, pumping millions and sometimes billions of dollars into local economies—tend to be busier at some hours than at others. This "peaking" of flight arrivals and departures, as it is called, causes simultaneous peaking at various centers of airport activity—in baggage claim areas, in demand for surface transportation and, with international flights, in the volume of passengers being processed by Customs and other U.S. inspectional agencies.

Over the years, this has raised a question. Why don't the airlines respond to peaking with the seemingly simple approach of merely changing the schedules?

Like so many seemingly simple solutions, changing an airline schedule is not as simple as it seems.

What follows is a brief explanation of the many factors going into development of airline schedules, convenient for passengers and shippers and economically sound for airlines. Then, a few suggestions are presented to overcome peaking by making the processing of arriving international passengers more productive.

Making Airline Schedules

Of all of the aspects of modern airline operation, none is more complex than scheduling. All of the airline's productive resources are involved, including aircraft, crews, ground personnel and station facilities. Successful scheduling requires that they all be combined effectively.

The resources are expensive and getting more so. Aircraft offer a striking case in point. The airlines invested \$17 billion in new aircraft in the 1970's, and the current fleet represents an investment of \$25 billion. Effective scheduling must put these aircraft to productive use—not only because of the enormous cost involved, but also because airline seats cannot be stockpiled. The airline product must be consumed at flight time. If it is not, the revenue is lost forever.

Many Disciplines Involved

Developing a productive airline schedule brings together many disciplines—from marketing to maintenance—and this cannot be

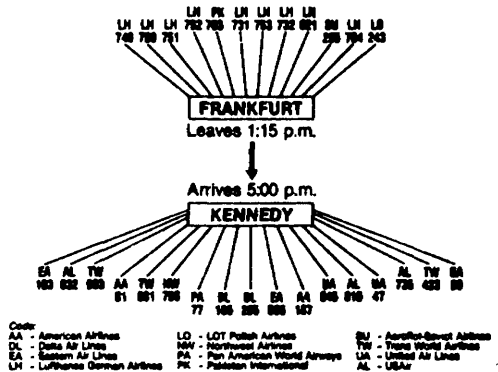
done within the isolation of a single route segment. Each schedule change must take into account:

- Flight connections
- Crew scheduling
- Aircraft utilization
- Productive use of ground personnel and station facilities
- Aircraft maintenance
- Positioning of aircraft to originate other flights
- Curfews and other restraints on using airports at night
- Availability of Customs and Immigration inspectors

The Interrelationships

Flight connections, for example, require that schedules be tightly interwoven. Nearly every flight relates to hundreds of other flights, many of them connecting. The flight departure time from city A determines when the aircraft will be available at city B for assignment to another flight to city C. If the flight is not available at city B in time to make connections, the flight will not be economically productive.

Flight Schedules Are Tightly Interwoven



Aircraft schedules form the basis for crew schedules. Crew schedules, in turn, must conform with strict requirements on rest and layover times prescribed by the Federal Aviation Administration for U.S. carriers and by

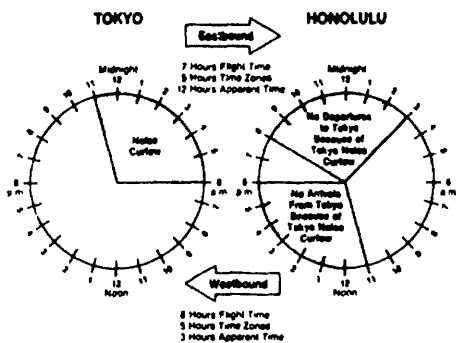
governments of other nations for their own carriers.

Good aircraft utilization is important in controlling hourly operating costs. If aircraft utilization goes down—from 10 hours a day to eight hours, for example—the per hour cost of a wide range of items, from depreciation to insurance and administration, all rise significantly.

Curfews have an impact far beyond the airport imposing them. The curfew at London affects the time a plane arrives at Boston. The curfew at Tokyo affects the time a flight arrives at Honolulu.

Limited resources often preclude the availability of Customs and Immigration inspectors to clear arriving international flights.

Effect of Curfews on Schedules



International Obligations

In international air transportation, the U.S. Government has certain obligations arising from bilateral agreements entered into with governments of other nations. The provisions of such agreements may not set forth specifically the right of absolute scheduling freedom. But it is implicit that airlines of each of the nations that are parties to the agreements are free to conduct operations in a way that will best serve passengers and shippers, while making the most productive and economic use of available equipment

In short, there are many factors that must be weighed before a schedule change is made. As important as all of them are, there is another of overriding importance—customer convenience.

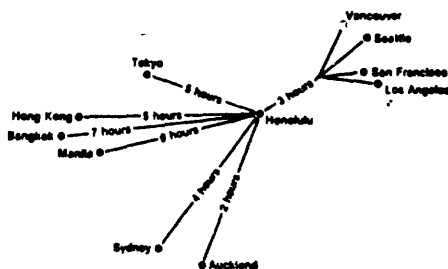
Customer Convenience

If an airline is to succeed financially, scheduling must conform to customer convenience. In the final analysis, the needs of the customer, that is, the market, must determine hours and frequency of airline schedules.

Schedule planners try to determine these customer desires. Then the challenge is to match them as closely as possible with workable schedules for operating the company's aircraft systemwide. The aim of the scheduling process is to fly a schedule that will satisfy the needs of enough customers to earn the revenue to pay for the schedule.

This is true of virtually all scheduling. But in the case of transcontinental flights and many international flights, the process is further complicated by the additional factor of time zone changes.

Time Zone Difference Between Various Cities and Honolulu



The Time Zone Factor

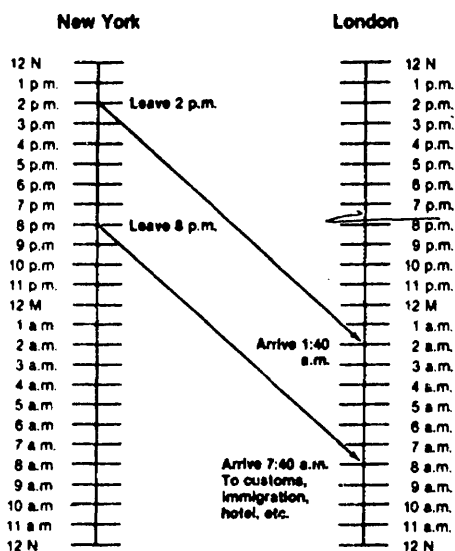
Five hours are lost on a flight from New York to London because of time zone changes. Hence, many periods during the day are not practical for transatlantic departures from the U.S. East Coast because they would result in inconvenient arrival times in Europe.

Sending the flight off from New York at 2 o'clock in the afternoon, for example, would mean an arrival time of about 1:40 the next morning in London—hardly an hour at which the traveler wants to cope with passport control, customs, currency exchange, transportation into the city and hotel check-in.

Consequently, most transatlantic flights from the U.S. East Coast to Europe leave in the evening, between 7 p.m. and 11 p.m., for arrival in European cities at times coinciding with the opening of business the next morning. Westbound transatlantic flights, taking advantage of the time zone factor, leave European cities at mid-morning or slightly later for arrival in the U.S. from mid-to-late afternoon.

Airlines do not peak international service deliberately. When peaking does occur, it is usually due to geography, time zones and other factors beyond the airlines' control.

Time Zones Are a Factor in Scheduling



The air transport industry, spending many millions of dollars each year to promote international air travel, has every reason to avoid delays in the clearance of passengers returning to the United States. But there is a better, more permanent way of avoiding clearance delays than through responding with schedule changes that cause disruption elsewhere in the air transport system.

Facilitating Customs Clearance

The better way is to make the clearance process more productive, hence quicker for most returning passengers. Here are some ways in which this can be done:

- Through the more adequate staffing of Customs and the other inspectional agencies at U.S. gateways.
- Through the expansion of preclearance, whereby the traveler goes through U.S. inspectional procedures at an airport abroad before boarding his flight to the United States. Preclearance has worked well for U.S. bound passengers at cities in Canada, in Bermuda and in the Bahamas. It should be expanded to such places as Shannon, Frankfurt, Mexico City and Tokyo, and to other cities from which large numbers of international travelers board flights to the U.S.
- The more widespread use of the accelerated specialized inspection system through which an officer of Customs is also trained to perform the inspectional duties of an immigration officer, and vice versa.
- Adoption of the red/green dual channel system used in many other countries, and through other random selection and Customs sampling techniques.

To Recap

The convenience of air passengers and shippers is the most important factor in developing airline schedules. To the extent that this results in a peaking of arrivals and departures of international flights, the best long-term solution is to facilitate the clearance procedures of Customs and the other U.S. inspectional agencies.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. No questions, Mr. Chairman.

Senator DANFORTH. Thank you very much, gentlemen. I think we share your concern.

Let me ask you this. On that red and green system, is there any idea of what portion of people are attempting to get through with something when they do that? Is that system a pretty accurate determinant of who is coming through into the country with what?

Mr. GORSON. I would like to comment briefly on that because the Commissioner this morning in his testimony was pointing out that the system had been implemented in Houston. And he noted that the number of passengers inspected per hour went up to 1,000 from 600 with a corresponding increase in interceptions. And I think that's the proof of the pudding, sir.

Senator DANFORTH. You think it works?

Mr. GORSON. It works very well. I would like to see it extended to other locations.

Senator DANFORTH. Would you like to comment?

Mr. SUPLIZIO. Yes, if you don't mind, Mr. Chairman. What you need to do is to make sure that you have an adequate sampling of the passengers who pass through the prime area and then the secondary screening areas. Now what we experienced in the Los Angeles and Miami test was that about 20 percent of the passengers were referred from primary to secondary for processing. And that is probably your basic technique to segregate those who are honest from those who are dishonest. There is no way you can tell who the vast majority of honest travelers are. And all you can do is maintain a deterrent by sampling.

Senator DANFORTH. You can't tell from shifty eyes?

Mr. SUPLIZIO. We have certain profiles that do work. But we would be hard pressed to justify that as a basis for reducing sampling to say 5 percent.

Senator DANFORTH. How do I get in without being checked?

Mr. SAMUEL. Identify yourself as a U.S. Senator. [Laughter.]

Mr. SUPLIZIO. And as chairman of the Trade Subcommittee.

Senator DANFORTH. Gentlemen, thank you very much. We have a vote on the floor of the Senate right now. We will be back in about 15 minutes.

[Whereupon, at 3:25 p.m., the hearing was recessed.]

AFTER RECESS

Senator DANFORTH. Ms. Kaiser.

Ms. KAISER. Yes, sir.

Senator DANFORTH. Would you like to proceed?

Ms. KAISER. Yes, sir.

STATEMENT OF JOYCE KAISER, DEPUTY ASSISTANT SECRETARY, EMPLOYMENT AND TRAINING ADMINISTRATION, DEPARTMENT OF LABOR

Ms. KAISER. Before I proceed, I would like to introduce Mr. Marvin Fuchs who is the administrator of the Office of Trade Adjustment Assistance; and Mr. Robert Schaerfl who is the director of

the Office of Program Management and our unemployment insurance operation.

Senator DANFORTH. Is this a panel?

Ms. KAISER. We were confused.

Senator DANFORTH. And then Mr. Koplan. Would you two like to be on a panel here and then we can hear from you after this?

Mr. KOPLAN. Fine.

Senator DANFORTH. Great.

Go ahead.

Ms. KAISER. I've submitted my formal statement. I would like to highlight some of the items in that statement, and I promise that it will, in fact, be brief.

In 1982 we operated on a continuing resolution passed in December 1981, which gave us a \$25 million budget for trade training. We also implemented the trade amendments which were passed under the Omnibus Reconciliation Act of 1981. During that same period 5,844 trade-impacted workers entered training. We, through the State agencies, expended \$18.4 million for training. And \$1 million in job search and relocation. More detailed figures are available in our report that was submitted to Congress on February 14 of this year.

The first quarter of 1983 we have 1,000 people in training. We have a budget for 1983 of \$25 million, plus a \$5.5 million carryover unobligated by the States last year. The backlog issue, I am sure, is of interest to you. At the end of fiscal year 1981, we had 1,380 cases backlogged. We reduced that to 632 by the end of fiscal year 1982. Unfortunately, we are currently seeing a rise in that backlog. We have made some efforts to address that situation by adding staff on a temporary basis to the Office of Trade Adjustment Assistance.

In regards to investigations, in 1982 we completed 1,560 investigations. Of that number, 242 petitions were certified; 1,258 denied; 86.2 percent denial rate.

For the first 5 months of 1983, our denial rate has decreased. We are now running at a 40-percent certified; 60 denied.

Of interest also to this committee, I believe the 1984 proposals to address the training situation of the trade impacted workers will be of interest. In addition, the JTP legislation that was passed at the end of 1982. The Job Training Partnership Act has a provision in it which will allow for the training of dislocated workers. We have asked in our 1984 budget for \$240 million to address this need. Currently, we have \$25 million to begin work in this critical area. This program is operated through the State agencies. Seventy-five percent of the available funds are put out to the Governors by formula; 25 percent is a discretionary pot that is administered by the Secretary of Labor.

People who have exhausted their UI benefits, people who are involved in plant close downs and long-term unemployed are eligible for this program. We anticipate that the \$240 million request will serve 96,000 to 110,000 workers.

We have a 1984 proposal that will allow States to use their UI trust funds for training. In addition, we are also proposing an extension of the FSC program with the added voucher piece to that program. The voucher allows for people who are eligible under the Federal supplemental compensation program to use half of their

weekly benefit amount as an inducement to employers to hire. It will be a tax credit that employers can use.

With these proposals and the dislocated worker program that is currently in law, we feel that it is unnecessary to continue with the trade adjustment assistance program as this population will, in fact, be served.

Thank you.

[The prepared statement of Ms. Kaiser follows:]

TESTIMONY OF
JOYCE KAISER
ASSOCIATE ASSISTANT SECRETARY FOR
EMPLOYMENT AND TRAINING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

March 17, 1983

Mr. Chairman and Members of the Committee.

I am glad to have this opportunity to appear before you today to discuss the operation of the Trade Adjustment Assistance program for unemployed workers and this Administrations new proposals with respect to dislocated workers in general.

Mr. Chairman, you have asked that the Department report on activities relating directly to the Trade Act. In addition to reporting on these activities, I shall also discuss fiscal 1984 proposals which relate, among others, to trade dislocated workers.

Administering the Trade Act

We have taken positive action to strengthen training opportunities under the Trade Act:

- . The Third Continuing Resolution, enacted December 15, 1981, authorized expenditures of up to \$25 million for Trade adjustment training and job search and relocation allowances. Secretary Donovan authorized

allocation of the entire amount of \$25 million-- distributed among 46 States. The release of these funds was aimed at providing assistance to a minimum of 7500 eligible workers, most of whom were in the automobile and steel industries located in the midwest.

We have implemented the following amendments to the Trade Program which were adopted in the Omnibus Budget Reconciliation Act of 1981:

- . TRA benefits became payable only after regular (and if appropriate, extended) UI benefits were exhausted. Cash benefits were limited to an overall duration of 52 weeks, except where an individual was enrolled in a training program.

- . Trade Readjustment Allowances (TRA) benefit amounts were changed from a system with benefit amounts set specifically for TRA claimants to the use of the weekly benefit amount payable in each State to a worker for like coverage under the State unemployment insurance law. The Administration believes that the measure of benefit eligibility should be one relating to the labor market attachment of a claimant, and that this should apply similarly to

all qualified laid off workers, regardless of the circumstances leading to a layoff.

- . Workers in approved training continued to be eligible for up to 26 weeks of additional benefits if needed to complete a training course. Greater emphasis was placed on training unemployed workers in technical skills needed by expanding industries.

- . The level of cash allowances for costs of job search and relocation was increased.

- . The termination date of Trade Adjustment Assistance was extended for an additional year, from September 30, 1982 to September 30, 1983.

- . During all of fiscal 1982, 5,844 workers entered training and some \$18.4 million was obligated. Somewhat more than a million dollars was obligated for job search and relocation activities. More detailed data on fiscal 1982 activities is available in a summary report sent to the Congress by the Secretary on February 14, 1983.

More than 1,000 workers entered training during the first quarter of fiscal 1983 and there were approximately 4,599 workers in training at the end of December 1982, the last date for which comprehensive information is currently available.

We believe the Department's funding needs for training for the remainder of fiscal 1983 are adequately addressed by the appropriation of an additional \$25 million by the Congress for training, job search and relocation allowances and the carry-over of approximately \$5.5 million from fiscal 1982.

The Department of Labor has made successful progress in fiscal 1982 and fiscal 1983 to reduce the backlog of worker petitions with priority given to older cases. Assisted in part by a reduction in the number of new petitions filed, the backlog of 1,380 worker petitions for adjustment assistance at the close of FY 1981 was reduced to 632 at the end of fiscal 1982. This has begun to rise again with the filing of 152 petitions in December 1982 by workers in the auto industry and an additional 134 in the same industry in January 1983. The Department is adding additional staff to deal with this most recent rise in caseload to keep the backlog from attaining unacceptably high levels.

In FY 1982, 1560 investigations of worker petitions were conducted by the Department. Of these:

- . 242 were certified as qualifying for assistance, in whole or in part, and 1,258 were denied as not meeting the statutory criteria.

- . 60 petitions were terminated.

- . 18,946 workers were certified as eligible to apply for worker adjustment assistance; 136,485 workers were covered in petitions that were denied.

The larger proportion of denials, 86.2 percent, reflects a significant number of cases, particularly for components of a product, which did not meet the statutory definition of trade impact, as well as a large number of cases where import impact was not found to be the cause of worker separations which instead were found to be due largely to recessionary economic conditions.

During the first 5 months of fiscal 1983, ending February 28, 1983, of the 382 determinations issued, 151 or 40 percent were certified and 231 or 60 percent were denied.

Fiscal 1984 Proposals

We believe that the recent enactment of the Job Training Partnership Act, and other administration proposals for broadening training opportunities under State unemployment compensation laws, eliminate the need for any extension of the Trade Adjustment Assistance program beyond the present September 30, 1983, termination date. These proposals apply not only to the relatively small number of dislocated workers now being approved for trade adjustment assistance, but also for a large proportion of the workers covered by petitions that are being denied because they do not meet the specifications established by the Trade Act. These programs include the following:

Addressing Structural Unemployment

. Job Training Partnership Act/Dislocated Worker Program.

The administration is requesting \$240 million for FY 1984 for State-operated programs to deal with the employment and training problems of dislocated workers through training, job search, relocation and appropriate supportive services. The Act requires non-federal matching as a State effort to ensure active State interest in the program. These amounts will be variable and will be increased for States with rates of unemployment that are higher than the national average. Under the Act 75 percent

of the Federal funds will be allocated to the State on a formula basis. The remainder will be allocated by the Secretary on a discretionary basis so that special consideration can be given to the needs of States with critical unemployment problems and large pockets of worker dislocation. Each State will develop its method of identification of groups of dislocated workers who:

- 1) have been or will be terminated or laid-off from employment, are eligible for or have exhausted unemployment compensation, and are unlikely to return to their industry or occupation;
- 2) have been or will be terminated as a result of any permanent closure of a plant or facility;
- 3) are long-term unemployed with little chance of employment in the same or a similar occupation in the area, including persons with barriers to employment by reason of age.

In fiscal 1984 the program is expected to serve as many as 96,000 unemployed workers. This program is now getting

underway in fiscal 1983 with an appropriation of \$25 million. Governors have been notified of grants being offered to their individual States. Information on additional discretionary funding has also been provided to the Governors.

Use of State Unemployment Funds for Training Costs and Relocation Assistance

Under present Federal law, a State may use UI trust funds only for payment of cash benefits to unemployed workers. We want to give States who choose to do so greater flexibility in dealing with unemployment problems. More active and positive use of State trust funds would be provided by permitting States--at their option--to use these funds, within reasonable limits, to pay for the costs of training unemployed workers. Over time, such use of these funds will be cost-beneficial by improving the employability of those unemployed workers by sharpening their existing skills and learning new skills for which there is present demand. This will not only help unemployed workers get new jobs but will reduce their risk of future unemployment.

This proposal provides a means whereby States can encourage individuals who have been permanently separated from their jobs to retrain or relocate themselves. States could tailor their assistance to the specific needs of long-term structurally unemployed.

This would be a permanent change in Federal law and could be particularly helpful in providing assistance for permanently displaced workers, such as those impacted by imports.

Steps to Address Cyclical Unemployment

. Federal Supplemental Compensation Act/Job Voucher Alternative.

We propose that the FSC program, now scheduled to be terminated as of March 31, 1983 be extended to the end of fiscal 1983, September 30, 1983, and that an alternative approach, permitting an unemployed worker to elect the use of a job credit voucher usable by a new employer, be added. The new voucher system would be effective until March 31, 1984. Both plans under FSC are directed at the long-term unemployed.

The principal details of FSC, with respect to weekly benefit amount and a duration of benefits based upon the level of unemployment in each individual State, would be generally similar to present law. Benefits will be available to individuals who have had firm labor force attachment and have exhausted all regular benefits.

Job Vouchers to Stimulate Reemployment.

Cash benefits offer needed support to the unemployed. But reemployment as quickly as possible is what the unemployed really seek and should have. As an alternative to FSC cash benefits, the Administration proposes that workers who are entitled to FSC benefits may use a tax credit voucher that will provide a direct dollar incentive to an employer who hires these long-term unemployed workers.

Under this plan, FSC recipients could choose to use their FSC entitlements in the form of weekly vouchers to enhance their opportunities for employment. Each voucher would entitle employers hiring such individuals to a credit against their State or Federal unemployment tax or Federal income tax liabilities.

The program would be targeted to experienced workers with very serious employment problems; would offer a productive alternative to cash benefits by putting workers into jobs; and can be implemented quickly once legislation is enacted.

Mr. Chairman, the proposals in the President's budget request which I have cited, and the major funding provided for the new program for dislocated workers in the Job Training Partnership Act all address themselves to worker groups who include the present recipients of Trade Adjustment Assistance. Together with the basic unemployment compensation program, they provide comprehensive assistance to workers who have or will have suffered job loss because of the impact of imports on the plant or industry in which they worked--but as part of the mainstream of the national and international economics. They avoid any need for continuing the present costly and extremely time consuming certification process, and treat all workers who are in similar circumstances in the same way.

Mr. Chairman, this completes my formal statement. My associates and I will be pleased to respond to your questions.

**STATEMENT OF STEVE KOPLAN, LEGISLATIVE
REPRESENTATIVE, AFL-CIO**

Senator DANFORTH. Mr. Koplan, do you agree?

Mr. KOPLAN. No; I thought I might testify about that, Mr. Chairman, and elaborate somewhat. I will not read the full text of my statement. I will summarize it and ask that the full text appear in the record.

[The prepared statement of Mr. Koplan follows:]

**STATEMENT OF
STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION
AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, SENATE FINANCE COMMITTEE ON
OVERSIGHT OF TRADE ADJUSTMENT ASSISTANCE PROGRAMS, AND
AUTHORIZATION OF APPROPRIATIONS FOR THE U.S. TRADE REPRESENTATIVE,
THE INTERNATIONAL TRADE COMMISSION, & THE U.S. CUSTOMS SERVICE**

March 17, 1983

The AFL-CIO appreciates this opportunity to oppose the Administration's budget proposals for FY '84 that include a swift end to any possibility of a Trade Adjustment Assistance program. After two years of relentless attacks which have emaciated this program, the Administration now seeks to convince the Congress that the program should terminate this year when American workers are suffering massive injury and job losses from imports.

Trade Adjustment Assistance is needed now more than ever. The tragic fact is that U.S. trade policy has resulted in soaring numbers of unemployed American workers since the passage of the Trade Act of 1962. Under the 1962 Trade Act, between 1969 and 1975, 69,000 people were certified to receive adjustment assistance. In FY '76 there was a total of 47,000 recipients of trade readjustment allowances. Contrast that figure with Administration estimates for FY '81 -- a total of 750,000 recipients. The main industries affected during this period were auto, apparel, steel, footwear, electronics, fabricated metal products, and textiles. Even this does not begin to tell the full story since the figures do not include those workers who lost their jobs with independent suppliers of parts and services. Many thousands of these suffering unemployed workers have no hope of ever returning to the jobs they once held. The commitments made to these workers in the Trade Acts of 1962, 1974 and 1979 must be honored. Continued unemployment and recession make it clear that decisive and positive action by this Congress must be taken immediately to prevent this Administration from breaking the long standing commitments made to workers who lose their jobs because of imports.

On February 8, 1983, AFL-CIO President Lane Kirkland told the House Committee on the Budget that the Trade Adjustment Assistance Program **"must be continued and strengthened to protect and assist workers who have lost their jobs because of government trade policies."**

Most recently, on February 21, 1983, at the AFL-CIO Executive Council meeting in Bal Harbour, Florida, a statement was adopted that reaffirmed convention support for the program and included a call for **"restoration of a strong Trade Adjustment Assistance program."**

It is sad that we must come to the Congress to plead that this body carry out its promise to provide a measure of financial, relocation and job training assistance under the original legislation. Particularly sad is the fact that the harm that we argued would come from this government's trade policies has come to pass. And now, that small measure of aid that the legislation would provide to its victims is to be strangled. We want it understood that we do not view trade adjustment assistance as a substitute for a fair trade policy. But at least the promises should be honored.

We commend, however, the efforts of those members of the House of Representatives who have introduced H.R. 925 to provide some meaningful training for workers who have lost their jobs, their wages, their medical benefits, their seniority, their homes -- in short, whatever security had been achieved in their work life.

We believe that the proposals incorporated in that bill are modest steps to partially redress some of the injustices inflicted on this program in the last Congress. We urge the subcommittee to reestablish a meaningful Trade Adjustment Assistance program. Therefore, we recommend initially that the subcommittee swiftly adopt the following changes as provided in H.R. 925.

First, workers should be entitled to training assistance which the Trade Act of 1974 promises. The bill changes the current provisions of the Trade Act of 1974 to state that the Secretary "shall approve" training instead of "may approve" such training.

In 1981, the Administration, regrettably with the help of the Congress, performed radical surgery on the cash benefit side of Trade Adjustment Assistance, based on the argument that any future program must emphasize training, job search and relocation. In 1982, it virtually eliminated cash benefits. While the AFL-CIO supports the restoration of the cash benefit program, we certainly support the proposals to improve training, job search and provide relocation allowances that are included in H.R. 925.

It has made no sense to require that unemployed workers prove that they have been injured, gain access to the program and then, after all the qualifications have been met, find there are either insufficient or no training funds available to carry out that side of the program.

Second, the bill raises the amount of money available for workers for job search and relocation allowances from the current law's inadequate amount of \$600 to a new amount of \$800. The AFL-CIO supports this provision.

We also recommend adoption of the provision in the bill that calls for a minimal supplemental assistance benefit of \$15 for each day that a worker participates in training but is not eligible for trade readjustment allowances during any or all of the training period.

Third, in 1981, funding for the Trade Adjustment Assistance program was changed to provide that it must go through the regular authorization and appropriation processes. H.R. 925 generally restores the trust fund concept originally contained in the Trade Act of 1974, thus calling for Trade Adjustment

Assistance funding from the collection of customs duties on imports. Customs duties are estimated will be about \$8.8 billion for FY '83 and \$9.1 billion for FY '84. Thus, the money for training, job search and relocation allowances will not require struggling through the regular authorization and appropriation processes.

Fourth, the "suitable work" standard for workers who have lost their jobs because of imports should be changed, so that they will not be forced to take jobs at the minimum wage or lose their right to Trade Adjustment Assistance benefits or training at the end of the first 26 weeks of unemployment compensation. That is the current state of the law.

Thus, a Trade Adjustment Assistance program no longer guarantees a 52-week program.

The Federal-State Extended Unemployment Compensation Act of 1970 under the bill would again be amended by adding a new clause -- a new improved definition of "suitable work" for Trade Adjustment Assistance purposes. The new test would be "work of a substantially equal or higher skill level than the worker's past adversely affected employment" and "wages for such work at not less than 80 percent of the individual's average weekly wage for his most recent base period."

This proposal should at least help to create adjustment assistance for workers, rather than to create a new group of working poor whose jobs were lost because of the federal government's trade policy.

These changes are long overdue.

In addition, the AFL-CIO urges the subcommittee to give serious consideration to extending the coverage of the Trade Adjustment Assistance program to workers who work for independent suppliers of parts and services.

This has long been a goal of those who are interested in having an effective, nondiscriminatory adjustment assistance program. This concept was passed by the House of Representatives in the 96th Congress, and has become an ever more important need as the inequities of the current law are becoming more evident.

The basic inequity under the law is that those who are now unemployed because imports have cost them their jobs are generally not covered by Trade Adjustment Assistance unless they are employed by a firm which makes an import-impacted end product. Thus, the worker who is displaced by imported television sets can be eligible if his firm makes television parts and television sets. But if the firm for which he works only makes parts for television sets, the worker is not covered. Also affected would be an auto worker employed by an auto parts supplier. Even worse, a cafeteria worker employed by an independent food services firm in an auto plant cannot get certified under current law, even though every other worker in the plant is covered. And workers who drive the trucks to deliver cars are ineligible unless they work for the firm which is the producer of the cars.

Thus, coverage has depended not on what the worker does, but on who owns the plant. Parts and service workers should be covered under the same standards that are used for workers who are employed to make the final product.

This is a minimal change that is long overdue and which is essential to remove some of the most glaring inequities in the Trade Adjustment Assistance program. The AFL-CIO has long urged the extension of benefits to such workers. In sum, all parts and service workers should be eligible for Trade Adjustment Assistance coverage.

We also urge that the law be amended to address the abuse in the current requirements that the worker who is certified as eligible to apply for adjustment assistance must also have had 26 weeks of employment in the last year prior to the lay-off because of import injury in order to qualify for adjustment assistance.

This requirement was originally put into the law so that there would not be an abuse of the trade adjustment program by qualifying for 52 weeks of benefits, workers who had only worked a few weeks.

Instead, the requirement of 26 weeks' employment has been used to deny benefits to workers who had worked for many years, but were injured on the job or on sick-leave or unjustifiably laid off during the last year of service.

For example, an employee with 20 years' service who was injured on the job and out of work for much of the last year before the plant was shut down, now receives no Trade Adjustment Assistance benefit because of the 26-week requirement.

We recommend an exemption from the calculation of the 26-week work eligibility requirement those weeks a worker has been a workers' compensation. We also urge this exemption from the 26-week work requirements for a worker who has been unjustifiably laid off, but for which the worker is later compensated. We also recommend immediate restoration of the national standard of 70 percent of lost pay for measuring Trade Adjustment Assistance cash benefit levels.

We assure you that we are prepared to fight for a meaningful program down to the wire. It is inhuman, for example, that a worker should wait for up to 14 months to be certified as eligible. On numerous occasions in the last

Congress, the AFL-CIO has made the case for a meaningful Trade Adjustment Assistance program. However, the current budget simply ignores the commitments made in the Trade Acts of 1974 and 1979. This subcommittee has the opportunity to take the first steps to restore and improve the Trade Adjustment Assistance program. Together, we can make this program work.

Mr. Chairman, we believe the subcommittee should adopt the provisions of H.R. 925 as a positive measure to assist workers who have lost their jobs through no fault of their own, but rather, because of U.S. trade policy. In addition, we call for the adoption of our recommendations for additional improvements as amendments to the bill.

The AFL-CIO also appreciates the opportunity to comment on the Administration's FY '84 budget requests for the U.S. Customs Service, and other trade requests. The U.S. Customs Service is the primary place where data is reported on imports. This information is often the basis for other agencies' statistical efforts. However, the budget requests for the U.S. Customs Service for FY '84 show no recognition of the need for more personnel or better information to enforce laws concerning the enormous volume of international trade. The AFL-CIO continues to seek adequate information on imports, but the President's proposal does not. Instead, the FY '84 budget request actually reduced the number of full-time positions from 13,570 to 11,795. The overall request for the Customs Service's increasingly complex workload is reduced from \$140 million to \$127 million. Thus fewer persons and less money are available to carry out existing law.

In addition, the proposed budget for the International Trade Commission is minimally increased for research investigations, and reports, from \$19.7 million to \$21.1 million without any increase in permanent personnel. Thus there is no recognition in the budget of the importance of adequate numbers of personnel to determine the impact of imports on U.S. producers and workers.

In the Department of Commerce almost \$1 million less money is proposed for import and export administration in the International Trade Administration which directly affects U.S. workers and producers. Conversely, over \$1 million more is proposed for the Office of the United States Trade Representative, and more funds are proposed for international economic policy in the Department of Commerce.

There needs to be careful review of the inadequate funding not only for the items mentioned above, but for the variety of statistical and administrative problems which are growing as international trade affects the lives of so many Americans.

In summary, the AFL-CIO believes that the impact of international trade on American workers and their families is too important to be left in the hands of the budget cutters.

Mr. KOPLAN. With me is Elizabeth Jager, our economist in our Department of Economic Research.

Mr. Chairman, the AFL-CIO appreciates this opportunity to oppose the administration's budget proposals for fiscal 1984 that include a swift end to any possibility of a trade adjustment assistance program. After 2 years of relentless attacks which have emaciated this program, the administration now seeks to convince the Congress that the program should terminate this year when American workers are suffering massive injury and job losses from imports. Trade adjustment assistance is needed now more than ever. The tragic fact is that U.S. trade policy has resulted in soaring numbers of unemployed American workers since the passage of the Trade Act of 1962. The main industries affected have been auto, apparel, steel, footwear, electronics, fabricated metal products, and textiles.

Even this does not begin to tell the full story since the figures do not include those workers who lost their jobs with independent suppliers of parts and services.

Many thousands of these suffering unemployed workers have no hope of ever returning to the jobs they once held. The commitments made to these workers in the Trade Acts of 1962, 1974, and 1979 must be honored.

It is sad that we must come to the Congress to plead that this body carry out its promise to provide a measure of financial relocation and job training assistance under the original legislation. Particularly sad is the fact that the harm that we argued would come from this Government's trade policy has come to pass. And now that small measure of aid that the legislation would provide to its victims is to be strangled. We want it understood that we do not view trade adjustment assistance as a substitute for a fair trade policy, but at least the promises should be honored.

We commend, however, the efforts of those members of the House who have introduced H.R. 925 to provide some meaningful training for workers who have lost their jobs, their wages, their medical benefits, their seniority, their homes. In short, whatever security had been achieved in their worklife.

I have learned since preparing the text of my statement that last week Senators Moynihan and Heinz introduced S. 749, a bill similar to the one that I comment on in my testimony.

We believe that the proposals incorporated in those bills are modest steps. I am talking about the similarities between those two bills. That those are modest steps to partially redress some of the injustices inflicted on this program in the last Congress. We urge the subcommittee to reestablish a meaningful trade adjustment assistance program. Therefore, we recommend initially that the subcommittee swiftly adopt the following changes that are provided both in S. 749 and H.R. 925.

First, workers should be entitled to training assistance which the Trade Act of 1974 promises. Those bills would change the current provisions of the Trade Act of 1974 to state that the secretary shall approve training instead of may approve such training. While the AFL-CIO supports the restoration of the cash benefit program, we certainly support the proposals to improve training, job search, and provide relocation allowances that are included in both of those bills. I might mention that in just looking at S. 749 this morning I noticed that it would extend the program through September 30, 1989. We would certainly support that.

It makes no sense to require that unemployed workers prove that they have been injured in gaining access to the program, and then after all the qualifications have been met, find that there are either insufficient or no training funds available to carry out that side of the program.

Second, those bills both raise the amount of money available for workers for job search and relocation allowances from the current law's inadequate amount of \$600 to a new amount of \$800. The AFL-CIO supports that provision. We also recommend adoption of the provision that appears in both bills that calls for a minimal supplemental assistance benefit of \$15 for each day that a worker

participates in training but is not eligible for trade readjustment allowances during any or all of the training period.

Third, both bills would provide funding for the trade adjustment assistance program to be restored so that it does not have to go through the regular authorization and appropriation processes. That would be done by reinstating the trust fund concept originally contained in the Trade Act of 1974, thus, calling for trade adjustment assistance funding from the collection of Customs' duties on imports.

Fourth, the suitable work standard for workers who have lost their jobs because of imports should be changed, so that they will not be forced to take jobs at the minimum wage or lose their right to trade adjustment assistance benefits or training at the end of the first 26 weeks of unemployment compensation.

Both bills would provide a new test that would be work of a substantially equal or higher skill level than the worker's past adversely affected employment, and wages for such work at not less than 80 percent of the individual's average weekly wage for his most recent base period.

This proposal should at least help to create adjustment assistance for workers, rather than to create a new group of working poor whose jobs were lost because of the Federal Government's trade policy. These changes are long overdue.

In addition, the AFL-CIO urges the subcommittee to give serious consideration to extending the coverage of the trade adjustment assistance program to workers who work for independent suppliers of parts and services. The basic inequity under the law is that those who are now unemployed because imports have cost them their jobs are generally not covered by trade adjustment assistance unless they are employed by a firm which makes an import-impacted end product. Thus, coverage has depended not on what the worker does, but on who owns the plant. Parts and service workers should be covered under the same standards that are used for workers who are employed to make the final product. This is a minimal change that is long overdue and which is essential to remove some of the most glaring inequities in the trade adjustment assistance program. The AFL-CIO has long urged the extension of benefits to such workers. In sum, all parts and service workers should be eligible for trade adjustment assistance coverage.

We recommend an exemption from the calculation of the 26-week work eligibility requirement for those weeks a worker has been on workers' compensation. We also urge this exemption from the 26-week work requirements for a worker who has been unjustifiably laid off, but for which the worker is later compensated.

We also recommend immediate restoration of the national standard of 70 percent of lost pay for measuring trade adjustment assistance cash benefit levels.

On numerous occasions in the last Congress, the AFL-CIO has made the case for a meaningful trade adjustment assistance program. However, the current budget simply ignores the commitments made in the Trade Acts of 1962, 1974, and 1979.

This subcommittee has the opportunity to take the first steps to restore and improve the trade adjustment assistance program. Together, we can make this program work.

Mr. Chairman, we believe the subcommittee should adopt those provisions of S. 749 and H.R. 925 which I have summarized in my testimony as a positive measure to assist workers who have lost their jobs through no fault of their own, but rather because of U.S. trade policy. In addition, we call for the adoption of our recommendations for additional improvements as amendments to the bill.

The AFL-CIO also appreciates the opportunity to comment on the administration's fiscal 1984 budget requests for the U.S. Customs Service and other trade requests. With regard to the Customs Service, many of the problems that I would be discussing have already been discussed in earlier testimony by the NTE, the National Treasury Employees Union.

There needs to be careful review of the inadequate funding, not only for the items mentioned in my prepared statement, but for the variety of statistical and administrative problems which are growing as international trade affects the lives of so many Americans.

In summary, the AFL-CIO believes that the impact of international trade on American workers and their families is too important to be left in the hands of the budget cutters.

Thank you, Mr. Chairman.

Senator DANFORTH. Of the who?

Mr. KOPLAN. Budget cutters.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Do you want to hear from Mr. Ryter?

Senator DANFORTH. No, I think we will hear from Mr. Ryter together with the last panel.

Senator HEINZ. Mr. Chairman, first I would like to ask unanimous consent that a statement that I would have delivered at the beginning of the hearing be put in the record at that point.

And, Ms. Kaiser, I would like to observe that I have some real difficulty understanding why this administration, which is very committed to free trade, would be so opposed to a program to facilitate that kind of philosophy. Let me explain what I mean.

Every time we pass a trade act, as we have done in the sixties, once, the seventies, twice, we have always accompanied any liberalization of trade with promises to try to mitigate the influence of that fair trade policy by taking care of our workers whose jobs are displaced by reason of imports. And we believe that this responsibility isn't a welfare responsibility, but an adjustment obligation. The result of not having any adjustment programs, which is the administration's position, is that workers who have lost their jobs have nothing to ask for but protectionism and no place to go but the Congress to ask for it. And, indeed, the reason you see local content bills; the reason you see quota bills; the reason you see all these legislative initiatives—and I suspect you are going to see a growing number of them beyond the ones I have mentioned during this Congress—is because there is no commitment to really helping the workers who have lost their jobs by reason of imports.

Why does the administration want to eliminate this worker assistance program?

Ms. KAISER. I think that the issue is whether we provide training to dislocated workers, at least from the perspective of the administration. And I believe that we are attempting to eliminate a program that is administratively cumbersome and costly, without

eliminating the available resource for the dislocated worker. The program under title III of the Job Training Partnership Act has far more resources available. The workers who are impacted directly by trade can be served. Workers who are impacted indirectly by trade can be served. And it can all be done under one title.

The administration, at the State level, I understand—and I am sure you would mention it to me if I didn't mention it back—does not guarantee a specific worker an entitlement to that training. But if, in fact, 110,000 people can be trained—and we are currently training 5,800 under trade and have not fallen on hard times insofar as funds are concerned—I don't think that we have given up in the administration's sensitivity to the needs of those workers.

Senator HEINZ. Do you understand that the displaced worker program is aimed at all workers? It does not target workers who have lost their jobs by reason of imports.

Ms. KAISER. I do indeed.

Senator HEINZ. And do you understand that what we are doing there, as you yourself admit, with 11 or 12 million people unemployed, is talking about helping 110,000 people with all the resources you are talking about? And that the point of trade adjustment assistance for workers is to take account specifically of their problems because they have been sacrificed quite knowingly in order to facilitate free trade. Now it was a conscious decision that free trade take a toll in terms of individual jobs. And presumably the reason we agreed to that is that it's in the best interest of the greatest number to do so. And so we have this special obligation. Where is there any special targeted effort to help the people who lost their job by reason of imports? That is by reason of tariff cuts that the Congress itself has enacted, and which has brought about job losses in those categories.

Ms. KAISER. I can only reiterate that we believe that those workers will be served.

Mr. KOPLAN. May I just get into that for a second, Senator? I think you are touching on a very important point, and it is something that I did not read from my prepared statement.

Under the 1962 Trade Act, between 1969 and 1975, 69,000 people were certified to receive adjustment assistance. In fiscal year 1976, there was a total of 47,000 recipients of trade readjustment allowances. Contrast that figure with the administration's estimate that for fiscal year 1981, had they not decimated the program, there would have been a total of 750,000 recipients. Now we are talking about those workers who lose their jobs because of U.S. trade policy. And to hear that we are going to have a dislocated worker program not limited to trade, but for all workers, and that the total number of people that are going to be covered is only around 100,000 people is absolutely preposterous. And I think that you have put your finger right on it.

Senator HEINZ. Well, I happen to agree, obviously. I don't think the administration's defense of what they are doing here even merits that term. I think they have offered about as weak a response as I have ever heard before a committee. And it's not that you are in any sense anything less than a very able and bright person. It's just that the policy is wrong on its face.

Let me ask you this. Last year I commissioned a GAO report on the reason for the rising petition denial in the workers program. That rate was then about 80 percent in 1981 and 1982. And I note that for the first 4 months of fiscal 1983, and you mentioned this in your remarks, that the denial rate has fallen to close to 60 percent. I would like to think we attribute that change to the impact of the GAO report. I suspect it's more complicated than that. But why has there been this very dramatic fluctuation? Almost a doubling in the rate of acceptance of petitions.

Ms. KAISER. The nature of the petitions filed in the period of the GAO report and the period that you were interested in was such that the statutory requirements for trade impact were not met. Currently, the petitions that are being certified are heavy in the area of steel.

Senator HEINZ. They certainly are. Well, thank you very much.

Senator DANFORTH. I would just observe that in the State of the Union speech the President, as I recall, talked about trade on three different occasions. He also placed very heavy emphasis in that speech on the need for the United States to move ahead and to be up to date in science and technology and to be competitive and to train or retrain our people to be able to avail themselves of the jobs that would be forthcoming. I have to say that it seems to me inconsistent with that position to propose to abolish trade adjustment assistance. Therefore, I look forward to working with Senators Heinz and Moynihan and others in an effort to reauthorize this program and to consider changes that should be made that would be a part of, obviously, the legislative process.

I just really think that the position that the administration is taking with respect to trade adjustment assistance is contrary to its trade philosophy; cannot be supported along side of its trade policy; and is also contrary to the whole thrust of the President's State of the Union message. And I would hope that as we proceed in the Congress to examine this and to work on legislation to reauthorize trade adjustment assistance, that the administration might reflect on what its position is—bearing in mind the sentiments of the Congress and bearing in mind the President's position in the State of the Union message.

If the administration would agree that there is an inconsistency here, I would hope that they would be able to maybe modify the position that you've taken today.

Thank you very much.

Thank you, Mr. Koplán.

Let's have Mr. Ryter, Mr. Williams, and Mr. Fennell together on a panel, if that is all right.

STATEMENT OF LYLE RYTER, DEPUTY ASSISTANT SECRETARY FOR TRADE ADJUSTMENT ASSISTANCE, DEPARTMENT OF COMMERCE

Senator DANFORTH. Mr. Ryter, now that you have gotten used to the table, why don't you proceed?

Mr. RYTER. Thank you, Senator. You have been very patient all afternoon, and I, too, will try and subscribe in deed more than in words to the brevity code.

Senator DANFORTH. That is what they all say.

Mr. RYTER. Having sat as a staff position in the past, I have witnessed the same thing.

I wish to thank the members of the committee for the opportunity to present materials on the operations of the trade adjustment assistance program for import impacted firms and industries. One aspect of the trade adjustment assistance program that has evidenced significant problems has been the financial assistance element. Approximately half of the firms that receive trade adjustment financial assistance during fiscal years 1976 through 1981 were in default as of December 31, 1981. We expect this program to have a high default rate, however, the default rate for Trade Act loans was and is unacceptable. Fifty-eight percent of the outstanding direct loans are in default, liquidation, or require special servicing. In addition, we have written off 112 loans at a cost of \$60.8 million. By contrast, we have only had 5 loans paid back in full so far, for \$3.1 million, since 1972.

The chief reason that some firms receiving financial aid under the trade adjustment assistance program have failed to recover is that they were in terrible condition when they entered the program.

While each firm has its own individual set of problems, those that fail to recover, usually exhibited a number of the following problem traits. In the early years of the program, over half of the firms seeking help were in the apparel and textile industries. These firms were generally small and undercapitalized, and faced increasing import competition. The time element has also been critical in the failure of firms to successfully readjust. It could take up to 2 years for a firm to complete the preliminaries necessary to receive aid. Many firms could not survive that long. Company management was often not able to adjust its outlook to meeting the changing demands of the marketplace. Many firms were in critical financial shape and high interest rates prevented them from obtaining reasonable additional financing.

Companies remained committed to existing products for which they were no longer competitive. Recovery efforts initiated prior to the recession fell victim to the recessionary economy even when the strategy being followed was valid. Insufficient depth in key management areas hurt the firms. Failure to keep abreast of current technological product developments hampered some companies. Dependence on single large customers caused many firms serious problems when their customers switched to imports. Lack of adequate internal controls and coordination systems slowed the recovery efforts of some companies.

The Department of Commerce is not requesting the reauthorization or appropriations for this program in fiscal year 1984. The program is not a significant factor in trade policy. The benefits of program accrued to a handful of firms in a limited number of industries. The costs, on the other hand, are alarming. One hundred and twelve loans were written off, and 121 are in trouble. That leaves 86 that are current, and five which have been paid off.

A special program to help firms that have been impacted by trade is not more justifiable than a special program to help firms that have been harmed by other factors, such as obsolescence. The

program has not been a success, and in the long run, the administration believes that it is better to foster adjustment through market forces. Therefore, ITA proposes to eliminate this program, consistent with the administration's economic recovery program. Terminating this program is part of the effort to move away from the Government subsidy programs, and instead, rely on comprehensive economic plans to address the real problems associated with deteriorating economic performance.

For these reasons, we are unable to support S. 749 insofar as it would reauthorize adjustment assistance for firms through fiscal year 1989.

I would be pleased to respond to any questions the members of the committee might have.

Senator DANFORTH. Thank you very much.

[The prepared statement of Mr. Ryter follows:]

DEPARTMENT OF COMMERCE
STATEMENT BY LYLE RYTER
BEFORE THE SENATE SUBCOMMITTEE
ON INTERNATIONAL TRADE OF THE
COMMITTEE ON FINANCE
OF THE UNITED STATES SENATE
MARCH 17, 1983

Mr. Chairman and Members of the Committee, I wish to thank the Members of the Committee for the opportunity to present materials on the operations of the Trade Adjustment Assistance Program for import-impacted firms and industries. This program is authorized under Chapter 3 of Title II of the Trade Act of 1974.

Title II of The Trade Act of 1974 provides authority for assisting workers, firms and industries, in adjusting to changes in international trade flows. The assistance to workers is conducted by the Department of Labor. Assistance to industries and firms is conducted by the Department of Commerce.

Since the beginning of fiscal year 1976, Trade Adjustment Assistance for firms had been administered within the Commerce Department's Economic Development Administration (EDA). Industry adjustment assistance was added by Congress in 1981. During September of 1981, the Trade Adjustment Program was transferred from EDA to the International Trade Administration (ITA).

Two types of assistance are currently made available to firms qualifying under this program. One is "technical assistance" for which the Federal Government pays up to 75 percent of the costs of helping businesses with their marketing, engineering, financial management, or similar problems. The second is "financial assistance," for which the Federal Government provides loan guarantees or direct loans for new machinery or equipment, new or renovated buildings, or for working capital.

Under the rubric of technical assistance, assistance of the following kinds are made:

- o Feasibility studies, installation of new systems, market studies and other types of consulting assistance required in order to carry out an accepted adjustment plan.
- o Analysis of specific management, production, marketing or technical assistance problems and recommendations for corrective measures.
- o Guidance and assistance in preparing applications for loans, loan guarantees and/or technical assistance. Such assistance may in some cases be provided in connection with loan or loan guarantees for other lenders or guarantors.

- o Guidance and assistance in preparing adjustment plans.
- o Assistance in diagnosing a firm's problems and prospects for recovery.
- o Guidance and assistance in preparing petitions for certification.

The Office of Trade Adjustment Assistance also makes technical assistance grants to industry associations, unions and others to help with industry-wide programs for industries that have been hurt by imports. Such grants may be used for studies of new markets, new technology, new products, export development, and other uses consistent with the purposes of the Trade Act.

Under the category of financial assistance the Office of Trade Adjustment Assistance is authorized to make loans directly to eligible firms, or to enter into a guarantee arrangement with a bank or other lender. The total amount of such direct loans cannot be more than \$1 million to any one firm. Guarantees of loans to any one firm can be in an amount up to 90 percent of loans up to \$3 million. The Trade Act permits direct loan financing to be considered only if a guaranteed loan cannot be developed on reasonable terms. The actual type and amount of financial assistance for any one firm will depend on its adjustment plan, its ability to secure financial assistance from conventional sources, and its ability to repay.

Information and guidance on participation and eligibility under the trade assistance program are provided through thirteen trade adjustment assistance centers.

PROGRAM ACTIVITIES

During fiscal 1982, 195 firms were certified eligible to apply for Trade Adjustment Assistance. During the same time period, approximately 523 eligible firms, requested assistance in one phase or another under the Trade Adjustment Assistance Program. Of these 523 firms, approximately 62 were in the phase of full implementation of an adjustment plan which had been received and approved by the International Trade Administration. During fiscal 1982, 12 firms received financial assistance which included \$16.8 million in guaranteed loans and \$2.5 million in direct loans.

Industries most heavily involved in participating in the Trade Adjustment Assistance Program were apparel and accessories, metal products, textiles, machinery and equipment and sporting goods.

LOAN AND LOAN GUARANTEES FAILURES

One significant aspect of the Trade Adjustment Assistance Program that has evidenced significant problems was the financial assistance element. Approximately one-half of the firms that received trade adjustment financial assistance during the years fiscal 1976 to fiscal 1981 were in default as of December 31, 1981. We expect this program to have a high default rate; however, the default rate for Trade Act loans was and is unacceptable. Fifty-eight percent of the outstanding direct loans are in default, liquidation, or require special servicing. In addition, we have written off 112 loans at a cost of \$60.8 million -- by contrast, we've only had 5 loans paid back in full so far (for \$3.1 million) since 1972.

The chief reason that some firms receiving financial aid under the Trade Adjustment Assistance Program have failed to recover is that they were in terrible condition when they entered the program.

While each firm has its own individual set of problems, those that failed to recover usually exhibited a number of the following problem traits:

- o In the early years of the program (pre-1982) over half of the firms seeking help were in the Apparel/Textile industry. These firms were generally small and undercapitalized and faced increasing import competition.
- o The time element has also been critical in the failure of firms to successfully readjust. It could take up to two years for a firm to complete the preliminaries necessary to receive aid. Many firms could not survive that long.
- o Company management was often not able to adjust its outlook to meet the changing demands of the marketplace.
- o Many firms were in critical financial shape and high interest rates prevented them from obtaining reasonable additional financing.
- o Companies remained committed to existing products for which they were no longer competitive.
- o Recovery efforts initiated prior to the recession fell victim to the recessionary economy even when the strategy being followed was valid.
- o Insufficient depth in key management areas hurt many firms.

- o Failure to keep abreast of current technological/ product developments hampered some companies.
- o Dependence on a single large customer caused many firms serious problems when that customer switched to imports.
- o Lack of adequate internal controls/coordination systems slowed recovery efforts of some companies.

The Department of Commerce is not requesting reauthorization or appropriations for this program in fiscal 1984. The program is not a significant factor in trade policy. The benefits of this program accrue to a handful of firms in a limited number of industries. The costs on the other hand are alarming.

One-hundred and twelve loans were written off and 121 are in trouble. That leaves 86 that are current and five which have been paid off.

A special program to help firms that have been impacted by trade is not more justifiable than a special program to help firms that have been harmed by other factors such as obsolescence. The program has not been a success, and in the long run the Administration believes it is better to foster adjustment through market forces. Therefore, ITA proposes to eliminate this program consistent with the administration's economic recovery program. Terminating this program is part of the effort to move away from the government subsidy programs

and instead rely on a comprehensive economic plan to address the real problems associated with deteriorating economic performance. For these reasons we are unable to support S. 749 insofar as it would reauthorize adjustment assistance for firms through FY 1989.

I would be pleased to respond to any questions the Members of the Committee might have.

TAA Direct Loans
(with outstanding balances)
(dollars in thousands)

Year Made	Current		Delinquent		Liquidation		Servicing Management		Active Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1972.....	...	...	...	...	...	...	1	\$600	1	\$600
1973.....	1	\$180	...	...	...	...	1	7,408	2	7,588
1974.....	1	511	...	...	...	...	...	...	1	511
1975.....	1	2,188	...	...	...	...	...	...	1	2,188
1976.....	4	1,534	1	\$750	...	...	1	178	6	2,462
1977.....	1	356	3	1,189	3	\$1,088	...	...	7	2,633
1978.....	8	3,116	7	1,718	13	3,144	3	866	31	8,844
1979.....	22	12,730	6	2,735	16	10,233	11	4,419	55	30,117
1980.....	17	9,207	8	4,757	20	12,249	6	3,806	51	30,019
1981.....	23	8,547	8	2,579	9	2,976	4	1,940	44	16,042
1982.....	7	2,527	...	...	...	...	...	...	7	2,527
Total.....	86	40,896	33	13,728	61	29,690	27	19,217	206	103,531
% of Total....	42%	40%	15%	13%	30%	29%	13%	18%	100%	100%

- o These figures represent only loans still in effect - i.e. do not include loans that were paid off or written off.
- o Written off: 112 direct loans at a cost of \$60.8 million.
- o Paid off: 5 direct loans at a value of \$3.1 million.

**STATEMENT OF HAROLD W. WILLIAMS, PRESIDENT, INDUSTRIAL
POLICY COUNCIL**

Senator DANFORTH. Mr. Williams.

Mr. WILLIAMS. Thank you very much, Mr. Chairman.

I have a prepared statement which I would like to submit for the record, and then I will summarize it briefly.

[The prepared statement of Mr. Williams follows:]

STATEMENT OF HAROLD W. WILLIAMS, PRESIDENT
INDUSTRIAL POLICY COUNCIL, 805 15TH ST, NW
WASHINGTON, D. C. 20005 (AC 202) 842-7615

Prepared for presentation to the
Subcommittee on International Trade
Committee on Finance
U. S. Senate
March 17, 1983

SUMMARY

A dynamic international trading system is essential to economic growth. An effective trade adjustment assistance program is an essential ingredient of a national trade policy that promotes the growth of the international trading system.

The Industrial Policy Council supports continuation of the trade adjustment assistance program for firms and industries that is administered by the Department of Commerce. We believe that the Administration is short-sighted to walk away from trade adjustment assistance at the very time that the legitimate concerns of workers, firms and communities are forcing legislators to take a long, hard look at restricting imports.

The Administration is correct to resist extreme protectionism and to promote exports, but unless it has an answer to those who have been harmed by imports, we will end up as a protectionist nation. Only an effective trade adjustment assistance program can provide that answer.

While the present program of trade adjustment assistance for firms and industries is small and has some problems it is wrong for the Administration to use statistics based on past mistakes that have been corrected to label the program ineffective.

Much more needs to be done. While we are reluctant to press ambitious new programs at this time, we think that the Committee should begin to think about more managed adjustment programs that would be based on overall adjustment plans prepared and supported by tripartite committees composed of representatives from management, labor and the government.

My name is Harold W. Williams. I am President of the Industrial Policy Council. As the Deputy Assistant Secretary for Economic Development, I managed the expansion of trade adjustment assistance for firms and industries from 1977 to 1981 under the previous Administration. I became the Deputy Assistant Secretary for Trade Adjustment Assistance under the present Administration in 1981 until I retired in 1982 to work outside the Administration for continuation of these important programs and for recognition of the need for a rational industrial policy in this country. The Industrial Policy Council is an organization that is concerned with the maintenance of a strong industrial base for the United States. We believe that a dynamic international trading system is essential to the economic growth of this Nation, as well as to the security and prosperity of the world. We also believe that an effective trade adjustment assistance program is an essential ingredient of a national trade policy that promotes the growth of the international trading system.

I am here today to urge your support for the continuation of the trade adjustment assistance program for firms and industries that is administered by the Department of Commerce. Unless that program is renewed by the Congress this year, it will expire by the end of the fiscal year. I am pleased to note that the House Ways and Means Committee has unanimously voted to recommend to the Budget Committee that the program be continued at current levels in fiscal 1984. I earnestly

hope that this Committee will take similar action.

With all due respect to the Administration's arguments for the abandonment of this program, we think that it is short-sighted to walk away from trade adjustment assistance at the very time when the legitimate concerns of workers, firms and communities for the jobs and businesses that have been lost to foreign competition are forcing legislators to take a long and hard look at restraining imports.

And yet all of us know that protectionist measures taken by one country invite retaliation by others which in turn provokes more retaliation until the international trading system is shattered.

The Administration is correctly resisting extreme protectionist measures. At the same time it is vigorously promoting exports. But what can the Administration say, what can the Congress say to the unemployed, to the businesses that are being forced to shut down, to the communities that are losing their factories?

If there is no answer other than to try to convince those who have been harmed by import competition that the greater good demands their sacrifices, then we will end up with more protectionism, which will invite retaliation, and our export development programs will be useless.

In fact, many students of the subject believe that trade adjustment assistance has made it possible ever since 1962 for this Government to adopt what is essentially a free trade posture. Our commitment to free trade has been an example to the rest of the world. It has helped raise standards of living all over the globe. It has saved consumers in this country billions of dollars. Compared to the magnitude of efficiencies gained through the liberalized international trading system, the costs of trade adjustment assistance are relatively small.

There are really only four choices that governments have to respond to international competition: (1) One choice is to try to convince the general public that in the long run everybody will be better off, even if some have been hurt badly at present. That choice, by itself, is not practical because the public will not buy it. And perhaps they should not buy it, because it is not at all clear that we will all be better off in the long run if our basic industrial structure is shattered by a flood of imports. (2) A second possible approach is to adopt protectionist measures and prevent imports from entering the country. We think that approach is self-defeating because it will invite retaliation and destroy a trading system that has contributed a good deal to our high standard of living. (3) A third choice is to compensate those who have been harmed. That approach has been tried in the past, largely through the trade adjustment assistance program as it worked several years ago. While it can be argued that compensating

the victims of free trade is a worthwhile policy because it makes it possible for us to preserve the benefits of the international trading system, compensation without adjustment is expensive and, to a certain extent, counter-productive because there is little incentive to adjust. (4) The only choice left is to establish and administer an effective adjustment program that focuses assistance on those who have been harmed by imports in a way which will encourage and help them to adjust.

The trade adjustment assistance program for firms and industries, as it is now administered by the Department of Commerce, is just such a program of adjustment. It is small and could use more resources. It is imperfect and could stand some changes. But we believe that it would be wrong to eliminate it.

The major argument advanced by the Office of Management and Budget for the termination of trade adjustment assistance for firms and industries is that the assistance has been relatively ineffective. For example, it is maintained that 70 to 75% of the firms that have received financial assistance are in default on their loan payments and therefore can be assumed to have failed in their adjustment. But there is much more to the trade adjustment assistance story than those facts.

First, while there is no doubt that there has been a high

default rate for loans to firms under the trade adjustment assistance program, those loans were largely made four to five years ago under a different Administration and a different approach to loan administration. Within the past two years, there has been a marked change in the loan review process. Credit procedures have been tightened. The default rate now is well within tolerable limits for a program of this type which is, after all, limited by statute only to firms that cannot secure financing elsewhere.

Second, Government financial assistance to firms is not the only feature of the program, and indeed it is no longer the most important feature. For every firm that receives a Government loan or loan guarantee today, there are about 70 firms that receive technical assistance. Somewhat over 700 firms a year are now receiving technical assistance under the trade adjustment assistance program. Of the 2,240 firms that have received such assistance since fiscal year 1979, 1877 or about 84%, are still in business. That is hardly an ineffective program, as claimed by the Office of Management and Budget.

Concentration on the record of financial assistance to firms neglects the remarkable successes of the program's impact through industry grants. Some 19 industries have been assisted through these grants to develop new markets, improve productivity, expand exports, and develop new products. These

19 impacted industries have a total employment of over 2,737,000 and encompass more than 26,000 firms. A list of these industries is attached. Grants under the program have enabled the footwear industry to establish a footwear institute in this country where member firms can get the latest information on productivity developments and new designs. The program has enabled the apparel industry to develop new markets overseas. The tailored clothing industry has developed new production techniques. All of these promising and effective programs would be wiped out if trade adjustment assistance for firms and industries is terminated this year.

The Committee should also bear in mind that the defaults on Government loans do not tell the whole story of financial assistance under this program. The Trade Adjustment Assistance Centers that are funded under the program have been responsible for securing over \$100,000,000 worth of financing from other sources. A summary of this alternative financing is also attached.

The full flavor of what this program has done for firms that have been hurt by imports can best be gained from the histories of some of them. A sample of these histories is attached. But let me briefly describe a few.

The Tobin-Hamilton Company of Manfield, Missouri, manufactures athletic footwear. When imports began taking substantial bites

out of its markets in 1979, it applied for assistance. Technical assistance was provided for new plant layouts, a new warehouse system and improvements in data processing. The resulting improved efficiencies enabled the firm to become more competitive, and its sales have increased from \$10.5 million to \$18 million. Employment has increased from 314 to more than 600.

Billy the Kid, Inc., of El Paso, Texas, found its sales beginning to decline in 1978 due to the impact of imports. Technical assistance under the trade adjustment program showed that sales could be increased through diversification into related apparel lines. The firm's financial condition had been weakened, and it was necessary to arrange \$4,000,000 of Government financing, of which \$3,000,000 was in the form of a loan guarantee. Sales have increased, margins have widened and pre-tax income surged nearly 2 1/2 times. Export sales have also increased.

Lorraine Handbags, a small handbag manufacturer in New England, received technical assistance under the program and was advised to switch from competition against imports in discount stores to specialty stores and boutiques. Its product was also upgraded. Sales rose from \$260,000 in 1979 when it was certified to \$1.9 million in 1982 and an estimated \$2.7 million for this year. Management states that the firm would be out of business today were it not for this program.

York Capacitor Corporation of Winooski, Vermont, lost its market for small fluorescent lighting capacitors to the Japanese. With the aid of trade adjustment assistance, the company developed a plan to produce and market a new-technology capacitor, and secured a \$240,000 loan to carry out the plan. Its new machinery is fully operational and its new products are receiving tremendous reception in the market place. Sixteen additional people have already been hired with about fifteen to twenty more soon to be added to the payroll.

The Florod Corporation of Hawthorne, California was the first U. S. manufacturer of laser mask trimmers, a yield enhancing device for the semiconductor industry. It lost its market completely to the Japanese in 1980. With technical assistance under the program, the company has developed new markets for a laser defect analyzer and optical tooling, and it has developed new applications for existing products. The company is anticipating a banner year and states that the Western Trade Adjustment Assistance Center (which is funded under the trade adjustment assistance program) served as a life preserver. "It allowed us to hang on and develop enough strength to swim again."

Jerome Industries of Kenilworth, New Jersey found its sales of voltage transformers dropping by 28% in 1979 as a result of import competition. Trade adjustment technical assistance helped the company to revise its marketing, manufacturing and

financial planning, and the company also received financial assistance. Sales volume has increased by 43%. Its customers have grown from 83 to over 200, and employment has gone from less than 100 to over 150.

These are just a few of the case histories. More details on these and additional case histories on other firms are attached to my testimony. In light of these facts, it is hard to accept the judgment of analysts in the Office of Management and Budget that this program has proved ineffective. There are hundreds of business owners through the country that will dispute that judgment and thousands of employees of these businesses who would not agree that trade adjustment assistance for firms and industries has been ineffective.

The Committee should keep in mind the fact that trade adjustment assistance for firms and industries also serves the employees of those industries. This fact is well recognized by organized labor. For example, Mr. Domenick DiPaola, Managing Director of the Leathergoods, Handbags, Plastics, & Novelty Workers Union, Local #1, AFL-CIO, stated before the House Subcommittee on Trade, "There would not be an American handbag industry today if it were not for the Trade Act of 1974....This program for industries and firms looks after the best interests of the American worker."

Those of us who ask for a continuation of this program are not

unmindful of the need to cut budget deficits. We believe that this program must, like many others, pull in its belt and operate under more stringent fiscal guidelines. But the Committee should keep in mind that the program has already been cut in half from the amount requested by the present Administration for the fiscal 1982 budget. When the Reagan Administration undertook its budget review in the winter of 1981, it submitted a budget for trade adjustment assistance for firms and industries of \$54 million. That amount was subsequently cut in the appropriations process to \$35 million and later reduced to \$27.5 million, the present level. We do not think that the maintenance of this drastically reduced level would be placing too great a strain on the budget. This program has already taken its cuts. If it is terminated, the consequences to the international trading system could be far-reaching.

The modest program of trade adjustment assistance for firms and industries cannot deal with the whole problem of adjustment to import competition. More needs to be done. We need to develop better tools and better techniques, and we need to build on our experience. When this Committee is ready to sit down and reexamine the whole problem of adjustment to imports, we will have more substantive recommendations.

We understand the present situation, and we are reluctant to present ambitious new proposals at this time. However, we do

think that this Committee should soon turn its attention to the adjustment problem and how best we can mount a sensible, prudent and comprehensive program of adjustment. Such a program might well have the following characteristics:

1. The certification process would be made simpler and given to one agency. In fact, it might well be appropriate to consider unifying the administration of trade adjustment assistance at the same time that consideration is being given to unification of our international trade agencies.
2. Certification for adjustment assistance should be provided to industries rather than to individual firms or groups of workers. However, no assistance should be provided to anyone within an industry until an adjustment plan for the industry would be approved.
3. Some means must be devised to institutionalize the concept of "threat of harm" so that adjustment assistance can be given to industries under import attack before they have been weakened to the point where adjustment measures are insufficient.
4. Government, management and labor must sit down together and develop adjustment programs for industries threatened by import competition.
5. All assistance, of whatever kind, should be dominated by the concept of adjustment. Workers, firms and industries must undertake good faith adjustment efforts as a requirement for continued Government assistance.

Keeping these principles in mind, a single agency, perhaps the International Trade Commission, might have responsibility for determining that an industry has been harmed or is seriously threatened by imports. Upon such determination, a tripartite committee consisting of representatives from management, labor and the government would be formed to prepare an adjustment plan. That adjustment plan could have some temporary border restraint to enable the industry to undertake adjustment measures before it is knocked out completely, such restraint

being conditioned on appropriate adjustment measures to be taken by labor and management. The plan could involve some subsidy for training and relocation by workers, and it could also involve subsidies for research and development into new products and more productive operating procedures. Where appropriate, the plan could also include Government-assisted credit at below-market rates. The key, however, is that all parties on the tripartite committee would have to agree to the plan and would commit themselves to its implementation. When any party failed to carry out its obligations under the plan, the plan would be rendered inoperative.

We have had some experience with this type of approach, although in not nearly as structured a context. When the footwear industry saw itself rapidly being impacted by footwear imports, representatives appealed to the White House and a special footwear program was established in the Department of Commerce. It involved extensive technical assistance to individual footwear firms largely to improve their management procedures. It also involved Federal grants to the industry for research and development and Federal loans and loan guarantees to eligible firms. Orderly marketing agreements were negotiated in order to stem the ever-growing tide of imports and to give the industry an opportunity to adjust.

The program appears to have had moderate success. The decline in domestic share of footwear sales in this country was

slowed. Exports of footwear increased. Employment has been stabilized or is declining only very slowly. A new footwear institute has been established to provide research and development services to the industry. While it is still too early to judge the program an unalloyed success the industry does appear to be somewhat more stable than it was in 1977.

Devising and managing effective adjustment programs would not be easy. As in any attempt to manage economic affairs, there will be inadequate information and data, sharp disagreements among the contending actors and difficulties in discerning the future. Mistakes are bound to be made. But there is really no alternative. Protectionism would be a disaster. Compensation for the victims of international trade is expensive and hasn't worked. And it doesn't appear that relying on educating the public to the concepts of free trade will enable the international trading system to stand up to the pressures to which it is presently being subjected.

The concept of meaningful adjustment to import competition is the only practical way this country can respond to the pressures of the international trading system and contribute to the maintenance and expansion of that system. While our present adjustment programs are far from ideal, we need to improve, not abandon them. We urge continuation of the adjustment assistance program for firms and industries at present levels. This is not the time to give up on such

programs. The stakes are too high. Protectionist sentiments are sweeping the country like a brush fire. Management and labor alike are beginning to panic at the flood of foreign imports. Trade adjustment assistance is the one proven effective tool for combatting protectionism. It would be foolish to abandon adjustment assistance programs at this stage.

On behalf of my colleagues on the Industrial Policy ~~Council~~, I wish to express my appreciation to the Committee for this opportunity to put our views on the record, and to say that we would be pleased to work with the Committee and its staff on suggestions for legislation to improve trade adjustment assistance.

March 11, 1983

York Capacitor Corporation
460 Weaver Street
Winooski, VT 05404
Harold Dubilier, President
(802) 655-2550

York Capacitor was a leading supplier of capacitors, devices used for the storage of electrical energy. Its main customers were fluorescent lighting and air conditioner manufacturers. The market for the small fluorescent lighting, or "tubular" capacitors was generally lost to the Japanese which dropped prices more than 22 percent between 1978 and 1980. Persons knowledgeable of the capacitor industry reasoned that Japan was attempting to capture the U.S. market for tubular capacitors with no apparent regard for breakeven or profitability. Management reasoned, therefore, that the firm's recovery depended mainly on the success of the air conditioner or "AC can" capacitor which is much less labor intensive.

With assistance from TAAC, the company submitted a business plan based on the production and marketing of a new-technology AC capacitor. It seems as though a smaller, lighter and less expensive AC capacitor had recently been developed using metallized, polypropylene film instead of paper/foil construction. Because it is not a labor-intensive product and because only "approved" U.S. manufacturers of AC capacitors (of which this firm is one of only eight in total) can supply the major markets, the risk of overseas competition is minimal. Industry anticipated that the new metallized capacitors would soon render the older ones obsolete.

The business plan involved the purchase of specialized machinery needed to produce the metallized capacitors and a financial package to support the purchase. Market development for the new capacitors was seen as almost fool-proof as they would directly replace the older type in similar equipment. Also, only two of the eight "approved" AC capacitor makers are producing the new type allowing York to get an early foothold in the market before the others followed.

To support the purchase of machinery and equipment for producing the new product, York, with the assistance from the TAAC project officer, submitted an application for a \$240,000 direct loan. In having this loan approved by ITA, York was able to leverage an additional \$110,000 from other sources.

The new metallized capacitor machines which were purchased with ITA direct loan funds are fully operational and according to York management, the salvation of the company. The products manufactured by these machines are receiving tremendous reception in the marketplace.

York is meeting all loan commitments. Management anticipates that it will be in full operation within the next four years, and may be able to fulfill all long-term lendings in advance.

Employment has increased by sixteen, with anticipated needs of an additional fifteen to twenty people in the near future.

March 11, 1985

Lorraine Handbags, Inc.
79 Essex Street
Boston, MA 02111
Charles Pagliarulo, Treasurer
(617) 423-5889

Lorraine Handbags is a small manufacturer of leather and suede handbags and accessories. Originally, its products were sold to mass-merchandisers who, in recent years, stocked an increasing number of lower-priced imports from Taiwan, Hong Kong and Columbia. According to the 1979 U.S. Industrial Outlook, U.S. Department of Commerce, ITA, imports of leather handbags increased by an estimated 21 percent from 1973 to 1978. From 1974 to 1979, Lorraine's sales, reflecting this influx of foreign-made handbags, fell by almost 75 percent. Profit margins evaporated and employment declined from 20 to just 6 production workers.

Analysis of the firm's operations by the TAAC project officer revealed a marketing problem and the need for assistance in that area. The consultant hired for this project confirmed the TAAC officer's feelings that the company had been competing directly with low-end imports and that a new marketing/product strategy was needed for recovery. He discovered, via field research, that Lorraine's handbags were being sold literally side-by-side the less expensive, lower quality imports in chain discount department stores. Obviously, they were not moving because they were losing out against price competition. The Lorraine product, being of somewhat better quality, was in the wrong stores and was being retailed to the wrong group of consumers.

Key recommendations centered around upgrading the retail accounts by changing distribution to include specialty stores, boutiques and "first floor" department stores, rather than mass-merchandisers. The product, also, was substantially upgraded by adding inner liners, designing for more style and fashion, extending the line to new colors, and generally including those elements which will bring a higher price.

The strategy was obviously successful because sales rose from \$260,000 in 1979 to \$1.5 million in 1981 and \$1.9 million for 1982. Profitability has been restored and more employees are being added at regular intervals. Employment for this past year averaged 50 people. The company also sub-contracted orders which generated 25 additional jobs at other companies.

Based upon the current trend, the company anticipates that sales for this year (FY May 31) will be \$2.7 million.

Sales projections for FY 1984 are expected to be in the range of \$4 million to \$5 million with employment in the range of 100 people. These projections for next year are based upon orders already in-house for the company's 16 lines of high quality handbags.

Management of Lorraine Handbags admits that the firm would probably be out of business today if it were not for the Trade Adjustment Assistance Program.

ROYAL ART MANUFACTURING CORPORATION - KEARNY, NJI. BACKGROUND

Founded in 1950, Royal Art Manufacturing Corporation manufactures the most complete line of French provincial furniture and accessories of any company in the U.S. The furniture is cut to pattern with woodworking machinery, assembled, hand-sanded and painted or finished with hand-applied gold leaf.

II. TRADE ADJUSTMENT ASSISTANCE

Royal Art Manufacturing Corporation recently received a direct Trade Act loan of \$560,000 through the assistance of the New Jersey Trade Adjustment Assistance Center (TAAC).

Royal Art will use part of the proceeds to acquire new high-speed equipment to improve manufacturing costs and enable the company to compete with imports. The balance of the funds will be used for working capital to expand operations.

The New Jersey TAAC has provided Royal Art with consulting assistance in the engineering and marketing areas to improve operations and expand into other potential markets.

III. EVALUATION

The consulting and financial assistance has enabled Royal Art to become more competitive, improve sales, expand the product line and to retain their employees.

Royal Art currently employs about 43 workers and is planning to increase that number to 67 during the next three years.

3/9/83

BOMAR CRYSTAL COMPANY - MIDDLESEX, N.J.I. BACKGROUND

Bomar Crystal Company was founded in 1963 as a manufacturer of quartz crystals for the C-B radio industry. The company progressed from a part-time mail order business to a thriving manufacturer with sales of \$2.9 million in 1976. The next two years reflected a substantial drop in volume attributed to the influx of finished crystals from Japan, Hong Kong, Korea and Taiwan. This period also reflected a rapid decline in the domestic production of C-B radios, also due to imports. These imports precipitated a sales falloff of more than 50% with substantial losses recorded for the first time in the company's history and Bomar was forced to reduce its production employees from 198 to 49.

Faced with these serious problems, Bomar management learned of the Trade Adjustment Assistance program from a seminar sponsored by the New Jersey Trade Adjustment Assistance Center (TAAC).

II. TRADE ADJUSTMENT ASSISTANCE

The New Jersey TAAC engaged an independent management consulting firm to review the firm's position with the objective of developing both short and long-term plans for returning the company to a competitive position. A marketing diagnostic study covered potential markets, marketing techniques and customer relations. A financial study to identify funding requirements and an engineering diagnostic assessment was made of Bomar's manufacturing costs, quality control, and product engineering methods. These studies determined that Bomar should broaden its

Bomar Crystal Company

market area into identified communication markets which reflected greater growth potential.

Bomar had used all of its available bank credit and, therefore, could only rely on the Trade Adjustment Assistance program to fund its recovery through a direct Trade Act loan. The new funds enabled the company to acquire new manufacturing equipment, restructure its in-house sales organization, and provide for adequate inventory to enter the new markets.

A manufacturing consulting specialist was also engaged to provide know-how in the production of crystals to be used in the targeted market areas. New production methods and equipment have enabled Bomar to manufacture high-quality crystals in a wide variety of frequencies. Improvements in production efficiencies and customer service were realized from re-engineered production standards.

III. EVALUATION

Further declines accompanied by additional worker layoffs were precluded as a result of the Trade Adjustment Assistance to this firm. It is doubtful this company would be in business today without the loan and consulting assistance provided under the Trade Act.

3/9/83

CHRONAR CORPORATION - TRENTON, NJI. BACKGROUND

Chronar Corporation was founded in April 1976 by Dr. Zoltan Kiss to manufacture and market liquid crystal displays principally used in electronic watches.

In subsequent years, this market was almost entirely lost to imports and therefore other technologies were developed by the company to offset this loss. One of those, solar photovoltaic systems, has now emerged as a prime product.

II. TRADE ADJUSTMENT ASSISTANCE

Chronar Corporation, a manufacturer of electronic components received a \$1.6 million loan through the assistance of the New Jersey Trade Adjustment Assistance Center (TAAC).

Chronar will use the loan for equipment purchases, working capital for research and development and marketing. The firm has developed the first low-cost commercial thin photovoltaic film capable of producing solar-generated electricity.

New Jersey TAAC will be providing marketing and engineering consulting assistance to the firm.

Chronar, which presently employs about 45 persons, will be marketing its solar products internationally and hopes to compete successfully with Japanese industry in this field.

3/9/83

WIRE CLOTH MANUFACTURERS INC. - MADISON, NJI. BACKGROUND

Wire Cloth Manufacturers, Inc. was founded in 1965 and operates as a fabricator of wire cloth or screen parts used in appliances and industrial processes. Manufacturing orders are generally for small production runs, requiring quick customer delivery and to accurate specifications.

Sales peaked in 1977 to approximately \$450,000 but fell considerably in the following two years, due primarily to foreign competition in the fabrication of screens for smoke detectors and imports of high volume products such as extrusion screens for the plastic industry.

II. TRADE ADJUSTMENT ASSISTANCE

The New Jersey Trade Adjustment Assistance Center was instrumental in bringing the Trade Act program to the attention of this company and assisted the management in the preparation of a petition which led to their certification in January, 1979.

Based on the TAAC's analysis of the company's needs, a marketing program was analyzed to be the major solution to the company's problems. An outside management consultant was engaged by TAAC to establish a manufacturers' representative sales organization to provide Wire Cloth with national sales coverage. The consultant was able to

Wire Cloth Manufacturers, Inc.

identify candidates and assist in the screening process to select the most qualified representatives. The selected representatives were provided with both written and verbal in-depth sales and motivational training to insure short-term results. A system of review was also established to monitor the representative's performance along with sales goals for each of the long-term objectives.

An engineering study was also made on the company's plant layout, methods and productivity. Recommendations were made for engineering improvements and adopted by Wire Cloth.

Due to the marketing and manufacturing progress, the company was able to finance the necessary changes made in its operations and its cost-sharing portion of the consulting assistance through local banks and, therefore, did not require further financial assistance available through the Trade Act program.

III. EVALUATION

The new sales representatives have produced new orders and as the sales program developed, the company had a 40% increase in sales volume and profitability improvement.

The method improvements in the manufacturing process were adopted and their impact on the cost of production resulted in price reductions, improved profit margins and an efficient operations.

Wire Cloth Manufacturers, Inc.

Because of the company involvement in the TAAC program, the company employees were retained and additional employment is expected in the future.

Management has used the technical assistance provided by New Jersey TAAC to turn the company around and are looking forward to an improved future for the firm.

3/9/83

JEROME INDUSTRIES CORPORATION - KENILWORTH, NJI. BACKGROUND

This company was formed in 1964 and is primarily a manufacturer of voltage transformers for charging various small electronic equipment and components. Other products include battery chargers for industrial application and voltage converters for overseas use. Historically, sales were made to manufacturers of electric toys, calculators, video games, appliances and battery chargers.

The company was successful in increasing sales volume, reaching a peak in 1977 of \$2.5 million. The succeeding two years saw a 28% drop in sales volume and a substantial loss recorded in 1979. Declines were attributed to offshore competition principally from the orient.

II. TRADE ADJUSTMENT ASSISTANCE

The New Jersey Trade Adjustment Assistance Center provided assistance to the firm in the preparation of a petition which was accepted on April 11, 1979 and the company was certified for assistance under the Trade Act of 1974 in June, 1979.

The New Jersey TAAC engaged an outside consulting firm to analyze the company's marketing, production, and financial situation and to prepare a plan of strategies

Jerome Industries Corporation

to enable the company to successfully compete with imported products. The marketing study resulted in a recommendation to specialize sales in smaller "job shop" orders involving customer design and specification engineering development. The manufacturing review recommended a number of additions to the staff to improve management's control and attention to the day-to-day operating details. The financial analysis identified several significant areas for potential improvement. These included inventory control systems, reporting procedures and cost controls.

Based on the analysis and recommendations, an Adjustment Plan was developed and incorporated into the company's E.D.A. loan application. The loan application was approved under the provisions of the Trade Act of 1974 and provided Jerome with sufficient working capital to carry out the strategy recommendations. Financial assistance could not be obtained by this firm through usual banking sources.

To further assist the company in its recovery, additional consulting assistance was provided to establish the management controls, improve quality, revise the management structure, refine cost controls and install an order processing system.

Jerome Industries CorporationIII. EVALUATION

The initial consulting assistance was successful in helping to identify the company's problems and provided specific recommendations for the firm's recovery. Following the Adjustment Plan, Jerome has improved their^s operating performance and improved their competitive position. The E.D.A. loan enabled Jerome to carry out the Plan recommendations and provided for the working capital to acquire inventory, service accounts receivable and expand marketing activities.

As a result of this assistance, Jerome has achieved an impressive increase in sales volume of 43%. One large order was achieved only because of the financial resources provided by the Trade Adjustment Assistance program. Their number of customers has increased from 183 to over 200, and employees now total over 150 as compared with less than 100 at the time of certification.

3/9/83

Type of Trade Adjustment Assistance
Business Advisory Assistance: \$80,161

Firm Name: Stevie Togs, Inc.
Address: 3527 Broadway
Kansas City, Missouri 64111
Telephone: 816/531-4333
Contact: Mr. Sam Greenstein

Stevie Togs, Inc., an apparel manufacturer with production facilities in Parsons, Kansas, had for 30 years manufactured children's apparel, with emphasis in the boys' jeans line. Imports of children's apparel made significant inroads into Stevie Togs' markets. Consequently, the firm applied for Trade Adjustment Assistance in September, 1980.

Stevie Togs' principal management had begun investigating the ladies' wear markets. Mid-America Trade Adjustment Assistance Center (TAAC) engaged an industry consultant to review Stevie Togs' operations and to investigate the feasibility of the firm's moving into the women's wear market. The study clearly showed that the firm should drop the boys' jeans line and move into fashionable ladies' sportswear.

The firm's financial condition was sound enough to enable it to finance required capital expenditures without outside assistance. Significant assistance in production and in supervisory retraining was required to assure a smooth and successful transition during the change of its principal product lines. A competitively-bid consultant contract was executed by Mid-America TAAC to provide the required assistance. The firm shared 25 percent of the cost of the technical assistance.

Cost-savings were estimated to be \$170,188, of which \$120,338 recurs annually. Employment at the time service began was 151 persons which was down from the 219 persons the firm employed prior to the adverse effect of imports. Sales volume has remained stable even in light of the deletion of the existing line, and Stevie Togs expects sales to show increases in the next year.

The firm's employment has stabilized and sales have declined only slightly despite the general downturn of the economy during the last year. The management is currently engaged in long-term plans for sizeable increases in its level of operations, aggressively attempting to take advantage of any improvements in the economic climate.

Updated 3/10/83

Type of Trade Adjustment Assistance
Guaranteed Loan: \$1,500,000
Business Advisory Asst.: \$27,814

Firm Name: Amplifone Corporation
Address: P. O. Box 4340
Brownsville, TX 78520
Telephone: 512/541-3461
Contact: Mr. T. K. Harding, Sr., former President

Amplifone Corporation had historically provided components to manufacturers of television sets. Imported components, particularly from Japan, had captured virtually all of the firm's markets. Amplifone took definite steps with its own resources to try to combat this situation: the firm moved from Illinois to Brownsville, Texas to reduce operating costs while diversifying into consumer electronics and into the design and manufacture of components for the growing data communication/computer markets.

Foreign competition continued to erode the firm's market; during 1978 one of the firm's two plants was closed when foreign interests purchased the domestic consumer T.V. manufacturer which had been purchasing the total output of that plant.

When assistance began in 1979, employment was at 137 persons (down from 165 in 1976); all of these jobs would have been lost without Trade Adjustment Assistance. Units of production had declined from approximately 622 thousand units to approximately 324 thousand units.

As a result of Mid-America Trade Adjustment Assistance Center's Diagnostic Review and Economic Recovery Plan an EDA-guaranteed loan was made in February, 1980 providing greatly needed fixed asset and working capital financing. Without Trade Adjustment Assistance this firm would have been put out of business by imports.

The Mid-America Trade Adjustment Assistance Center (through the competitive-bid process) arranged for a consultant who designed a new product from an existing product line (a magnetless flyback - a flyback is used in CRT's, T.V.'s and other electronic video display devices). This new product was of such magnitude that a major firm, Atari, bought Amplifone. The new owner has expanded employment by 90 percent to 260 persons.

Updated 3/10/83

Type of Trade Adjustment Assistance
 Business Advisory Assistance: \$275,000
 assistance in production scheduling
 Direct loan: \$1,000,000

Firm Name: Osceola Shoe Co.
 Address: 9475 Crompton Road
 Osceola, AR 72370
 Telephone: 501/563-6594
 Contact: Mr. William Page, Jr.

Osceola Shoe Co. formerly manufactured houseshoes. Their market was decimated by Taiwanese and Korean imports; therefore, late in 1979, the firm sought Trade Adjustment Assistance.

A review of the firm's operations disclosed that the firm, through significant adjustment in its marketing approach, could feasibly penetrate the market for casual shoes and for golf shoes. Also, the firm could regain a significant competitive edge through obtaining its raw materials in greater quantities and through improvements to its production scheduling. Osceola Shoe Company's working capital had been impaired from its loss of market share, so the firm applied for a direct working capital loan under terms of the Trade Act of 1974 (since private sector financing was not available to them) and entered an agreement to share in the cost of the production assistance to be provided under the terms of this same act.

The services of a major accounting firm were obtained under contract to develop the marketing plan and also to develop, install and refine a computer module to be used in production scheduling late in 1980. Consultant performance spanned all of calendar 1981 and is entering its final performance stage. The firm also took advantage of export opportunities presented through the Trade Adjustment Assistance for Industry program.

During the course of involvement in Trade Adjustment Assistance, the firm's employment increased from an average of 500 persons to 625 persons or by 25 percent. Since the firm's production facilities are located in the delta farmland area of Arkansas, the impact in terms of diversification of employment opportunities in an agri-based economy cannot be overstated. Concurrently, its sales increased by 43 percent in calendar 1981 as compared to 1980, escalating from \$14 million to \$20. Substantial improvements were achieved in net profits during this same period. Employment and sales volume have remained stable during 1982.

Osceola Shoe Co. has historically shared half the cost of assistance-provided under the Trade Act of 1974. In these final assistance phases, the firm is paying 100 percent of the required subcontract consultant cost associated with custom programming of software. As a result of the Trade Adjustment Assistance received, this firm is a healthy, viable employing unit in the communities in which it is located.

Updated 3/10/83

Type of Trade Adjustment Assistance
Guaranteed Loan: \$375,000
Business Advisory Asst.: \$11,314

Firm Name: Fairfax Mfg. Co., Inc.
Address: Hwy 59, P. O. Box 218
Fairfax, MO 64446
Telephone: 816/686-3381
Contact: Mr. James H. Hunter, President

Fairfax Mfg. Co., Inc. is a manufacturer of small wood products, principally gift items for men consisting of pipe racks, ashtrays and dresser valets. In 1975, its product line was copied by the Taiwanese and imported into the United States. These imported products were retailed at approximately one-half the price of Fairfax's products due both to the labor advantage enjoyed by the Taiwanese and also to the fact that the Taiwanese had no costs associated with the development of designs since they copied the products.

From 1975 through 1979, the imported products captured half of Fairfax's domestic market share. Consequently, Fairfax's employment decreased from 60 persons to 19. In October, 1979, Fairfax petitioned for eligibility to apply for Trade Adjustment Assistance. The firm was certified. Mid-America Trade Adjustment Assistance Center assisted the firm through the performance of a diagnostic review of its operations and the preparation of an economic adjustment plan which identified areas of financial and marketing assistance necessary to effect the firm's adjustment to its loss of market share to foreign imports.

The firm received approval of a \$375,000 loan, guaranteed under terms of the Trade Act of 1974. Shortly thereafter, the firm's plant site was flooded. The firm was closed for six weeks while the flood damage was repaired. Without the financial assistance, the firm would not have survived the ravages of both a flood and of import impact. As production resumed, an outside consultant was engaged by Mid-America TAAC to provide indepth assistance to the firm in the area of marketing. This assistance enabled the firm to diversify its product line and to enter the premium market. The company also began exporting its products. The firm's sales increased more than 25 percent. The firm's employment stabilized at 20 persons.

The firm continues to aggressively develop new products and markets as recommended in the consulting assistance received through the TAA program. Despite the state of the economy in the last year, operations have been stable.

Updated: 3/10/83

Type of Trade Adjustment Assistance
Business Advisory Asst.: \$126,073
for improvements in manufacturing,
data processing and management.

Firm Name: Tobin-Hamilton Company, Inc.
Address: Mansfield, Missouri 65704
Telephone: 417/924-3223
Contact: Mr. Joseph Guccione

Tobin Hamilton Company, Inc. is a manufacturer of athletic footwear. Imported shoes were beginning to capture an increasing share of its markets. The firm applied for Trade Adjustment Assistance in the latter part of 1979.

An initial review of the firm's operations revealed that in order for the firm to become more efficient and thereby more competitive, new plant layouts were required at both of its plants, and the warehouse system needed to be restructured. Improvement was needed in the operations of the firm's data processing system, and assistance was necessary in its organizational planning and development.

Mid-America Trade Adjustment Assistance Center (TAAC) executed a competitively-bid consultant contract for the services to be provided on a cost-shared basis to the firm, and the scope of work outlined above was accomplished.

Since entering the program of Trade Adjustment Assistance, the firm's sales increased from \$10.5 million to \$18 million. Its employment increased from 314 persons to more than 600 persons. The investment of approximately \$100,000 in funds under the Trade Act of 1974 for the provision of adjustment assistance to this firm has been richly repaid in terms of increased productivity, increased competitiveness, increased employment and increased tax base.

In the recent economic climate, the firm has experienced some declines in operations. However, its level of activity has stabilized, enabling the firm to hold its own against the recessionary environment.

Updated 3/10/83

Type of Trade Adjustment Assistance

Direct Loan: \$1,000,000

Guaranteed Loan: \$3,000,000

Business Advisory Asst.: \$10,000

Firm Name: Billy the Kid, Inc.
 Address: 4171 N. Mesa, P. O. Box 9817
 El Paso, TX 79988

Principal Product: Boyswear and other apparel lines

Billy the Kid, Inc. was founded in 1937 and has developed into a leading boyswear manufacturer. The firm experienced healthy increases in net sales until 1978 when sales began to decline due to the impact of imports on most apparel lines.

In 1979, the Mid-America TAAC began to assist the company by examining the firm's operations. From this initial assessment, it was determined that the firm needed to develop a business plan to reverse their declining sales levels and remain a viable company.

It was determined that an outside consulting firm who specialized in the apparel industry should be retained to evaluate the firm's operation and recommend appropriate solutions. A competitive analysis was also conducted to assess the firm's relative standing in the apparel industry and to assess any potential opportunities for diversification.

The investigation revealed that sales could be significantly increased through diversification into related apparel lines, and profit margins could be widened through the implementation of a company-wide cost reduction program. To enable the firm to successfully implement the recommended strategies, a \$3 million guaranteed loan for working capital and a direct loan of \$1 million for fixed assets was requested under the Trade Act of 1974.

In February, 1981 the requested financing was received. As a result of the technical and financial assistance obtained through the Trade Adjustment Assistance Program, net sales for the 39 weeks ended June 27, 1981 rose 18 percent, year-to-year, reflecting gains in unit volume and higher average selling prices due to changes in the product mix. Aided by a company-wide cost reduction program, margins widened and pretax income surged nearly 2-1/2 times. After tax earnings increased to 37.6 percent from 22.5 percent a year earlier, while net income nearly doubled to \$2.08 million from \$1.05 million during the same time period.

For the fiscal year ended 9/26/81, net income advanced 59 percent to \$2.9 million, compared with \$1.8 million a year earlier. Revenues totaled \$111.0 million, up 20 percent from the \$92.5 million generated during the same time period a year earlier. Aggressive expansion has been carried out in domestic markets as well as in export sales to Europe, Japan and South America.

The firm has experienced declines in its employment and sales levels during the past several months due to the economic recession. However, the sales for the fiscal year 9/83 are expected to be \$100.0 million or more.

Updated 3/10/83

March 10, 1983
 MIDWEST TAAC Engagement Summary
 By: Tom O'Leary

Apparel Manufacturing

plant layout
 data processing
 marketing

BROOKS LEATHER SPORTSWEAR, Oak Park, Michigan
 Contact: Mr. Stephen Weiss, President

BACKGROUND:

This \$3,000,000 firm designs, manufactures and sells leather garments.

OBJECTIVE:

The major objective of this engagement was to assist the firm in overcoming the loss of 30% of its sales when a single customer switched to an overseas supplier.

COMPONENTS OF THE ENGAGEMENT:

TAAC staff, with the cooperation and involvement of the owner, conducted a diagnostic analysis of the firm's management, marketing, manufacturing and finances and developed an adjustment plan that steered the company into a dealer direct marketing program.

The TAAC contracted with a computer systems consultant to provide technical assistance to the firm in the selection of hardware and software for an on line inventory and order entry system to properly service the large number of dealers that the new strategy led to.

A plant layout project was undertaken and implemented which improved the flow of material, facilitated better supervision and provided the additional office space and warehouse space needed by the developing order patterns.

On its part, the firm made a major commitment to media advertising and dealer support.

Technical assistance was provided by TAAC, but all financial support was obtainable through ordinary banking channels.

SUMMARY:

The company has made a highly successful adjustment to the shock of increased imports. It achieved sales increases on a year to year basis for each quarter of the recession year of 1982. It is profitable and is paying exceptionally high wages for the apparel industry.

As an extension of its order entry system implemented through the TAAC, it is using its new, state of the art computer to tailor dealer support, promotions, and advertising to level sales, increase sales, fill gaps in its distribution, and increase profits.

March 10, 1983

MIDWEST TAAC Engagement Summary

By Rolf Grote

Molds and Mold Design

FORMATIVE PRODUCTS COMPANY

Troy, Michigan 48084

Contact: Mr. Louis J. Steigerwald, President

BACKGROUND:

This \$8,100,000 firm designs and manufactures wooden and plastic molds that are used to produce stamping dies, predominantly in the automotive industry.

OBJECTIVE:

The objective of this engagement was to assist the company in developing a diagnostic study and an adjustment plan for its recovery. The company had been adversely affected by the retrenchment of the domestic automotive industry caused, in part, by imports of foreign automobiles.

COMPONENTS OF THE ENGAGEMENT:

The TAAC staff conducted a comprehensive study of the company's organization, marketing procedures, manufacturing operations and financial condition. The strategy developed in the adjustment plan included plans for the company to diversify into areas outside the automotive industry. To that end, the TAAC staff conducted a comprehensive follow-on market study which identified opportunities in new application areas.

The adjustment plan also recommended a 90% guaranteed loan of \$900,000.

SUMMARY:

It is anticipated that the proceeds of the loan will help the company to recover by entering new areas outside the automotive industry. To date, substantial new business has been contracted for in the aerospace industry.

March 10, 1983
MIDWEST TAAC Engagement Summary
By: Tom O'Leary

Apparel Manufacturer

Market Research
Computer Programming
Sales Forecasting

DALTON INDUSTRIES, INC., Willoughby, Ohio
Contact: Mr. Edwin Young
Vice President, Administration

BACKGROUND:

This large manufacturer of women's sportswear suffered a serious sales decline due to the simultaneous relaxing of import barriers and a change in demand away from the knitwear that it specialized in.

OBJECTIVE:

The objective of the engagement was to assist the company to remain profitable despite import pressure, fashion trends and the recession.

COMPONENTS OF THE ENGAGEMENT:

First, the TAAC staff and an outside consultant prepared a comprehensive diagnostic analysis of the firm, its market, and its operation. This included a survey of customers which discovered some overlap in product lines offered and some lack of clear targeting of offerings. Internal organization and systems were reviewed with the finding that many good programs were underway. These were encouraged and the roles of certain management people were strengthened. The principal internal problem discovered was that rapid growth had outstripped the development of internal systems.

Based on the diagnostic analysis, an adjustment plan was developed for the firm. Major actions recommended included the improvement of sales forecasting, market focusing, labor standards, and improvements in production control. The first project was supported financially by the TAAC whereas the others were exclusively by the company.

The sales forecasting project resulted in a methodology to use the actual sales of the first few weeks of selling in each season to adjust the dyeing, knitting, cutting, and sewing schedules to reduce the production of unsaleable inventory. The project included a major revision to the computer data base which was needed to mechanize this methodology and which later facilitated other data processing projects.

SUMMARY:

The engagement was highly successful and resulted in significant reductions in inventory. This was particularly valuable during the high interest rate periods of late 1981 and 1982.

SOUTHEASTERN TAAC ENGAGEMENT SUMMARY

I. BACKGROUND

Dawson Industries, Inc., is located in Dawson, Georgia with sales and administrative offices located in New York City. The firm currently engages in the manufacture, sales, and distribution of men's, women's, and children's athletic/active sportswear in knit and woven fabrics of cotton and synthetic fibers. Its product line in the past also included sleepwear and panties. Today, their products are sold to specialty stores, department stores, and discount chains either by independent representatives or company salesmen, depending upon geographic territories.

After enjoying success in the early seventies, the firm began to experience serious competition from imported ladies' and childrens' apparel products, particularly sleepwear and panties, from the Far East. Between 1974 and 1976, Dawson Industries suffered a 34 percent decline in employment (from a high of 585), a 20 percent decrease in sales dollars (from a high of \$5.8 million), and a 15 percent decline in production.

II. ASSISTANCE PROVIDED

The firm developed a new business strategy to combat the effect of imports and to regain its competitive position. Working with the New York TAAC, Dawson Industries received a \$1 million Trade Act loan to provide working capital for repositioning its sportswear line to include higher prices and more fashion-oriented garments. The firm was able to increase sales from \$4.6 million in 1976 to almost \$11.7 million in 1979 on this new strategy.

Despite this significant increase in sales volume, Dawson was unable to achieve adequate profit performance. Because of continued import competition, the firm could not raise its prices and had to focus on manufacturing cost reductions as a means of restoring acceptable profit levels.

The Southeastern TAAC assisted the firm in formulating a strategy for improving profits, with particular regard to reducing manufacturing costs and increasing managerial efficiency. Based on an operational audit performed by the Southeastern TAAC, several opportunities were uncovered. To improve operations, the Southeastern TAAC recommended the installation of a fully integrated production system; the re-engineering of the sewing room to include the development of new piece rates and cost reporting; supervisory training and new line balancing methods; modification of existing product costing procedure to allocate direct overhead and materials cost more accurately; a review and improvement of plant layout; and the establishment of improved operating budgets.

The Southeastern TAAC provided technical assistance toward achieving these ends by engaging private consultant contractors to address the areas of production control, product costing, and sewing room engineering, while the firm used its own resources to effect other of the recommended changes.

III. RESULTS

Dawson Industries has been successful in achieving its goals. Sales in 1981 reached \$30 million. The cost reduction program in the manufacturing area can document savings in excess of \$100,000 annually, contributing to a return to acceptable profitability. The Dawson, Georgia plant has been expanded by 25,000 square feet and returned to previous levels, and 200 new jobs have been created in an economically depressed area. Jobs have also been created in other manufacturing firms which act as a subcontractor to Dawson in producing garments to meet sales opportunities.

SOUTHEASTERN TAAC ENGAGEMENT SUMMARY**Automatic Door Manufacturer****Marketing & Product Development****Background**

The Keane Monroe is a North Carolina Corporation, manufacturer of automatic door operators. Historically, the firm experienced sales levels of \$3 million and total employment of 62 persons. The firm suffered a sudden 22% decline in sales volume when Besam, part of a large Swedish conglomerate, purchased Keane Monroe's largest distributor for distribution of Besam's own automatic door operator products.

Objective

The Southeastern TAAC conducted an audit of the firm's operations. A strategic plan was developed with the following objectives: 1) develop new products to fill significant product line gaps and improve the price competitiveness of certain existing products; 2) improve the visibility of the Keane Monroe name and gain acceptance by major chains and architects; 3) reduce the dependence on Northeast markets by expanding sales in other areas of the country; and 4) strengthen market planning and management programs.

Components of the Engagement

Keane Monroe committed its requisite strength to many of the critical tasks necessary for recovery; however, the company needed assistance in several areas. The company's 1979 marketing plan was rendered useless by the unexpected nature of the sales decline. The firm needed an objective examination of its market opportunities and some reduction with respect to geographic and product concentration. Under the auspices of SETAAC, a private consultant performed a market planning study for the company. The project consisted of four phases: 1) review and analysis of Keane Monroe's marketing and the market; 2) development of marketing objectives and strategies; 3) development of detailed marketing action plans; and 4) estimates of potential sales and marketing cost. The plan was favorably received by the ownership of Keane Monroe. To completely implement the plan on the outlined timetable, some new financing was needed. After reviewing the firm's strategic plan, the Regional Office of EDA indicated a willingness to accept a loan application for this financing.

The company and SETAAC worked out an extended timetable and the company proceeded to implement the plan.

Summary

It has been three years since the company has received Trade Adjustment assistance. Much has been accomplished. The planning was a major step, but credit for implementing the plan must go to management and employers of Keane Monroe. The small company developed three new products and brought them to market: 1) a versatile overhead concealed electrohydraulic operator, the Series 4500, which is said to be the quietest in the industry; 2) a heavy duty slider operator, the Series 7000, which has sold very well; and 3) a light duty operator, the Series 100, which is inexpensive enough for residential use. Two new regional sales managers were hired, and the sales efforts in the Midwest, northern California, and Southeast sales regions have been successful. In 1982 the company's sales have returned to \$3 million. The current order backlog is 2½ times what it was last year at this time and employment levels are back up to 60. The future looks bright for Keane Monroe. It has more than regained the business lost in the Northeast, has new products with customer appeal, and has regained its profitability.

TRADE ADJUSTMENT ASSISTANCE ENGAGEMENT SUMMARY

I. HISTORY/PROJECT BACKGROUND

The Joy Footwear Corporation, located in Hialeah, Florida was founded in 1971 as a manufacturer of casual footwear and athletic shoes generally made of canvas upper components and rubber soles. We were a relatively successful company and by 1977 had reached \$9 million in sales, comprised mostly of canvas basketball shoes. We employed approximately 350 persons.

In the years following 1977, the nylon and vinyl jogging shoe became very popular, and the market for basketball shoes and canvas shoes declined. Joy Footwear began to manufacture jogging shoes but was unable to attain any degree of success in this market because of the market being flooded with cheaper imports from Taiwan and Korea. Price wise, Joy Footwear was unable to compete with the imports because it lacked the ability from a productivity standpoint to make up the difference between American and (cheaper) foreign wage rates.

By 1979 sales had declined from the 1977 high of \$9 million to \$4.5 million. Employment was down from 350 to 140. As a result of declining sales and unprofitable operations, the company was financially weak and unable to borrow money in the private sector.

II. TRADE ADJUSTMENT ASSISTANCE PROVIDED

In 1979, Joy Footwear Corporation filed a request for Trade Adjustment Assistance with the Department of Commerce. The firm was certified as eligible to request assistance and did so by requesting help in the preparation of a strategic business recovery plan.

A well-known national consulting firm was provided through the Trade Adjustment program to assist the company in developing a strategy to overcome the problem of import impactation. The consultants audited all company operations to identify the problems and opportunities of the firm. The consultants, together with the management of Joy Footwear, prepared a tactical plan which included the following elements:

1. A consolidation of product lines, with concentrated effort in certain product lines and market segments;
2. An improvement in both the quality and quantity of the sales force;
3. The purchase of production equipment, including two additional injection molding machines, which would increase the plant output to levels consistent with sales projections; and
4. The installation of sewing machinery work aids and revision of the work measurement system to improve productivity and reduce labor costs.

The plan was submitted to the Department of Commerce and subsequently approved, thus allowing Joy Footwear to receive additional technical and financial assistance to implement its recovery plan.

Financial assistance was provided through the Trade Adjustment Assistance Program to support Joy Footwear's strategy. A combination guaranteed/direct loan was approved for \$1.75 million to supply working capital for the new marketing strategy and to purchase the new equipment for the productivity improvement strategy. Technical assistance was approved to provide 12 person-months of on-site industrial engineering expertise to restructure to work measurement standards and install machinery work aids.

III. RESULTS

As a result of the production efficiency program, manufacturing costs were reduced by 15 percent. Some productivity savings were passed along to the employees allowing them to increase their hourly earnings. The technical assistance, together with the new working capital, provided the basis of Joy Footwear's active pursuit of the new jogging shoe market.

Sales for 1982 were \$12 million -- up from the 1979 low of \$4.5 million. The company now employs 345 persons, many female, mostly Spanish-American workers in the Hialeah-Miami area.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

FLOROD CORPORATION, HAWTHORNE, CALIFORNIA

BUSINESS: Manufacturer of Commercial Lasers for Semiconductor Industry.

IMPACTION: Market completely dominated by Japanese firm in less than 2 years beginning in late 1980.

BACKGROUND: Company was first U.S. manufacturer of laser mask trimmers, a yield enhancing device, for the semiconductor industry. Yield increasing devices are critical to the U.S. semiconductor industry if it is to remain competitive with offshore manufacturers.

Florod's initial reaction to the sudden loss of its market was to start developing new products without regard to timing consequences or to the degree of inherent technological risk. Their reaction can be described as grasping for straw while going down for the third time. The net results was an uncontrolled dispersion of company resources bringing the company to the brink of insolvency.

ASSISTANCE & STRATEGIC CHANGE:

The Western TAAC assisted in formulating a recovery strategy for the company which has resulted in nearly a complete recovery. Today finds Florod on the verge of having a banner year. Key elements of the recovery strategy were as follows:

- 1) Redirect Florod's efforts back to areas of strength and proven technology, resulting in developing and marketing of new products/applications:
 - a) Laser defect analyzer
 - b) Optical tooling
- 2) Define alternative applications for existing products namely
 - a) Micro welding
 - b) Resistor trimming
- 3) Establish long term objectives to direct future R & D projects.
- 4) Assisted company in obtaining an NSF Grant for basic research in laser photomask pinhole repair. If research is positive, it could be the basis for a future commercial product.

RESULTS: "Western TAAC served as a life preserver" says Rod Waters, Florod's president. "It allowed us to hang on and develop enough strength to swim again."

Total technical assistance provided to the company amounts to \$28,000. No Trade Act financial assistance necessary.

	<u>1981</u>	<u>1982</u>	<u>1983</u>
Sales	840K	800K	1,600K*
Employees	29	8	18

* Projected Sales

At the time of certification in September 1981, sales had declined to less than \$25,000 per month. Currently, March 1983, monthly sales are averaging \$130,000 per month. Employment went down from 29 at the time of certification to a low of 8 in 1982. However, in March 1983 employment has increased to 18 people and is on a steady increase.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

MESSINGER INC. DBA LISA JASON
VAN NUYS, CA

BUSINESS: Manufacturers of fine jewelry.

IMPACTION: Directly competitive gold necklace rope from Italy, Israel, Peru, Hong Kong equal to or in some cases at a landed price 25% less than client's cost of manufacturing.

BACKGROUND: Messinger Inc. is a family owned California corporation established in 1976. Business was based on experience and expertise of family members in jewelry sales and marketing.

Company established a manufacturing activity to produce 3mm gold chain, but lacked production sophistication. At the time of certification the company was showing sales of \$3.6 million.

STRATEGY: To develop jewelry products for which there were no directly competitive imports, to upgrade manufacturing techniques, and to increase productivity and lower unit cost.

ASSISTANCE: Company management had the expertise to develop saleable new jewelry products and settled on the following items for development:

- a. 1½mm rope chain
- b. Box catches
- c. Ring mountings

The Trade Adjustment Assistance Program contracted with a production consultant knowledgeable in jewelry manufacturing techniques to help the company upgrade manufacturing. The client company shared 25% of the cost of this task. Government share of technical assistance \$15,000.

The Trade Adjustment Assistance Program also supplied a direct loan to the company in the amount of \$624,000 for a term of 7 years for the following:

- a. Finance equipment and facility improvements.
- b. Finance inventory build up.
- c. Finance increased accounts receivable.

RESULTS: Based on manufacturing consultants recommendations productivity improvements were implemented for existing products and a production line was established properly for new products.

Today the 1½mm rope chain accounts for 40% of the company's gross sales and is not import impacted to any great extent.

Box catches account for 12% of sales and is not import impacted.

Ring mountings did not work out as anticipated; have been dropped.

The remainder of sales comes from the originally impacted 3mm product, but better production methods are allowing the company to compete on quality of manufacture rather than price.

To date the company is current with its loan repayments.

Fiscal year end sales for the company as of June, 1982 were \$3.4 million with sales for 6 months ended December, 1982 are \$2.2 million. 51 people are currently employed by Messinger Inc. as compared with 71 at the time of certification. The strategic changes facilitated by the T.A.A. Program have made long term employment for the 51 people considerably more secure.

Metro N.Y. TAACCase Study

Dawson Industries Inc.
1350 Broadway
New York, New York 10001

Contact Person: Max Angel, Pres.
(212) 695-9215

Product: Men's, Ladies and Children's Actionwear
Ladies Lingerie

When Dawson Industries was certified eligible to receive Trade Act benefits in 1977 its sales were \$4.5 million and profits were marginal. Employment at the time of certification was 385. Imports from Overseas had impacted the firm.

Metro New York Trade Adjustment Assistance Center assisted Dawson Industries in the development of its adjustment plan and loan application which culminated in November 1979 with the firm receiving a \$1,000,000 working capital loan from the EDA. The firm also received implementation technical assistance which included an engineering study with emphasis on plant layout, pay incentive program and production scheduling.

This implementation technical assistance which was supplied as a cooperative venture between Metro NY TAAC and Southeastern Regional TAAC at a cost of over \$100,000 became the basis for plant expansion from 40,000 sq. ft. to 132,000 sq.ft. This resulted in greater plant capacity and efficiency.

The benefits of the loan produced an obviously better cash flow, that allowed the company to expand and diversify its business, and increase its production and reduce unit costs. Instead of floundering, the business grew. In the past five years sales increased from \$4.5 million to \$27 million in 1982, while employment increased from 385 to 500. Obviously, profits jumped accordingly.

Metro N.Y.TAAC

Case Study

JOLIE HANDBAG, INC.
416 West 13th Street
New York, N.Y. 10014

Product: Ladies Handbags

Contact Person: Gerald Manowitz, President
(212) 691-5265

When Jolie Handbags, Inc. was certified in December 1978, its sales were \$2.9 million and articles produced were 1,375,000 units. Employment at the time of certification was 140. Imports from Overseas had impacted the firm.

Metropolitan N.Y. TAAC diagnosed Jolie Handbag's problems and assisted the firm in the development of its loan application which culminated in November 1979 with the firm receiving a \$850,000 working capital loan and \$150,000 fixed asset loan from the E.D.A..

Jolie Handbag, Inc. has also received Marketing technical assistance. This assistance which was supplied as a co-operative venture between Metro N.Y. TAAC and the National Handbag Association became the basis upon which Jolie Handbag was able to adapt to the changing market place. For example, Jolie Handbag changed its market field from discount stores (low price handbags) to shoe and apparel chains (moderate price handbags) who are more fashion oriented.

The benefits of the loan and the technical assistance allowed the firm to increase its sales from \$2.9 million in 1978 to \$6.5 million in 1982, while employment increased from 140 to 219 during that time.

The management of Jolie Handbag, Inc. believes that the firm would not be in business today, if it were not for the Trade Act of 1974. Most importantly, profits continued to increase.

Metro N.Y. TAAC

Case Study

Dame Belt & Bag Co., Inc.
636 Eleventh Avenue
New York, New York 10038

Product: Belts & Handbags

Contact Person: Jeffrey Mehler
(212) 581-8030

Amid the current slump in the garment and allied needle trades industry, Dame has continued to increase its sales since being certified eligible for Trade Adjustment Assistance in 1976.

Sales have increased from \$3 million in 1976 to approximately \$15 million by the end of 1982. Metro N.Y. TAAC has helped Dame perform this dynamic turnaround by first assisting in obtaining an interim Small Business Administration loan of \$300,000, plus Trade Act loans from EDA and supplying technical consulting assistance.

The job impact realized by Dame and New York City through the Trade Act of 1974 assistance is significant. 200 jobs were saved and an additional 135 jobs were added. Dame now employs a total of 335 people and employs hundreds more through the contractors it utilizes. Also, since Trade Act assistance, the company has seen earnings jump 23 times.

From a total Trade Act loan of one million dollars (\$600,000 fixed assets, \$400,000 company capital) through EDA - Dame has been able to purchase new production equipment, purchase raw materials at volume discounts, increase its finished goods inventory and open new markets, including overseas. All of this has helped to reduce costs, and enabled the firm to service its customers better. In addition, Dame added an Oleg Cassini designer line and also diversified into small leather goods (wallets, keychains, etc.) thus finding a niche which the imports did not affect.

Dame's performance is an inspiration to the entire handbag industry and to all import impacted firms; especially when we take into consideration that they will also amortize both their fixed asset and working capital Trade Adjustment Assistance EDA loans by the end of this calendar year.

Metro N.Y. TAAC

Case Study

Dunleigh-Tuxton Corporation
1 East 33rd Street
New York, New York 10016

Product: Men's Neckwear

Contact: George Bruder, Chairman
(212) 532-2873

In an otherwise lack-luster market, hurt by imports, Dunleigh-Tuxton Corp. made an impressive sales gain in fiscal 1982. Their sales increased 40% to reach an all time high for the company of \$3.5 million. Net profits are expected to increase 250%. Employment rose to 70, an increase of 10%. These gains are largely due to the assistance of Metro N.Y. TAAC who provided the necessary technical assistance to develop a marketing niche for Dunleigh-Tuxton within the industry.

The company's operations were analyzed by Metro N.Y. TAAC and specialists were hired to develop a marketing plan for the company. The market most accessible to the company was chains such as J.C. Penny and Montgomery Ward. In-house sales operations were reorganized, management responsibilities redefined and a reporting system developed.

At the present time, additional Trade Adjustment Assistance is being provided by Metro N.Y. TAAC through outside specialists in the form of a production control system which will enable the company to produce more efficiently and effectively thereby lowering its production costs.

Without such technical assistance as provided under the Trade Act of 1974, this company would not be in the black as it is today. The company, by itself, could not afford to hire such expertise, therefore, its ability to overcome the impact of imports would have been severely hampered. Since management has been reeducated and their systems reorganized, Dunleigh-Tuxton Inc. is better prepared to face the ever increasing flow of imports.

Metro N.Y. TAAC

Case Study

Little World, Inc.
112 W. 34th St.
New York, N.Y. 10001

Friedrich Knitting Mills, Inc.
8400 73rd Ave.
Glendale, N.Y. 11227

Contact person: Ed Stalzer, Exec. V.P.
(212) 894-4500

Product: Knitted Infants and Childrens Wear

When Little World was certified in 1979 its sales were \$4.9 million down from sales of \$5.9 million in the previous year. Employment at the time of certification was 186. Imports from the Far East had impacted the firm.

Metropolitan NY TAAC diagnosed Little World's problems and assisted them in the development of its business plan which culminated in May 1980 with Little World receiving an \$800,000 working capital loan from the EDA. The firm also received implementation technical assistance which included a marketing study and merchandising plan, and an engineering study with emphasis in the knitting areas, pay incentive program and production scheduling.

This implementation technical assistance, which was supplied by Metro NY TAAC at a cost of \$70,000, became the basis upon which Little World was able to adapt to the changing market place. For example, Little World diversified its production by marketing woven bottoms that coordinated with their knitted tops. This has made their product more salable. The channels of distribution were also diversified to include chain stores. In 1982, total sales were \$8,000,000.

In addition, the technical assistance provided in the production area alone resulted in a one year savings at least equal to the \$70,000 spent on the total technical assistance.

The benefits of the loan produced an obviously better cash flow, that allowed the company to remain successfully in business. The firm has gone beyond its sales projection of \$7.5 million to \$8 million while employment increased to approximately 220 in 1982.

NORTHWEST TAAC ENGAGEMENT SUMMARY

Apparel Manufacturer

Management and Productivity

Background

The firm was established in 1972 as a contract operation specializing in fashion sportswear. When the market changed to outerwear, the firm was able to change with it and concentrated on down outerwear. In 1979, the company began to produce proprietary products in down outerwear. A reversal in the insulated sportswear business along with the impact of imports caused significant losses in 1980 and 1981. This downturn occurred both in contract work and proprietary business and affected the entire operation. However, prudent action enabled the business to switch from insulated fashionwear production back to ladies fashion once again, at great cost to the business. The proprietary line was dropped, and the firm is once again a contract operation only.

In October 1981, short term losses on the part of the firm coupled with an extended portfolio position of a small local bank resulted in the bank calling for its outstanding lines of credit and loans, even though all payments were current. All employees were laid off for two weeks and all inventory liquidated at a substantial loss. The firm was able to meet the demand, obtained releases from the bank, and put its work force back to work. The firm was able to obtain interim financing for operations.

Business Strategy

With the assistance of NWTAAAC staff, the firm developed a business plan that called for increasing productivity, hiring a consulting systems analyst to improve the management information system, extending the short-term financing, reviewing the physical facilities and equipment, and arranging for additional capital.

Result of Business Strategy

The firm was able to hire a garment engineer who had 18 years of experience in the industry. A consultant for the systems analysis of the computer was hired with NWTAAAC's help, and new payroll, accounting and costing systems have been installed. Because of these two factors productivity has increased, enabling the firm to cut its work in process time by 67 percent.

Sales were limited by production capacity. Physical facilities and equipment were reviewed and the firm has purchased a three acre parcel of land, and is in the process of constructing a facility nearby. The facility is triple the size of its present building and will enable the firm to expand the number of employees to 200.

A \$310,000 SBA loan has been obtained for construction and working capital. NWTAAAC staff helped the firm find bankers interested in participating with SBA. NWTAAAC has also been involved in helping the firm apply for federal government contracts.

Since 1981, when NWTAAAC became involved, the firm's revenues have almost doubled, and the company has turned from a significant deficit position to a healthy profit. Employment has increased from 60 to 140 employees, and will reach 200 with the completion of its new facilities. Total government assistance to the firm was \$11,700, or \$58.50 per job.

NWTAAAC 3/83

NORTHWEST TAAC SUMMARY ENGAGEMENT

Fireplace Furnishings

Management, Marketing and Engineering

Background

The firm manufactures fireplace mesh screens, glass enclosures and other fireplace accessories. It also manufactures wire mesh draperies for commercial decorative or security panels. The firm was incorporated in 1976, after splitting off from the parent firm, which was founded in 1932. Sales grew to nearly ten million dollars in fiscal year 1979. Subsequently, the firm was seriously impacted by a combination of import competition, a slowdown in housing starts and record high interest rates. By March 1982, sales levels had fallen to less than three million dollars.

Business Strategy

The firm's business plan provided for an orderly scale down in operations to more appropriately reflect actual market conditions. NWTAAAC provided management advise and guidance during this period. The TAAC also assisted the firm in the accomplishment of debt restructuring to provide working capital.

New marketing channels of distribution have been put in place, which provide access to the national chain store market. Several new product lines have been developed to provide market diversification. Outside consulting assistance will be provided for market research and engineering necessary for successful development of the new product lines.

Results of Business Strategy

The firm expects to end fiscal year 1983 with a profit, after losses for two consecutive years. Current quarter sales are 30 percent higher than the same period one year ago.

One new product, a high quality design glass fireplace enclosure has been very well received in the marketplace. A second designer glass enclosure will be introduced in March 1983. With NWTAAAC assistance, other new product areas are in various stages of development.

The firm has received authority to apply for an ITA guaranteed loan in the amount of 1.25 million dollars. The loan will provide machinery, equipment and working capital to support the growth anticipated from both new product sales and an expansion of existing product sales.

The firm will probably not reach its maximum employment level of nearly 200 again, because of improvements made to production efficiencies. However, as the firm continues its recovery and builds new product lines - - new jobs will be formed. Some of the new jobs will be of higher quality level than before.

NORTHWEST TLAC ENGAGEMENT SUMMARY

Fishing Rod Manufacturer

Marketing and Engineering

Background

This thirty-year-old firm produces fiberglass and graphite fishing rods and blanks. Sales, production, and employment peaked in 1976 at \$2.6 million, 400,000 and 100 respectively. Fiberglass fishing rod imports were severely impacting sales and working capital to the point where foreclosure was imminent.

Business Strategy

An initial diagnosis of the firm identified the following major problems and constraints in addition to fiberglass rod imports: 1) Scattered facilities (six buildings, two locations), 2) overcrowding at plant sites, 3) loss of productivity - - 4.9 x annual employee turnover, 4) inefficient and insufficient manufacturing equipment, 5) lack of adequate working capital.

The business recovery strategy provided for consolidation of operations at one location, modernized equipment, improved cost controls and management reporting, as well as market and product diversification. A Trade Act loan for a combination of fixed assets and working capital in the amount of \$998,000 was approved and is currently in place.

Result of Business Strategy

The turnaround has been effected. The consolidation of operations has taken place. Employee turnover has decreased to significantly less than industry norms. After initial shakedown of consolidated operations productivity has met projections. Eighty-four employment positions are secure. Product and market diversification is being implemented in accordance with the business plan timetables and gives every indication of increased sales, production employment and profits.

NORTHWEST TAAC ENGAGEMENT SUMMARY

Fishing Flies and Tackle Manufacturer

Marketing and Engineering

Background

The firm's president is one of the nation's foremost fly fisherman and fly tiers. The firm's hand tied flies are world famous for quality, balance, and other features; and it has developed and introduced many of the most effective trout and other fishing flies in use today. The firm is in its 45th year of operation, managed by the founder and his son. Sales fall into several classifications including wholesale/distributor, retail store, and mail order, representing 52%, 25%, and 23% respectively of typical prior years' total sales.

Business Strategy

Springboard for the sales development programs of all divisions is the firm's flies, as this is the product for which the company is world famous. In recent years sales have been impacted by flies imported from Columbia, India, South Africa, and other foreign countries. This impact seems to have adversely affected all divisions, and the competitive import situation was (and is) not expected to become less severe.

A small, initial investigative analysis by an outside consulting firm diagnosed the firm's strengths and recommended long- and short-term marketing training implementation assistance which concentrated on expansion of the retail sales division (store and mail order) as the key areas which would provide long-term viability for the firm. Concurrently a small engineering consulting services contract helped solve a technical engineering problem for a specific product's riveting process allowing resumption of production and sales.

Fishing Flies and Tackle Manufacturer, cont.

Results of Business Strategy

This plan was accomplished without the need for any government direct, or, guaranteed loans.

Wholesale division sales continue to be soft, finishing the fiscal year slightly lower in dollar sales volume and in real products sold as predicted in the pro formas, and investigation analysis.

Mail order sales are responding to the Business Plan actions even better than had been forecasted: 1) Requests for catalogs -- up 400%; 2) Number of individual mail orders -- up 43%; 3) Mail order sales volume -- up 50%, all on a year to year basis, for the first seven (7) months of the fiscal year.

The marketing program did not become effective until four (4) months into the fiscal year. The first four months sales were substantially below the preceeding year, and the above figures include overcoming those deficits. Sales for the fifth (5th) month were up 89% over the same month of the preceeding year, and the sixth (6th) month was double those (100%) of the preceeding year.

Seven new manufacturing positions were created.

Manufacturing wages (piece work) were up 20% over the preceeding year.

The increased manufacturing volume has resulted in the creation of two additional positions for order processing and handling.

Management has stated that without the marketing and engineering consulting services made available through this program they would have been forced to severely curtail manufacturing, and reduce employment correspondingly.

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms*	\$ Gov. Share	No. of Firms still in business (1/31/83)
Connecticut	23	45,939	16	36,881	11	73,852	23	155,586	65	312,253	59
Delaware	13	5,068	10	4,676	7	32,669	10	129,217	28	171,610	28
Massachusetts	98	44,216	56	73,804	47	141,647	102	664,203	247	923,870	233
New Hampshire	20	28,022	29	49,385	16	353,009	11	80,280	53	510,696	47
Rhode Island	11	12,139	13	20,363	5	8,838	12	108,380	33	149,720	33
Montgomery	2	1,573	3	9,044	6	22,790	11	154,759	15	180,066	14
New York	185	476,198	77	299,429	103	800,021	36	427,179	197	1,897,827	180
New Jersey	42	97,818	54	233,423	54	219,098	31	137,841	63	688,180	45
Pennsylvania	123	190,000	99	510,300	69	265,000	48	582,000	180	1,547,300	159
West Virginia	24	56,350	5	37,100	3	5,000	4	25,000	26	123,450	15
Maryland	20	20,000	12	21,700	13	23,300	10	90,000	49	155,000	45
Virginia	11	26,500	12	19,000	4	24,400	6	16,700	22	86,600	21
Delaware	-	-	1	100	1	300	2	3,000	4	3,400	4
Mississippi	12	13,135	9	25,335	8	15,284	11	55,580	36	109,335	25
Georgia	28	14,041	30	72,404	34	163,505	19	92,530	83	342,480	68
South Carolina	12	5,663	16	69,234	11	12,458	15	74,554	44	161,910	32
Florida	28	62,239	16	53,999	31	165,496	20	148,111	72	429,845	54

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms *	\$ Gov. Share	No. of Firms still in business (1/31/83)
Kentucky	18	148,717	4	4,949	7	21,878	9	46,592	33	222,137	26
Tennessee	25	31,825	23	63,257	14	124,790	19	92,530	67	312,403	52
Alabama	8	9,120	14	62,974	11	10,301	14	70,756	31	153,150	22
North Carolina	26	64,961	12	160,304	26	52,049	25	127,038	73	404,353	51
Illinois	9	134,084	9	220,477	12	189,312	11	202,693	41	746,566	37
Indiana	6	71,095	4	85,457	8	191,178	15	344,896	33	692,626	30
Iowa	4	13,000	5	19,147	2	3,957	2	19,280	9	55,384	6
Michigan	1	10,829	6	85,623	7	171,366	16	274,980	30	542,798	28
Minnesota	5	49,365	4	49,687	1	9,508	1	10,591	11	119,151	9
Ohio	7	77,433	6	127,495	8	111,828	12	230,396	33	547,152	29
Wisconsin	3	29,882	4	52,997	5	42,421	3	142,475	15	267,775	14
S. Dakota	-	-	-	-	4	52,800	4	50,000	6	102,800	6
N. Dakota	-	-	-	-	2	25,800	3	50,000	4	75,000	4
Nebraska	-	-	2	838	4	38,300	5	90,000	10	128,300	9
Arkansas	11	11,000	6	45,000	4	13,500	4	9,800	15	79,300	11
Missouri	13	65,000	16	150,700	11	117,900	14	40,000	32	373,600	28
Louisiana	2	1,000	6	3,000	2	500	6	4,000	14	8,500	12
Puerto Rico	6	10,000	16	31,000	18	60,000	28	140,000	46	250,000	31

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms*	\$ Gov. Share	No. of Firms still in business (1/31/83)
Oklahoma	5	28,100	5	22,700	2	4,100	2	7,000	8	61,900	5
Texas	13	25,200	16	76,400	24	58,500	14	45,000	51	205,100	41
Kansas	3	2,500	2	1,100	5	12,000	2	15,000	7	30,600	6
Colorado	5	36,000	7	53,000	8	16,000	1	25	12	105,000	10
New Mexico	3	9,000	2	2,300	3	9,500	2	3,000	6	23,800	5
Wyoming	0	0	2	4,700	1	217	0	0	2	4,917	2
California	76	997,173	52	666,346	46	599,983	60	600,000	206	2,881,777	183
Nebraska	0	0	2	10,000	3	10,879	4	80,000	6	62,876	4
Utah	1	10,000	2	5,454	2	20,323	5	100,000	1	135,777	4
Idaho	1	15,000	3	13,962	8	57,310	11	110,000	19	196,047	13
Arizona	2	20,000	3	10,175	2	10,660	4	40,000	8	75,835	4
Montana	4	16,000	1	20,000	10	44,818	19	109,515	20	190,333	11
Oregon	10	57,500	13	38,000	22	69,309	32	389,000	46	553,609	32
Alabama	0	0	0	0	1	788	8	97,000	7	97,788	1
Washington	48	225,000	27	128,000	45	307,773	30	365,000	105	1,025,778	82
Mississippi	0	0	1	7,000	3	18,890	16	195,000	16	220,890	7
Total	967	\$3,267,665	733	\$3,758,219	754	\$4,805,107	772	\$7,046,487	2,240	\$18,741,766	1,877

* Each firm counted only once

SUMMARY OF ECONOMIC ACTIVITY
IN INDUSTRIES ASSISTED
BY DEPARTMENT OF COMMERCE INDUSTRY PROGRAM

Industry	Value of Shipments (Million \$)	Value Added (Million \$)	Total Employment (000)	Number of Firms	Imports as % of Total Consumption	Compound Annual Rate of Change		Major Producing States
						Value of Imports	Total Employment	
1. Footwear Non-Rubber	683	406	22	192	50.2	26.0	(1.3)	PA, MI, MA, TN
2. Luggage	744	364	16	298	28	37.0	(1.2)	New Eng; Mid-Atlantic; CO
3. Leather Goods	2,017	532	18.5	465	11.5	18.1	(3.8)	MA WI NY NJ PA CA
4. Steel	39,396	14,059	429	1,193	16.6	10.0	(1.8)	East; North Central
5. Textile Machinery	1,190	675	26	638	46.9	13.3	(2.2)	Southeast & Northeast
6. Costume Jewelry	955	550	26.7	847	15.4	45.0	(2.6)	RI NY MA NJ CT CA
7. Consumer Electronics	7,847	3,256	84	581	47.0	18.4	4.0	IL CA PA VA
8. Stainless Steel Flatware	560	305	9.1	258	23.5	19.7	(1.0)	MA CT NY IL
9. Red Cedar Shakes & Shingles	319	137	6	565	48.0	46.9	(14.0)	OR WA CA
10. Pipe Fittings	8,125	4,830	114	902	8.6	14.0	2.2	OH IL PA TX
11. Apparel/Textile	87,379	36,836	1,616	18,064	10.8	26.5	(1.3)	Southeastern; Mid-Atlantic
12. Paper Machinery	27,300	12,300	203	646	11.4	15.6	.8	GA AL LO WI OR ME
13. Vitreous China	187	152	7.3	28	50.1	19.0	6.2	PA WV NY NJ OH CA
14. Earthenware	106	78	4.8	23	62.4	18.2	(5)	PA WV NY NJ OH CA
15. Work Gloves	377	150.8	14	110	31.5	21.5	(39)	MI MN WI

SUMMARY OF ECONOMIC ACTIVITY
IN INDUSTRIES ASSISTED
BY DEPARTMENT OF COMMERCE INDUSTRY PROGRAM

Industry	Value of Shipments (Million \$)	Value Added (Million \$)	Total Employment (000)	Number of Firms	Imports as % of Total Consumption	Compound Annual Rate of Change		Major Producing States
						Value of Imports	Total Employment	
16. Industrial Machinery	4,200	2,496	68	500	50	15.0	(7)	OH IL PA TX
17. Hand-made Glass	95	54	45.9	325	26.4	25	(29)	OH PA WS SC
18. Bushrooms Canned/Fresh	358.8	174.7	8	527	40	21	(22)	OH CA MI WA PA (50%)
19. Barrels	648	324	18	186	41	24.6	(4)	NYC
TOTAL	158,445	77,684	2,737	26,348				

Summary of Alternative Financing Generated as a Result of Assistance from the Trade Adjustment Assistance Centers (TAAC)

TAAC	FY-79 and FY-80		FY-81		FY-82		FY-83(as of 1/31/83)		Total		Number of Firms Still in Business
	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount	Number of Firms*	Amount	
New York State	-0-	\$ -0-	1	\$ 60,000	6	\$ 3,800,000	1	\$1,000,000	8	\$ 4,860,000	
Mid-America	1	2,000,000	-0-	-0-	2	2,400,000	-0-	-0-	3	4,400,000	
Midland	6	4,565,000	15	35,900,000	20	30,680,000	-0-	-0-	41	71,145,000	3
Western	9	2,796,000	5	2,800,000	1	100,000	1	20,000	10	5,716,000	
Northwest	1	4,000,000	8	4,840,000	2	100,000	2	600,000	13	9,540,000	1
Southeastern	1	1,500,000	5	795,000	1	15,000	-0-	-0-	7	2,310,000	
Mid Atlantic	3	349,000	11	4,082,000	1	250,000	1	500,000	16	5,181,000	1
Rocky Mountain	N/A	N/A	N/A	N/A	-0-	-0-	-0-	-0-	-0-	-0-	-
Delco New York	13	3,780,000	14	6,990,000	17	8,240,000	4	1,990,000	21	21,000,000	1
New Jersey	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-
Mid West	-0-	-0-	1	1,000,000	2	535,000	1	2,700,000	4	4,235,000	
TOTAL	34	\$18,990,000	60	\$56,467,000	52	\$46,120,000	10	\$6,810,000	123	\$128,387,000	11

*Each firm counted only once

Mr. WILLIAMS. First of all, let me say that I am familiar with the program of trade adjustment assistance for firms and industries because I administered it as a Deputy Assistant Secretary for Economic Development in the Department of Commerce in the previous administration. And that is Mr. Ryter's predecessor in this administration, as the Deputy Assistant Secretary for Trade Adjustment Assistance. I left last year because I disagreed with the administration policy of trying to terminate this program. I felt that I wanted to be free to work from it on the outside. And that is what I am doing now.

There are just a few major points I would like to leave with you. One is that a dynamic international trading system is essential to economic growth. The leadership of the United States is essential to this international trading system. For the United States to exercise the kind of leadership that is needed, it must have a sound and credible trade adjustment assistance program. I will say no more on that, because Senator Heinz summarized briefly the reasons why that is true, in his questions to the previous witnesses.

It is true that the financial assistance program under the trade adjustment assistance program for firms has had an unacceptable default rate. This is brought about largely from policies that were followed 3, 4, or 5 years ago, which are now coming home to roost. In the last 2 years, those policies have been tightened up considerably and the loan program now is in much better shape than it was then, and it is a very effective program.

However, it is wrong to look at the program for firms and industries only in terms of financial assistance. Technical assistance is much more important or equally as important. And this program must touch 70 to 80 firms with technical assistance for every one with financial assistance. And of the 2,000 or more firms that have received technical assistance under this program in the past 3 or 4 years, 85 percent of them are still in business.

I have attached to my testimony some 30 or 40 case histories of firms throughout the country who have benefited from this program. Those are only a few. I could give you many, many more if they were needed. This program does work for many firms. It is important to those firms. And it is perceived by those firms as a way of helping them react in the best way to foreign competition, by becoming more efficient, by becoming more productive, by developing new products, by developing new markets. That is the way to adjust, and the best way to adjust. And it is a proper role for the Federal Government to help do that.

The third thing is that we also have a program of help to industries which, again, is not a financial assistance program at all. It is technical assistance through industry grants. The shoe industry, the handbag industry, the steel industry, the machinery industry, the textile machinery industry. Many, many industries have received help to carry out productivity studies and other types of studies that will help the members become more efficient in exporting and in meeting the problem of imports.

So this program goes far beyond financial assistance to firms, and should not be judged on that alone.

Let me say that there are really four postures from which we can take a choice to deal with this. The first I call education. That

is saying we are for free trade, and it is the best thing there is. Comparative advantage works. In the long run, everybody is going to be better off, and those of you who are hurt now ought to just hunker down because it is better for everybody. We can't live with that.

A second posture is protectionism. We can't live with that.

A third posture I call compensation. That was the old program where we just give money out to people without any benefit of adjustment. And that is much too expensive.

The fourth way is adjustment. That is what we have to do. To concentrate on adjustment, and to focus everybody's energies on how do we adjust to this. I would submit that we should have a program. We need to make it better. We need to focus on adjustment.

In my prepared statement I have given some suggestions for that. We should have industrywide certification. We should have tripartite committees of labor, management, government sitting down to work out adjustment plans. Adjustment plans should be flexible so that they are attuned to each industry and to the needs of each industry.

Thank you so much, Mr. Chairman.

Senator DANFORTH. Thank you.

Senator DANFORTH. Mr. Fennell.

Mr. FENNELL. Thank you, Mr. Chairman.

Before I begin, I would like to submit into the record not only my own prepared statement, but the prepared statements of four others. One from the TAAC-TEC Systems Co., in Meadowlands, Pa. One from a firm in Troy, Mich., called Formative Products. One by Mr. Dominic Dipaola who is the managing director of the Leathergoods, Handbags, Plastics and Novelty Workers Union, representing the entire industry. And one from Miami Footwear in Miami, Fla. I will also give to the committee, following my testimony, the names of close to 900 firms representing 130,000 employees on whose behalf I am speaking, because they have expressed support for the trade adjustment assistance program for firms and industries.

[The prepared statements of TAAC-TEC Systems Co., Formative Products, Mr. Dominic Dipaola, Miami Footwear, and Mr. Fennell follow:]

TESTIMONY OF:

MARK W. DUMARS

BOARD CHAIRMAN AND PRESIDENT OF
TACTEC SYSTEMS, INC.

SUBMITTED TO:

UNITED STATES SENATE

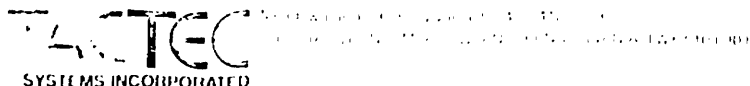
COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

WASHINGTON, D.C.

THE HONORABLE JOHN C. DANFORTH, CHAIRMAN

March 17, 1983



17 March 1983

SUBMITTED TO:
 UNITED STATES SENATE
 COMMITTEE ON FINANCE
 SUBCOMMITTEE ON INTERANTIONAL TRADE
 THE HONORABLE JOHN C. DANFORTH, CHAIRMAN:

I very much appreciate this opportunity to express the opinion of TACTEC Systems, Inc. concerning the activities of the Trade Adjustment Assistance Council (TAAC). We have been involved with TAAC for a number of months and believe that TACTEC's experience with the activities of TAAC should be helpful to this sub-committee in its evaluation of the TAAC Program.

This report has been divided into four sections:

- I. A brief background on TACTEC and the industry in which it operates.
 - II. Factors having a negative effect on TACTEC's viability
 - III. The involvement of TACTEC with TAAC
 - IV. The importance of TAAC assistance to TACTEC
- I. Background on TACTEC

TACTEC Systems, Inc. was incorporated in January 1981 and acquired the land mobile radio operations of RCA Corporation in March 1981. RCA had reported a history of unprofitable operations and had expressed its intention to close down its land mobile radio operations.

The land mobile radio industry consists primarily of two-way, dispatch type radio service. Users of two-way radios include agencies of Federal, State and Local governments, public utilities and companies in a variety of industries which require prompt communication capabilities in order to maximize operating efficiencies. The price range for such radios, including both mobile (installed in vehicles) and portables (hand-held), is approximately \$600 to \$2,200. The U.S. market is estimated at approximately \$1,500,000 and the International market at \$2,500,000, with a projected annual growth of about 15%. The high-priced end of the U.S. marketplace is dominated by Motorola and GE, with approximately 20 companies active in the low-end of the U.S. marketplace, including a number of non-U.S. companies.

TACTEC's annual revenues for its fiscal year ending February 28, 1983 will approximate \$45,000,000. The Company employs about

600 individuals, a decline from about 900 employees at the time the RCA operations were acquired. The Company was profitable in its initial fiscal year, but is expecting to incur a loss in the current fiscal year as a result of a significant decline in sales during this recessionary period.

II. Factors negatively affecting the viability of the Company

The owners of TACTEC Systems, consisting of ten private investors (all US citizens) acquired an unprofitable division of a large conglomerate. It was immediately apparent that the Company's weaknesses were significantly greater than that which had been anticipated during the acquisition proceedings. Specifically, the land mobile radio operations of RCA suffered from (a) weak management, (b) an aged product line that had not been supported due to a continuing decline in R&D, (c) an inefficient and high-cost manufacturing operation, (d) a volatile labor union situation, (e) unhappy customers who had felt the brunt of RCA's lack of interest in continuing the state-of-the-art in its product line, (f) a rudimentary management information system, (g) the intrusion of foreign competitors in the low-end of the two-way radio market, the fastest growing segment of the market, and (h) overall low performance standards of the employee force as a whole. This situation was further aggravated by the new company being somewhat under capitalized.

III. The involvement of TACTEC with TAAC

After a series of discussions between representatives of TAAC and TACTEC, it became apparent that TACTEC has the ability to support its contention that its operations had been and were being adversely affected by foreign imports. TACTEC representatives then prepared the various reports that were necessary to obtain certification, and having received such certification, participated with TAAC in the process of preparing REQUESTS FOR PROPOSALS from industry consultants and evaluating the proposals. Throughout this process TACTEC representatives were in frequent contact with officials of TAAC, and their assistance was invaluable in enabling TACTEC to successfully utilize the Trade Adjustment Assistance Program as intended.

TACTEC is currently having its new marketing strategies evaluated by independent industry consultants. Through a series of joint venture and sub-contracting arrangements, TACTEC has positioned itself so that it will have available during 1983 state-of-the-art products in the new cellular and trunking technologies, and will also add new low-end products to its product line whereas previously only high-end products had been offered by RCA. A consulting project is currently underway to evaluate the marketing strategies associated with these new products. Also, two consulting projects are pending which would assist the Company in other important areas - Manufacturing and our Management Information Systems.

Further, TACTEC has entered into discussions with officials of TAAC relative to availing itself of the loan provisions of existing legislation, in order to assist in the financing of the machinery and equipment, inventory and marketing cost requirements for the new products.

IV. The importance of TAAC assistance to TACTEC

The Company is in a turn-around situation that unfortunately was undertaken during the worst recessionary period in over 50 years. Significant cost reduction efforts, including employee layoffs and a 15% across-the-board salary reduction, have been made in order for the Company to remain viable. In these circumstances it is difficult for TACTEC to justify engaging outside consultants to assist it, regardless of whether such expenditures would be expected to generate cost savings in the future. The Company's current financial condition requires that it emphasize its short term cash position, unfortunately at the expense of the future. Thus, without the assistance of TAAC, TACTEC would not have been able to avail itself of the consulting assistance that it considers important in insuring that the marketing strategies associated with the Company's new products will maximize the Company's profitability.

We believe this assistance has been important to TACTEC's survival and that it represents an appropriate use of tax-payer funds for the following reasons:

- a. TACTEC's survival (through maximizing the profitability from its new products) is important in maintaining existing jobs in a section of the country that is economically depressed
- b. It helps to resist further encroachment by Japanese and other foreign competitors into the US telecommunications market
- c. The combination of existing radio electronics capabilities with microprocessors has continued TACTEC's position as a high technology company. This is considered most important in our country's efforts to maintain its edge in the high technology area, and specifically in the Western Pennsylvania area which is attempting to emphasize high technology
- d. TACTEC's survival serves as a counter-weight to the monopoly position of Motorola in this industry
- e. Although in a relatively modest way, TACTEC is helpful to the U.S. balance of payments in that it exports over 15% of product sales

* * * *

Again I thank you for this opportunity to express TACTEC's views on this important matter. I would be pleased to answer any questions you may have at this time or in the future.

Mark W. Du Mars

Mark W. DuMars

March 17, 1983

SUBMITTED TO:

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
WASHINGTON, D.C.

THE HONORABLE JOHN C. DANFORTH, CHAIRMAN

Subject: Trade Adjustment Assistance for Firms

BACKGROUND

Formative Products, founded in the State of Michigan in 1955, manufactures die molds, welding and assembly fixtures, jigs, gages, molds and special machines. In addition, Formative has a unique process to form nickel tools and parts by chemical vapor deposition.

In 1980, Formative Products was primarily oriented to attract business from the automobile industry. Sales for the year ended June 30, 1980, were \$8,106,000, down 19%, and employees numbered 116, down 38%. A major factor in Formative's decline was increased competition from companies located in Canada. In the fall of 1980, Formative Products was certified to be eligible for Trade Act Assistance.

TRADE ACT ASSISTANCE PROGRAM RESPONSE

In November of 1980, technical assistance was initiated through the Midwest Trade Adjustment Assistance Center. A diagnostic analysis and an adjustment plan were issued in April of 1981.

The diagnostic analysis outlined the following problems:

- A) An increase in competition from Canadian companies who pay lower wage rates, receive sizable government subsidies for exports and have a favorable monetary exchange.
- B) Capital expenditures for new tooling programs in the automobile industry were put on hold, or cancelled as cash flow tightened.
- C) Lack of, or poor procedures for, job cost estimation, job cost analysis, marketing analysis and job quotation review.

The adjustment plan emphasized that Formative must expand its services beyond the automotive market. The plan also suggested that Formative improve its manufacturing capability. Special recommendations included:

Marketing

- A) Perform a marketing study to investigate opportunities in the business machine, appliance, furniture, housewares, defense and commercial aerospace markets.

Marketing continued

- B) Hire a sales manager to supervise entry into new markets and to maintain existing markets.
- C) Develop a sales analysis/marketing research capability to identify unprofitable ventures and to add those of genuine promise.
- D) Organize a promotional/advertising program that is cost effective, successful, and has a built-in follow-through procedure.

Manufacturing

- A) Establish an engineering department.
- B) Formalize the estimating procedure.
- C) Update equipment to increase technological capacity.

Financial

- A) Review quotations as to profit potential and downside risk.
- B) Approve change orders, amendments, revisions and insure that all additional costs are recognized and invoiced.
- C) Improve the leveraged position of the firm.

In addition to the recommendations just outlined, the adjustment plan evaluated the organizational structure, identified strengths and weaknesses and made recommendations for improvement.

After reviewing the diagnostic analysis and adjustment plan, Formative implemented several of the recommendations and set a timetable for several of the others.

Also, Formative retained the Midwest Trade Adjustment Assistance Center to do a market study.

The market study:

- A) Evaluated the defense, agricultural equipment, commercial aircraft, computing and office equipment markets and several others.
- B) Identified competition.
- C) Defined the size of each market and estimated the potential market share for Formative.

- D) Identified market entry requirements.
- E) Identified key contacts at several companies in each market.

In summary, the Trade Act Assistance Program responded over a two year period with three valuable documents; a diagnostic analysis, an adjustment plan and a market study.

IMPLEMENTATION

As each of the documents were issued, Formative was able to follow a majority of the recommendations. A major factor in Formative's ability to implement successfully was the ongoing assistance provided by the Midwest Trade Adjustment Assistance Center.

RESULTS

With the help of Trade Act Assistance, Formative Products has diversified, has improved its financial strength and has been able to compete with imports in its old markets. Examples of Formative's improvements are:

- A) Sales have increased to \$10,715,000 for fiscal year 1982, up 32%.
- B) Employment has increased to 138, up 18%.
- C) Increased marketing and improved efficiency of its chemical vapor deposition process. After three years in which sales were \$150,000 each year, sales in this division are expected to be greater than \$1,000,000 in fiscal year 1983.
- D) During the first nine months of fiscal year 1983, automotive related sales are expected to be 78% of sales, down from 95% in fiscal year 1980.
- E) The company has become a leader in manufacturing high technological machines, many of which contain robotics or flexible automation concepts. Examples of this include computerized gaging and checking fixtures, computerized balancing equipment and automatic transfer equipment.
- F) Finally, Formative has modernized its facility to include a computer aided multi-axis machining center.

ANALYSIS

Trade Adjustment Assistance is a valuable program. The key to this program is that it provides technical assistance as well as financial assistance. If Formative Products and similar companies were to try to get such assistance on the open market, the costs would be extremely prohibitive. However, as a result of Trade Adjustment Assistance, Formative was able to recover from damage by foreign competition, save jobs and fight back. Trade Adjustment Assistance works.

March 17, 1983

TESTIMONY OF

DOMENIC DIPAOLO, MANAGING DIRECTOR

LEATHERGOODS, HANDBAGS, PLASTICS, & NOVELTY WORKERS UNION

LOCAL #1, AFL-CIO

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TEL: 212-533-7700

Submitted to:

UNITED STATES SENATE

COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

WASHINGTON, D.C.

THE HONORABLE JOHN C. DANFORTH, CHAIRMAN

Mr. Chairman - Members of the Committee My name is Domenic DiPaola, Managing Director of the Leathergoods, Handbags, Plastics and Novelty Workers Union, Local #1, AFL-CIO.

I am appearing here today on behalf of the union membership and with the full support of my Executive Committee which consists of men and women who represent a complete cross-section of our handbag industry. An industry that includes many products such as reptile, leather, vinyl, fabric, metal findings, zippers, thread and glue.

Some 200 American manufacturers have labor contracts with our union. Our union contracts are with firms located from Rhode Island to Florida and Puerto Rico, and from New York to California; from the largest manufacturer doing over \$50 million dollars per year to shops doing less than \$1/4 million dollars per year.

Ten years ago, there were approximately 750 establishments producing handbags in the United States. Today there are approximately 400; a decline of almost 50%. Total employment is now estimated to be less than 20 thousand. Our international union membership dropped 44% from 18,000 to 10,000 in that same period of time.

The decline in U.S. handbag shipments, the decline in U.S. handbag producers, and the decline in U.S. handbag workers can only be attributed to the dramatic increase in handbag imports. Imports have gone from 40 million units in 1967 to an estimated 180 million units in 1982; a 455% increase! During that period of time, imports as a percentage of the domestic market has increased from 29% to 83%. And if 83% of the products come from overseas, 83% of the jobs have gone overseas!

When I started as a pocketbook framer almost 40 years ago, most of the workers in the handbag industry were either of Italian or Jewish decent. With the upward mobility of the minorities, most of our workers are now either Blacks or Hispanic. They too need the opportunity to advance.

The American handbag industry and its workers are down but not out. There might not be an American handbag industry today if it were not for the Trade Adjustment Assistance program. In the Metropolitan New York area, 21 handbag producing firms received financial assistance; perserving and creating thousands of jobs. More important, hundreds of firms have received technical assistance in the form of marketing, management, finance and production assistance to help them adjust to increasing import competition. In addition, these handbag firms have then been able to maintain their credit and have obtained additional private financing that would not have been provided if it weren't for the Metropolitan New York Trade Adjustment Assistance Center.

After EDA determined that imports were severely impacting the handbag industry, the National Handbag Association in conjunction with the Leathergoods, Handbag, Plastics and Novelty Workers Union, Local #1, AFL-CIO received a U.S. Department of Commerce grant to fund an "Industry - Wide Recovery Program". This grant was supplemented by cash and in kind contributions from both the industry and the union. This recovery program aimed at 5 specific goals:

- (1) Increased efficiency and productivity of the domestic industry through the design of a cost/price accounting system, providing a how-to manual distributed to all members of the industry.
- (2) Improvement of the product and design forecasting capabilities through the organization of a fashion oriented education program.
- (3) Development of a strategic marketing approach through an extensive market study on consumer and buyer attitudes including test marketing was performed throughout the United States and made available to all American manufacturers.
- (4) The development of a comprehensive export manual, which has significantly contributed to a 40% rise in handbag exports in the last four years.

- (5) The last but surely not the least important accomplishment was the establishment of a technical school in New York to train young talented people to design and make handbags. Only the influx of young people with new ideas and concepts can make our industry prosper.

Largely due to the success of this industry-wide recovery program, there is excitement and hope in the air. Hope for the industry and hope for its workers. But this hope continues to depend upon the Trade Act of 1974. Our firms and the industry needs the cooperation of government. We need infusions of technical know-how to secure and broaden our ability to compete with imports. Support by this Subcommittee to continue the Trade Act program is essential for the survival of this hundred year old industry. Union Local #1, of which I am proud to be associated as its Managing Director, is the second oldest labor union in the United States. We are 98 years young. We are asking you to help the industry help itself. Only through cooperative effort between labor, management and government can this industry turn itself around and provide, preserve and create meaningful long-term jobs for Americans.

The benefits received by the handbag industry through the Trade Act of 1974, are largely responsible for its survival in the United States and for the survival of its workers. The Trade Act of 1974 has given us hope. It has afforded the industry an opportunity to improve its competitive position through research and practical application of technical assistance. I believe a foundation has been carved out for the American handbag industry. We cannot let this momentum die. There would not be an American handbag industry today if it were not for the Trade Act of 1974.

Over 90% of the workers in this industry are minorities. They plead for your support; for the continuation and expansion of the Trade Adjustment Assistance program for firms and industries, because the Trade Act works.

The Trade Act of 1974 works. It works for industries and firms. The Trade Act requires that firms look after the best interests of the employees; and it works for the employees. Let's look again at the facts. In the past 15 years, handbag imports have increased (due to our "free trade" policy) 455%. During that same period of time, during which imports have garnered 33% of the U.S. market, approximately 50% of our handbag factories and approximately 50% of our handbag workforce have been eliminated. Although the American "free trade" policy has taken away a goodly piece of our business, the Trade Act of 1974 for industries and firms, as administered by the International Trade Administration, has now stabilized the surviving handbag industry. It has assisted them to diversify, find new markets and a niche where import competition will have little or no affect upon it. It has helped the firms become more efficient and therefore helped many firms create additional working capital within. The Trade Act of 1974 works.

Our workers totally support the continuation and expansion of the Trade Adjustment Assistance program for industries and firms. This program for industries and firms looks after the best interests of the American worker. The American worker does not want a hand out. It only wants a hand.

March 17, 1983

Statement of Daniel J. Fennell,
Secretary - Industrial Policy Council
Director - Mid-Atlantic Trade Adjustment Assistance Center
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Prepared for Presentation to The Committee on Finance
Subcommittee on International Trade
United States Senate
Washington, D.C.

Honorable John Danforth, Chairman International Trade Subcommittee

My name is Daniel J. Fennell. I am appearing today as Secretary of the Industrial Policy Council and as Director of the Mid-Atlantic Trade Adjustment Assistance Center (TAAC), one of thirteen such assistance centers, situated throughout the country, which work with an alarmingly large number of firms who have lost markets to imported products. Like the organizations which host other Trade Centers throughout the country, our parent organization, The Council for Labor and Industry, has specialized in business assistance and other economic development efforts for many years. The Council includes on its board, Presidents and officers of area colleges and universities, the President of the Pennsylvania-New Jersey-Delaware Chamber of Commerce, and the President of the Philadelphia Council, AFL-CIO.

I am speaking today on behalf of each of the Trade Centers which are listed, with the states which they serve, in an attachment to my prepared statement. I am also speaking on behalf of our clients and their employees, particularly those firms employing people, which have expressed support for the Trade Program, which are listed in another attachment to my prepared statement.

Page One.

Last year, in statements which were presented to Budget, Appropriations and Authorizing Committees of both Houses of the Congress and which were circulated among this Committee by Senators Heinz and Moynihan, we gave a report on the unusual effectiveness of the Trade Adjustment Assistance Program for Firms and Industries which was long overdue. We described a small program working among the 50,000 firms and 4,000,000 employees spread throughout the country in industry sectors impacted by imports. We pointed out that each state represented on the Congressional Committees had substantial numbers of firms that had received assistance or were candidates for assistance--Firms whose workers would be on the unemployment lines if business dropped much further.

In 130 pages of testimony for the record, we described the nature and results of Trade Act technical assistance to firms and the unique research and development projects which have been sponsored by the industry assistance program under Title II., Chapter 3, of the Trade Act of 1974. We did this because we believed then, as we do now, that the Trade Program has been essential to the recovery prospects of many firms, and that, moreover, the program deserves to be continued on its merits.

We urge you today to continue this useful program and to extend the authorization of the Trade Act beyond September 1983.

We are not here to testify against any of the President's efforts to revive the American economy and to put America back to work. We support the aims of the President's Economic Recovery Program. We are here to advocate TAA because we believe that the Program furthers these aims by assisting firms themselves to be more ably competitive in an

increasingly worldwide marketplace. We are perplexed that after adopting Trade Adjustment for Firms and Industries as an integral part of its economic program in its first budget year, the Administration has sought to eliminate it in the last two years. In the Budget Message of February 1, 1983, which was transmitted to the Congress by the President, it was proposed to eliminate the TAA Program for Firms and Industries by deferring expenditures of \$20,100,000 from fiscal year 1983 appropriations for the Program and, together with \$181,900,000 from the Economic Development Administration, to transfer these funds to the Small Business Administration, in order to meet the huge demands by banks for pay-offs of defaulted business loans guaranteed by the SBA. Although this 1983 deferral was disallowed by the House when it passed House Resolution 75 on March 3, 1983, it is useful to examine the rationale that has been provided for eliminating the Trade Program at this time in light of the actual performance and real cost of the Program. The reasons given for elimination now, which are similar to those supporting the 1983 Budget Message, are that: The Trade Act loan portfolio is weak, few firms have been helped to compete; the Program is inconsistent with the Government's move away from subsidy programs, and; the Administration would prefer to rely upon its Economic Recovery Program to deal with the real problems associated with Economic Adjustment.

This rationale fails to take notice of the substantial positive results from technical assistance and from the industry projects, nor does it accurately reflect either the nature or reach of the Program.

Loan Activity

We decry the magnitude of the "default rate" which the Commerce Department reports. However, the "default rate" is not reflective of what the Program has been doing in the last several years nor of the prospective government exposure on Trade Act loans. Moreover, the way in which "default" is defined for these reports should be made clear to the Committee.

Several particulars with respect to the overall loan portfolio, which is heavily weighted with loans before 1981 are useful to keep in mind:

- o I understand that Commerce has accounted all loans past due 10 days or more as "defaults".
- o One firm can be counted several times in the "default" calculation since loans to a single firm are tracked in "units" according to the applications (such as fixed assets or working capital) to which the loan proceeds were to be put.
- o Loans awarded by the Domestic Industry Business Administration (DIBA) before the Trade Act of 1974 are included among Trade Act loans in Commerce's "default" calculation, probably because the servicing of these loans was passed along to the Trade Act portfolio.
- o During its first years in EDA, the Trade Adjustment Assistance Program was treated primarily as a loan program for weak firms. Less than \$500,000 per year was appropriated for technical assistance which is now the linchpin of the Program and without which loans cannot be either reasonably protected or properly evaluated.
- o Fully one-third of the loans in the portfolio were closed before Trade Adjustment Assistance Centers (TAACS), which have become the principal deliverers of technical help to firms, began operating. A significant proportion of loans not yet closed had been preliminarily approved by EDA while TAAC's were starting up.

Loan Activity(Continued)

- o Congress built a high risk into the loan program by reserving its use to firms which could not obtain other financing. Although Section 255 of the Trade Act contained provisions for "reasonable assurance of repayment of the loan", this language was interpreted in the report of the Senate Finance Committee on the Trade Act (page 149) as follows: "The term 'reasonable assurance of repayment,' which refers to both direct and guaranteed loans, should not be taken to mean reasonable assurance in the strict banking or commercial sense because adjustment assistance loans are admittedly high risk loans." In the March 20, 1979, report on improvements to the Trade Adjustment Assistance Program, to accompany H.R. 1543, the House Ways and Means Committee urged the EDA not to require personal guarantees from recipients of Trade Act loans, even when the government had second or third lien positions on collateral.
- o EDA often referred loan cases which it would not consider under its other programs for Trade Act loans in the belief that TAA was established for such risks.

However, despite the fact that in its early years under EDA the TAA Program was treated principally as a loan program, that has not been its emphasis or experience under the International Trade Administration (ITA) where TAA has been an integrated recovery vehicle which ties assistance to systematic and effective adjustment steps.

Although it is interesting to review the origins of the Program, it is more important to examine the recent experience and activity of Trade Act loans in the light of what has happened in previous years, as a guide to decisions about the future.

Below I am including a table which displays the loans awarded to firms from the beginning of the Trade Program in 1975.

SUMMARY OF TRADE ACT LOANS THROUGH DECEMBER 31, 1982

<u>FY</u>	<u>NO. OF FIRMS RECEIVING LOANS</u>	<u>GUARANTEED \$ IN MILLIONS</u>	<u>DIRECT \$ (IN MILLIONS)</u>	<u>TOTAL LOAN \$ (IN MILLIONS)</u>
Thru 1978	97	43.345	62.339	105.684
1979	82	38.7	55.5	94.2
1980	67	30.0	42.0	72.0
1981	49	21.8	27.9	49.7
1982	12	16.7	2.5	19.2
1983(Dec 31)	1	--	.56	.56
TOTALS:	308	150.545	190.799	341.344

Several points regarding loans are clear from examining the table: in every year since fiscal year 1979, both the number of firms assisted by loans and the total loan dollars have declined; the loan activity since fiscal year 1982 has been negligible, accounting for 5.7% of the total loan dollars in the portfolio and 4.2% of the number of firms receiving loan assistance; thus far, in fiscal year 1983 there has been only one loan which has closed.

Furthermore, we should emphasize that Trade Act loans now constitute a comparatively small portion of the financing which is generated through the Program.

By far the largest number of firms who have received Trade Act assistance have not received Trade Act loans but have been able to reenter commercial capital markets.

I have attached to this statement an illustration of alternative financing which firms assisted by the Program have been able to receive and this does not include the results of all TAAC areas. In summary, the attachments show that approximately \$130,000,000 in financing has been obtained by firms working with the Trade Centers which has not come through the Trade Act. This amount of alternative financing does not include the much larger number of dollars which firms have been able to use because, through the Trade Program, they were able to maintain lines of credit and factoring relationships which would otherwise have been foreclosed to them.

In recent amendments to the Trade Act, the Congress has strengthened the Department of Commerce's ability to toughen its credit criteria and ITA has done precisely that. Clearly, the amount of loan exposure in recent years is extraordinarily small and the precipitous Government loan activity to which the Administration alludes is past history.

Firms Assisted to Compete

The loan default issue as a rationale for eliminating the Program is a strawman. In light of its concern with loan defaults, it is ironic that the Administration, through its deferral proposition, has proposed to transform "good" Trade Act money into "bad" SBA loans.

In counterpoint to the 308 firms that have received loan assistance there have been more than 2200 firms who have received assistance under the Trade Program. Less than 14% of these have been involved in the loan feature of the Program and since fiscal year 1981, less than 2% of the firms receiving Trade Act assistance have received loans under the Program.

For the record, we are providing case studies which demonstrate the kind of work that we have been doing for firms and more importantly the kind of work which firms, being able to identify resources that will assist in their redirection, have been doing for themselves. The Trade Adjustment Assistance Centers stand by that record and are seeing it extended every day. Today, I will not recite chapter and verse of these examples from all areas of the country. The point to which I do draw your attention, however, is that nearly 80% of the firms who have received assistance are still operating, competing and employing people.

As you know, many firms which have worked with us have not only reversed their employment losses but have added workers, as well. The Xonics Corporation in Des Plaines, Illinois, had dropped to 800 employees when it began working with the Mid-West TAAC in March 1980. Today, under the direction of its President, Mr. Syd Kulick, (who was not able to join us here today) the company employs 1300 people. This manufacturer of medical imaging equipment is projecting sales for this year of \$130,000,000, up from a low of \$80,000,000 just a few years ago. The Company has received substantial amounts of technical assistance and based on its performance and Adjustment Plan, has had an application for a heavily collateralized loan approved.

There is no other program in the country which is working for the Xonics' of America in the way that the Trade Program is. The engineering, marketing and productivity studies, and management information systems work being accomplished for firms through this Program is unique. And The industry side of the Program is achieving results far beyond the dollars which are spent. Particularly impressive have been the model programs, developed by Northwestern University's Science and Technology Center, for assisting the U.S. Consumer Electronics Industry; the computer-aided pattern grading service bureau for the Footwear Industry, developed by the New Enterprise Institute - which will aid that industry in gaining productivity efficiency and help it to respond more readily to rapid changes in style; and the assistance projects which are under way or being conceived for the Sportswear Manufacturers, Machine Tool Builders, Textile Machinery Manufacturers, and even the Robotics Industry.

The issue here is that the product of the program is effective adjustment not subsidy or compensation.

Cost Effectiveness vs. "Subsidy"

Jobs

You should be pleased that you have created a program that is cost-effective. In their fourth year of operation TAAC's worked with firms having an estimated total of 120,000 employees. The average cost per person of the technical assistance portion of the Program was \$150 - less than a week of unemployment compensation. The per-head cost, using the entire Program budget of \$27,500,000 as the total outlay (in fact, the budget was underspent and portions of it were for con-

tingency set-asides or not related to firm assistance at all) was \$229.00. There is not a jobs program in the country for a population anywhere near this size with costs that low. As we pointed out in the past, this is not only a business like response to business problems and a working response to workers' problems, but whereas other worker programs assist those who have already lost their jobs, this Program helps workers who have jobs to keep them.

Return on Investment

Just as notable, however, is a consideration of what the government gets back for this outlay. Setting aside the readjustments which firms are able to accomplish and their attendant contributions to local and regional economies, the employees alone make a significant contribution to the Federal tax base. Conservatively estimating an average annual wage of only \$10,000, these workers account for \$204,000,000 a year in Federal taxes and unemployment insurance. In one year alone this represents more than seven times the fiscal year 1983 budget for the Program, more than ten times the face amount of all loans made by the Program in calendar 1982, and 60 percent of all loans made between 1975 and 1982. If you wish to discount the tax estimate by half, the amount still exceeds the total of 1982 loans plus the fiscal year 1983 program budget by a whopping 330 percent. And these estimates do not include corporate taxes, state or local taxes or other employment-related revenues, nor do they include the compounding of these figures in successive yearly iterations.

We do not consider this a subsidy program in the way that term is generally applied. The majority of loans (guaranteed) are at prevailing rates; the technical assistance is cost-shared and unlike a traditional

jobs program or unemployment insurance, is offset by impressive tax returns.

We believe that for the number of firms and workers involved, the results achieved and the work still to be done that this has not been an expensive proposition. Notwithstanding this, a good deal more is necessary.

General Economic Recovery as an Alternative to TAA

Will Economic Activity Make TAA Unnecessary?

In contrast to assertion that general economic recovery can or should replace TAA, we submit that TAA has itself been and should remain a vehicle of general economic recovery. In an Article in the March 21, 1983, issue of Fortune Magazine entitled "How to Foil Protectionism," Walter Guzzardi, Jr., reports that "virtually every scholar of international trade" is convinced that achievements under GATT "would not have been possible without the TAA." By comparison to the alternatives without it, Guzzardi concludes that "TAA was cheap." The article goes on to advocate a serious Adjustment Program whose description, perhaps unbeknownst to him, parallels the targets and components of the TAA Program for Firms and Industries as it is today.

In opening I mentioned the wide dispersion of affected firms in states throughout the country. In the early days of the Program these firms were noticeably within "smoke-stack" industries which some have described as dying. That is no longer the case.

According to the National Planning Association, since 1979 the aggregate proportion of sales by U.S. firms in ten industries dropped from 79% to 51%. What is most dramatic about this seemingly unsurprising shift is that U.S. high-technology firms suffered a greater decline

Page Eleven.

than other U.S. firms.

As part of its response to trade imbalances, the Administration has proposed a new aggressiveness in exporting. Yet, by itself, exporting is not a sufficient and credible answer to the job loss and domestic industry unsettlement which has been created by imports. Recent declines in U.S. exports have contributed substantially to our current recession. In 1981, U.S. net manufacturing exports - historically a strong-point of U.S. Trade - fell a full \$7,000,000,000. In the first half of 1982, they dropped further still, finishing with an actual deficit of more than \$4,000,000,000. Although the Congress has responded with the Export Trading Company Act, which the International Trade Administration has called the single most important trade legislation in years, the U.S. Trade deficit will only be overcome if new initiatives and incentives are coupled with efforts to reposition those companies which can potentially produce for the economic market. And the time it may take to achieve this repositioning must be understood, because the factors contributing to the trade imbalance and attending economic dislocation seem to point away from rapid (some would even say foreseeable) recovery.

In an article entitled "Will The U.S. Become a Pauper Nation" in the February 28, 1983, issue of Forbes, Norman Gall, reporting on an interview with Martin Feldstein, Chairman of President Reagan's Council of Economic Advisors, points out that the U.S. is not only importing goods on a "grand scale" but Capital as well. From 1976 onward, the U.S. has experienced the longest consecutive streak of merchandise trade deficits since 1831-1839, when we were importing capital goods to build the Country. Feldstein estimates the magnitude of these

deficits - projected to reach \$75 billion in 1983 - will create a "lopsided" recovery, keeping trade dependent firms "relatively depressed". Feldstein foresees that "the rise in the trade deficit is also likely to reflect a higher level of imports, thereby slowing recovery among U.S. firms that compete with imports from abroad."

Twenty years ago the U.S. outspent both Japan and West Germany, its two leading international competitors, nearly four to one in real dollars for plant and equipment per manufacturing employee. Today the U.S. trails both of these countries in percent of GNP for capital formation, and Martin Feldstein does not expect any improvement. In Forbes, Feldstein says that "Deficits at current projected levels could reduce the rate of net investment in plant and equipment enough to preclude any increase in capital per worker. If this occurred, the process of increasing capital intensity would stop contributing to raising productivity and wages."

Clearly, the proposition that general economic recovery will be a more effective aid to import-impacted firms than the TAA Program has been or its continuation is expected to be, cannot be supported either by recent trade activity, projected trends or the Administration's own estimates of the situation.

Does TAA Artificially Interfere with Evolution of a Mixed Economy?

I have heard it said with some frequency that the service industry will take up our jobs slack, or that, in an updated version of the theory of comparative advantage, it is of little consequence if our basic industries constrict, atrophy, or die, because new high-technology industries will emerge to sustain the economy and maintain

leadership in "knowledge"fields.

It is now clear that the U.S. is competitively challenged on almost every front and preeminence in any field is a tenuous proposition - especially if there is no public/private partnership involved in achieving or in maintaining it.

The machine tool industry, for example, was, until 1977, a net exporter of metal cutting and metal forming equipment, believed to be the finest in the world. The precision and efficiency of its tools was considered one of the reasons for the industrial strength of the U.S. In 1977, however, imports overtook exports, and by 1979 had captured more than 22% of the U.S. market. As the recession slowed production and capital equipment outlays among its customers, machine tools, a "lagging industry" in regard to plant capacity, was retarded in its efforts to adjust.

Now, at a time when the U.S. Computer Industry's leadership may be only as great as the development of the next silicon chip, the U.S. faces competitors who became positioned because they were able to stabilize their basic industries and are continuing to do so.

Industry Week has asked how long it will be before the computer industry and its high-technology counterparts are in the same boat as machine tools, steel, auto, textiles, apparel, or any number of other

U.S. Industries.

The shift to a service industry base in the U.S., the theory of Comparative Advantage, and the U.S. attachment to "Free Trade" do not automatically produce answers to what productive capacity we should seek to maintain as a nation or the degree to which workers can be integrated in a "New" Economy during their productive lifetimes. Although, historically the U.S. has recognized the need of government to respond to macro-economic events in the national interest especially when the phenomena with which it is faced are features of the national policy of "competitor" countries, public-policy makers have been generally averse to picking "winners" and "losers" in a free enterprise system. Other countries have not been similarly averse to doing this. The Japanese, for example, have identified industries which have lost their competitive edge because of high energy costs or cheaper labor in newly industrialized countries, and have labelled these as "declining" industries. What distinguishes Japanese policy, however, is government help in shifting resources from ailing industries to healthy ones, eliminating capacity, and stabilizing a smaller number of companies in an industry so they do not eviscerate one another over smaller markets. The government accomplishes this by giving financial assistance, tax relief, and, in some cases, anti-monopoly exemptions to form long-term cartels.

The Japanese policy is completely consistent with that government's economic pragmatism in protecting its domestic industries from foreign incursions and supporting trading networks by a variety of means.

Japan's success has been attributed to a productive workforce and superior management. But Japanese manufacturers' export success is

equally the result of the government's political treatment of industrial growth and foreign trade.

In this Country, such steps by the government would be clearly seen as a dangerous encroachment. The elements of the TAA Program for Firms and Industries, however, provide a mechanism which relieves our government from having to make distasteful and painful choices about "winners" and "losers", while at the same time, it provides the resources for firms and industries to undertake strategic evaluation of competitive market forces, on their own.

Through this Program, firms can research their markets, find out what their customers are ready to buy and then sell a product which is manufactured according to the latest technology and, sometimes, in new or refitted plants.

Continuing Need for TAA

Unless the United States Congress is prepared to allow important sectors of our industrial economy to slip away in unsettling convulsions, it must recognize that the machine tool industry, and others like it need time for their adjustment. They also need help, and a model for the kind of help that is possible is the Trade Adjustment Assistance Program for Firms and Industries which the President of the National Machine Tool Builders Association, Mr. James A. Gray, singled out in a recent editorial in National Metal Marketing as a resource which could contribute to repositioning his industry.

The loan feature of this Program has been heavily criticized and we have tried to contribute perspective on that issue. However, we should include an observation now being made by business leaders in an increasing number of forums.

"...if you can't borrow money because of today's interest rates and if you can't raise equity capital because the return is too low -- then how can you modernize your factories to improve your competitiveness during any breathing spell...", asks James A. Gray, in his American Metal Marketing editorial - "Perhaps you can't," he answers, "unless the government, because of the implications of our national security, takes the bull by the horns and makes capital available."

Another business leader, Mr. Malcolm Hopkins, Vice-Chairman, Chief Financial Officer and Director of St. Regis Paper Company, wrote in Business Week's October 25, 1982, issue that -

"Since the ability to finance on a long-term basis has all but vanished - perhaps forever-and rates have been too high to encourage extensive intermediate financing, companies are simply refusing to participate at all in capital markets. This means that basic industries have decided not to raise capital, not to expand, not to modernize, not to produce new products, not to provide new jobs."

Mr. Hopkins concluded that: "As reluctant as U.S. corporate leadership is to have government intrude in the workings of the free market-and I share this reluctance-I think we must acknowledge the need for Washington to assist in the resuscitation of our basic industries."

Clearly, Mr. Chairman, we believe that Trade Adjustment Assistance is an important instrument of National Economic Policy. Not only would it be folly to abandon a program which has developed so well and cost so little, but at this time in our national life, the Program needs to be strengthened, even expanded.

I have enclosed with my statement a brief overview of projected employment changes due to imports within selected industry sectors. This is part of a preliminary summary of an examination of the most severely import-injured U.S. industry sectors, which is being conducted by Associated Research Analysis Corporation, a private consulting firm. The summary projects job losses of more than 130,000 from 1982-1984 in only five of the industries which were examined. Each of these five industry subsectors have firms or workers certified under the Trade Act or have had an increased import penetration ratio: Primary Metals, Fabricated Metals, Machinery, except Electrical; Electrical and Electronic Machinery; Measuring and Controlling Instruments.

Numerous other sectors, such as Footwear, Apparel, Textiles, Handbags, Handmade Gloves, and Leather Products - which have already experienced and will continue to experience huge impact from imports, are not included in this overview.

The figures on job loss and business decline are enough to spur extreme protectionist sentiments. We think that a "fair trade" and adjustment assistance alternative can be both credible and effective.

Improvements in the Trade Program

Even without expansion, the present Program can be improved by judicious amendment of the Trade Act of 1974. As your committee evaluates the provisions and purposes of The Act in regard to Trade Adjustment Assistance, we would like to provide you with some recommendations for change.

Here, I would like to mention a few of these areas:

I. Eligibility for Assistance

- A. Certification of Eligibility for Assistance is now limited to firms who have already lost sales or production and employment. This is one of the reasons for earlier loan losses. If one objective of Adjustment Assistance is to compete in the worldwide marketplace, then we should be able to work with companies in "assaulted industries" before they have suffered too great a decline.
- B. Similarly, we should be able to continue working with firms even though imports have not increased absolutely, as long as imports continue to occupy a major portion of the market. Presently, for example, we cannot get mushroom firms certified for eligibility since mushroom imports have not absolutely increased in the last two years - although the industry is devastated.
- C. Firms which have had a major decline in sales of a critical product line - in either domestic or export sales - should be eligible, even though aggregate sales for the company may have improved. For example, a firm in Baltimore has had a precipitous decline in its OEM (Original Equipment Manufacturer) sales to domestic auto manufacturers. This one item represents 30% of its aggregate sales and 100% of all OEM sales. However, overall sales

have picked up slightly. Yet, at a time when domestic auto content legislation is being considered in the Congress, we cannot help a domestic content manufacturer.

II. Linkage to the SBA

- A. Under Section 256, consideration should be given to reversing the Secretary of Commerce's power to delegate all functions except certification to the SBA; so that the SBA could be delegated as a referral agent or even a certification agent from which the Trade Program would gain participating firms. SBA should not be delegated technical assistance functions under the Trade Act.

III. Information About and Promotion of the Program

- A. Section 264 requires the Secretary of Commerce to study the likely impact on domestic firms from import problems being investigated by the ITC under Section 201. Section 264(A)(2) requires the Secretary to determine the extent to which orderly adjustment of firms to the import competition being assessed by the ITC can be facilitated through existing programs that can be responsive to these problems. Right now there is no mechanism which links the trade program to the ITC. Section 264C requires that whenever the ITC makes an affirmative finding under Section 201B that increased imports are a substantial cause of serious

injury or threat thereof with respect to that industry, the Secretary of Commerce is obligated to inform firms in such an industry about which programs facilitate the orderly adjustment to import competition, as well as who provides assistance to such firms.

A more active promotion of the Program, coordinating it with other resources would enhance it.

Thank you, Mr. Chairman - I appreciate your interest and urge your support.

Summary of Alternative Financing Generated as a Result of Assistance from the Trade Adjustment Assistance Centers (TAAC) 0

TAAC	FY-79 and FY-80		FY-81		FY-82		FY-83(as of 1/31/83)		Total		
	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount	Number of Firms	Amount	Number of Firms*	Amount	Number of These Firms Still in Business*
New York State	-0-	\$ -0-	1	\$ 60,000	6	\$ 3,800,000	1	\$1,000,000	8	\$ 4,860,000	8
Mid-America	1	2,000,000	-0-	-0-	2	2,400,000	-0-	-0-	3	4,400,000	3
New England	6	4,565,000	15	35,900,000	20	30,680,000	-0-	-0-	41	71,145,000	37
Western	9	2,796,000	5	2,800,000	1	100,000	1	20,000	10	5,716,000	9
Northwest	1	4,000,000	8	4,840,000	2	100,000	2	600,000	13	9,540,000	13
Southeastern	1	1,500,000	5	795,000	1	15,000	-0-	-0-	7	2,310,000	7
Mid-Atlantic	3	349,000	11	4,082,000	1	250,000	1	500,000	16	5,181,000	12
Rocky Mountain	N/A	N/A	N/A	N/A	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Metro New York	13	3,780,000	14	6,990,000	17	8,240,000	4	1,990,000	21	21,000,000	19
New Jersey	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Mid-West	-0-	-0-	1	1,000,000	2	535,000	1	2,700,000	4	4,235,000	4
TOTAL	34	\$18,990,000	60	\$56,467,000	52	\$46,120,000	10	\$6,810,000	123	\$128,337,000	112

*Each firm counted only once

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms*	\$ Gov. Share	No. of Firms still in business (1/31/83)
Connecticut	23	45,939	16	36,881	11	73,852	23	155,586	65	312,253	59
Maine	13	5,048	10	4,676	7	32,669	10	129,217	28	171,610	28
Massachusetts	98	44,216	56	73,804	47	141,647	102	664,203	247	923,870	233
New Hampshire	20	28,022	29	49,385	16	353,009	11	80,280	53	510,696	47
Rhode Island	11	12,139	13	20,363	5	8,838	12	108,380	33	149,720	33
Vermont	2	1,573	3	9,044	6	22,790	11	154,759	15	180,066	14
New York	185	476,198	77	299,429	103	800,023	36	427,179	197	1,892,829	180
New Jersey	42	97,818	54	233,423	54	219,098	31	137,841	63	688,180	45
Pennsylvania	123	190,000	99	510,300	69	265,000	48	582,000	180	1,547,300	159
West Virginia	24	56,350	5	37,100	3	5,000	4	25,000	26	123,450	15
Maryland	20	20,000	12	21,700	13	23,300	10	90,000	49	155,000	45
Virginia	11	26,500	12	19,000	4	24,400	6	16,700	22	86,600	21
Delaware	-	-	1	100	1	300	2	3,000	4	3,400	4
Mississippi	12	13,135	9	25,335	8	15,284	11	55,580	36	109,335	25
Georgia	28	14,041	30	72,404	34	163,505	19	92,530	83	342,480	68
South Carolina	12	5,663	16	69,234	11	12,458	15	74,554	44	161,910	32
Florida	28	62,239	16	53,999	31	165,496	20	148,111	72	429,845	54

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms *	\$ Gov. Share	No. of Firms still in business (1/31/83)
Kentucky	18	148,717	4	4,949	7	21,878	9	46,592	33	222,137	26
Tennessee	25	31,825	23	63,257	14	124,790	19	92,530	67	312,403	52
Alabama	8	9,120	14	62,974	11	10,301	14	70,756	31	153,150	22
North Carolina	26	64,961	12	160,304	26	52,049	25	127,038	73	404,353	51
Illinois	9	134,084	9	220,477	12	189,312	11	202,693	41	746,566	37
Indiana	6	71,095	4	85,457	8	191,178	15	344,896	33	692,626	30
Iowa	4	13,000	5	19,147	2	3,957	2	19,280	9	55,384	6
Michigan	1	10,829	6	85,623	7	171,366	16	274,980	30	542,798	28
Minnesota	5	49,365	4	49,687	1	9,508	1	10,591	11	119,151	9
Ohio	7	77,433	6	127,495	8	111,828	12	230,396	33	547,152	29
Wisconsin	3	29,882	4	52,997	5	42,421	3	142,475	15	267,775	14
N. Dakota	-	-	-	-	4	52,800	4	50,000	6	102,800	6
S. Dakota	-	-	-	-	2	25,800	3	50,000	4	75,000	4
Nebraska	-	-	2	838	4	38,300	5	90,000	10	128,300	9
Arkansas	11	11,000	6	45,000	4	13,500	4	9,800	15	79,300	11
Missouri	13	65,000	16	150,700	11	117,900	14	40,000	32	373,600	28
Louisiana	2	1,000	6	3,000	2	500	6	4,000	14	8,500	12
Puerto Rico	6	10,000	16	31,000	18	60,000	28	140,000	46	250,000	31

SUMMARY OF TRADE ADJUSTMENT TECHNICAL ASSISTANCE BY STATE

State	FY - 79 & FY - 80		FY - 81		FY - 82		FY - 83 (est.)		Total		
	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms	\$ Gov. Share	No. of Firms*	\$ Gov. Share	No. of Firms still in business (1/31/83)
Oklahoma	5	28,100	5	22,700	2	4,100	2	7,000	8	61,900	5
Texas	13	25,200	16	76,400	24	58,500	14	45,000	51	205,100	41
Kansas	3	2,500	2	1,100	5	12,000	2	15,000	7	30,600	6
Colorado	5	36,000	7	53,000	8	16,000	1	25	12	105,000	10
New Mexico	3	9,000	2	2,300	3	9,500	2	3,000	6	23,800	5
Wyoming	0	0	2	4,700	1	217	0	0	2	4,917	2
California	76	997,173	52	666,346	46	599,983	60	600,000	206	2,881,777	183
Nevada	0	0	2	10,000	3	10,879	4	80,000	6	62,876	4
Utah	1	10,000	2	5,454	2	20,323	5	100,000	1	135,777	4
Hawaii	1	15,000	3	13,962	8	57,310	11	110,000	19	196,047	13
Arizona	2	20,000	3	10,175	2	10,660	4	40,000	8	75,835	4
Montana	4	16,000	1	20,000	10	44,818	19	109,515	20	190,333	11
Oregon	10	57,500	13	38,000	22	69,309	32	389,000	46	553,809	32
Alaska	0	0	0	0	1	788	8	97,000	7	97,788	1
Washington	48	225,000	27	128,000	45	307,773	30	365,000	105	1,025,778	82
Idaho	0	0	1	7,000	3	18,890	16	195,000	16	220,890	7
Total	967	\$3,267,665	733	\$3,758,219	754	\$4,805,107	772	\$7,046,487	2,240	\$18,741,766	1,877

* Each firm counted only once

PROJECTED CHANGE IN EMPLOYMENT 1982-1984 WITHIN FIVE INDUSTRY SECTORS

SIC	Description	Value of Imports Year Ending 2nd Qtr. 1982 (Millions)	Pct. Change In Imports Year Ending 2nd Qtr. 1980 to Year Ending 2nd Qtr. 1982	Projected Change in Employment Year Ending 2nd Qtr. 1982 to Year Ending 2nd Qtr. 1984	
				Jobs Lost	Jobs Gained
33	Primary Metals Industries	\$19,400	12.5%	102,700	6,000
34	Fabricated Metal Products	5,004	18.6	91,000	6,700
35	Non-Electrical Machinery	16,964	19.0	121,300	115,400
36	Electrical and Electronic Machinery	18,376	37.4	108,100	116,200
38	Measuring and Controlling Instru.	5,526	29.8	8,400	55,700
	TOTAL	\$65,270	22.3%	431,600	300,000
	Net Jobs Lost	-	-	131,600	

MAJOR FINDINGS

- Of 113 sub-sectors analyzed, 87 had employment declines from 1980 - 1982 totalling 907,300 jobs; and 72 sub-sectors are projected to have additional employment losses totalling 431,600 jobs by 1984.
- Of 17 sub-sectors analyzed within the Primary Metals Industry, 13 sub-sectors are projected to have a 102,700 job loss by 1984.
- Of 22 sub-sectors analyzed within the Fabricated Metals Industry, 17 sub-sectors are projected to have a 91,100 job loss by 1984.
- Of the 32 sub-sectors analyzed within the Non-Electrical Machinery Industry, 19 sub-sectors are projected to have a 121,300 job loss by 1984.
- Of 31 sub-sectors analyzed within the Electrical and Electronic Industry, 20 sub-sectors are projected to have a 108,100 job loss by 1984.
- Of 11 sub-sectors analyzed within the Measuring and Controlling Instruments Industry, 3 sub-sectors are projected to have a 8,400 job loss by 1984.
- Twenty six of the 113 sub-sectors analyzed are projected to have a 300,000 job gain by 1984. This offsets the 431,600 projected job loss, and results in a 131,600 net job loss for all 113 sub-sectors.

EMPLOYMENT PROJECTIONS

- Employment projections for this overview are based on an analysis of the level of employment trends for the 1976 - 1982 period.
- Employment projections presented do not take into account a number of other variables that have an effect on employment, including domestic economic conditions.
- The employment impact identified in the overview focuses on one of several factors effecting employment.
- The overview provides an indication of the magnitude of the potential aggregate employment impact in these industry sectors.

Mr. FENNELL. Mr. Chairman, I am appearing today not only as secretary of the Industrial Policy Council, but as the director of the Mid-Atlantic Trade Adjustment Assistance Program. That is a center, one of 13 that are located throughout the country that, in fact, work with firms everyday throughout the year, day in and day out, sometimes on weekends and a good deal afterhours, on the kinds of problems they are facing through the alarmingly large increase in imports, and the enormous problems that that proposes, not only for the continuation of their business, but their workers as well.

I have listened to Mr. Lyle Ryter and his description of why we shouldn't have this program, and although I have a good deal of respect for Lyle and I admire him, I would like to submit a number of things.

The first thing is that the rationale for doing away with the program because of the loan default rate is a strawman. Mr. Williams has pointed out that those decisions on the loans that Mr. Ryter was reporting on were made several years ago. I would merely like to draw your attention to what is happening now. Out of 308 loans that have been granted over the course of the history of the program, less than 5 percent of those have been given in the last 2 years. We are not talking about yesterday or the day before or breast beating because the administration might turn around and deny us a program. We are talking about adjustments that have already been made in the administration of the program. Decided 58 percent of loan defaults in direct loans. There have only been one or two direct loans in the last 2 years. There was \$2½ million in direct loans in 1982. There is less than \$1 million in 1983. There was no loan at all in 1983. And every year since 1979, both the number of firms receiving loans and the number of loan dollars has decreased to the point where it is almost nonexistent now.

On the other hand, there is a great deal of financial assistance that is given through this program that doesn't come through the Trade Act financial sources at all. Over \$130 million in private financing has been obtained through the services of the trade centers working with those firms. We go out and they are frustrated. They are not only frustrated because of the imports that they are facing, but they are frustrated by having to come to the Government; by having to go in through the procedures that they have to submit themselves to; by having to submit to the 2-year delays that Mr. Ryter referred to. And we provide an alternative in many cases.

The Trade Act does something unique that is provided by no other program in this country. Not only a Government-sponsored program, but no other privately available program. And that is that we sit down with a firm as both an advocate of the firm and an objective reporter to that firm. We are not a consultant in the sense of trying to get additional business. We are consultants to that firm in the sense of telling that firm, look, here is where you are; here is where your markets may or may not be; here are the facts of life; and if you can't make it because the resources necessary to make it aren't available to you and because you don't have the management then we are not going to go forward with you. But if you can, by goodness, we are going to get in there and we are

going to advocate for you and we are going to help you do it in every way that we possibly can.

Mr. Chairman, that's what the trade adjustment assistance program is all about. That's what it has been about for 2,200 firms and more. And less than 2 percent of those firms have received loans in the last 2 years. It just isn't there as a reason for doing away with the program.

On the other hand, the reasons for keeping the program are substantial. And just to focus on the cost effectiveness situation in relation to the testimony presented to my right, you really have created through the Congress an effective and efficient program. In the 4th year of operations, the trade centers worked with firms that employed over 120,000 employees. The average cost per person of the technical assistance portion of the firm was \$150. If you took the whole program budget, which is unfair to do because it was underspent and spent for other purposes as well, it is \$229. There isn't a jobs program in this country, even though this wasn't created principally as a jobs program, with costs that are low for any population near that size. And I would like to submit to you that this is a program that doesn't work with workers who have already lost their jobs, but it works on behalf of workers who have jobs and to keep them.

Thank you very much.

Senator DANFORTH. Thank you very much.

Senator Heinz.

Senator HEINZ. Mr. Chairman, thank you.

Mr. Ryter, why do you want to abolish the technical assistance part of the trade adjustment program for firms?

Mr. RYTER. Senator, as the program is currently constituted—I know it's difficult to look at the program without working with the statistics every day—in fact, of those firms that enter into the program and get preliminary help to apply for certification under the program, something like 60 percent drop out between the time that they get their certificate and the time they go on for additional assistance. The justification for the retention of the TAACS has within it an inflated estimate of these issued but unused certifications.

The technical assistance has been very helpful where trade centers have been able to deliver it in a timely fashion. The program itself, I would characterize, has not been able to deliver those services in a timely fashion. In fact, the statistics of the manning of the trade adjustments assistance centers has been significantly low over the past 2 or 3 years so that they were never able really to deliver to a significant number of companies over time in proportion to the funds that they received from the Government.

Senator HEINZ. As I understand it, they didn't receive the funds they were supposed to receive from the Government. But let me ask you this. You mentioned a 60-percent figure. Is that right?

Mr. RYTER. Approximately 60 percent that never utilizes certification.

Senator HEINZ. Is that a strike against the program or is that something in favor of the program? Why do you characterize that as bad?

Mr. RYTER. Senator, if there is a promise of assistance, it should be result in more than a piece of paper or certificate. The history of the program is that of a program which was conceived during the Kennedy rounds, was renewed in 1974, and has been strictly used for one or two—a vory small number of industries, in particular, textiles and apparel. Today those types of firms were the most difficult ones to assist in any process itself. The administration believes that we have the programs to aid small and medium sized businesses in the Small Business Administration; we have the Minority Business Development Agency and their moneys and their outreach in technical assistance. The feeling is that this trade specific legislation really isn't any longer needed.

Senator HEINZ. I won't reiterate to you my and I think the chairman's philosophy as to why trade impacted firms deserve special consideration. But let me ask Mr. Williams or my constituent, Mr. Fennell, how they would respond to Mr. Ryter's so-called justification here.

Mr. WILLIAMS. I think that the way the program is now administered when after a firm is certified it gets a diagnostic study, and that diagnostic study is required. Now many firms have been so hard hurt by imports that there is nothing that can be done for them or they just don't have the management and so we don't help them. They don't go onto other technical assistance. It's only the ones where the diagnostic study shows that they have a chance of making it and can benefit from the help that get it. As you say, that's something in support of the program.

Senator HEINZ. For the most part, those 60 percent who came limping in the door were dieing of their wounds and no amount of first aid was going to help them.

Mr. WILLIAMS. That would be substantially so.

Mr. FENNELL. That's one factor, Senator. Mr. Ryter submits in his testimony on pages 6 and 7 reasons for the default—weaknesses in firms. I would submit to you two things. One is that at the time that the majority of these firms received the loans there was not a technical assistance program in effect. There was under \$500,000 appropriated in the first few years of this program. The contribution that technical assistance makes is twofold. One is what Mr. Williams just alluded to. And that is we look at a firm and we tell them realistically what their prospects are. Sometimes that pops their bubble. That doesn't necessarily mean they can't do anything. It means that there may be a different pathway that they need to take, and they need to limit their search for resources along that pathway. And it may very often happen that when we complete our diagnostic analysis and provide the recommendations of that analysis that that is sufficient for a firm. It has provided them with more insight than they have had in a long time.

There are certain firms that we will just say: "We not only can't help you, but we suggest that you reevaluate your whole position." There have been some firms, for instance, with whom we have worked in acquisitions and mergers.

Senator HEINZ. Time is going to run out on us. Let me just ask you another quick question. In view of the fact that the direct loan and guaranteed loan programs were utilized hardly at all—13 in-

stances of them in 1982 and fiscal 1983 first quarter—should we retain those two programs?

Mr. FENNELL. Mr. Heinz, I think the loan feature of the program constitutes a very important adjunct in the program. It is absolutely essential that it be put in a secondary position to an adjustment plan. That it be viewed only a resource for carrying out realistic steps in that plan. But there still remains firms that are capital poor, and even need this to get over a hump. And we have evaluated that they have a pretty good opportunity to do that or they need the funds to leverage other funds. For instance, we use a \$500,000 loan to leverage \$17½ million in financing, \$12½ million of which was from private sources, and only \$3 million of which was from commercial sources.

Senator HEINZ. Mr. Chairman, thank you.

Senator DANFORTH. Thank you.

Gentlemen, thank you very much.

[Whereupon, at 4:26 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

U. S. Senator Howard M.

METZENBAUM

of Ohio

Committees:
Budget
Energy and Natural Resources
Human Resources
Judiciary

CONTACT: Douglas Lowenstein

202-224-2315

STATEMENT BY SENATOR HOWARD M. METZENBAUM

ON TRADE LEGISLATION INTRODUCED

March 17, 1983

Mr. President, 1982 was a tortuous and painful year for Americans who believe in a free international trading environment. Faced with a mounting trade deficit, especially with Japan, Congress has increasingly focused on the need to enact new laws that more effectively deal with the new realities of international trade.

The United States has been slow to respond to the new trade order. Both the Carter and Reagan administrations have preferred bilateral and multilateral talks to protect American industry and workers from unfair trading practices. But this quiet diplomacy has been only moderately successful. Serious problems remain and it is clear that Congress must intervene.

-- Our trading partners still routinely subsidize their goods to gain advantages selling abroad;

-- The Congress has virtually ceded its constitutional role in setting trade policy to the President;

-- World currencies are woefully out of balance, particularly the value of the U.S. dollar versus the Japanese yen, and there is no effective international system to establish and then maintain currency equilibrium.

Finally, American workers who lose their jobs as a result of imports are left drifting in a no man's land of diminished opportunity.

Over the last year, Congress has examined bills to make America competitive again. While some of these proposals have merit, none offers a comprehensive solution to our trade woes. Accordingly, I am introducing two bills that I hope will advance the search for solutions.

One measure would for the first time create a program which would truly lead to the retraining of millions of workers in trade impacted industries.

Earlier trade adjustment assistance programs helped these workers but did not lead to substantial retraining. This proposal has several new features that distinguish it from the current program.

First, it would earmark one-third of all tariff revenues to be placed into a retraining trust fund administered by the Department of Labor. This approach clearly establishes the principle that those who are causing industry dislocation, the importers, should pay for the cost of readjustment.

Second, the bill would require individuals to enter qualified retraining programs in order to be eligible for assistance. Individuals who do not begin job retraining will not receive any funds under this program.

Participants would be eligible for two years of retraining and would also receive subsistence funds equal to their unemployment

compensation levels for the entire period that they are engaged in retraining. This money would be drawn from the trust fund, not the unemployment insurance fund.

Assuming that it would cost \$15,000 per worker per year for retraining and subsistence, this bill would assist 200,000 workers in the first year alone.

Workers would be certified for the program if the industry in which they work has won a positive finding from the International Trade Commission (ITC) under section 201, regardless of whether the ITC relief is implemented, or through a firm by firm certification with the Department of Labor.

Rather than create a new bureaucracy to determine qualified retraining programs, the bill would rely on the private industry councils created by the Job Partnership and Training Act to accredit retraining programs. JPTA already requires them to perform this function.

The bill would encourage industries to relocate to trade impacted areas by authorizing the trust fund to pay the costs of retraining programs required by the company. This incentive will hopefully help create jobs for those individuals going through retraining.

The second measure would amend section 201 of the Trade Act of 1974 by lowering the threshold test triggering an International Trade Commission determination of serious injury.

Currently, the ITC must find that imports are the "substantial cause" of serious injury to an industry. It defines substantial cause as "a cause no less than any other cause." Using this standard, the ITC has recommended relief in 23 of 46 cases. In nine cases, it failed to find that imports were the substantial cause of injury, including the celebrated automobile case.

In fact, the auto case highlights the problem with "substantial cause." The ITC found that the domestic industry was suffering serious injury from imports. But it also found that the recession was a greater cause of distress. Thus, it could not recommend relief, even though it clearly believed that imports were hurting the industry.

Today, our laws set a tougher standard for proving that imports have injured an industry than that required under article 19 of the GATT code. I think it is unrealistic, unfair and unnecessary to have a sterner test than required under international trading codes.

Thus, my bill would change "substantial cause" to "considerable cause" and define that phrase as "a cause which is important but not necessarily the most important cause of serious injury." Such a change will make it marginally easier for some industries, such as the auto industry, to successfully petition the ITC for relief. Second, it will offer a way to assist an industry without violating GATT standards.

A second feature of the bill involves the implementation of positive ITC findings. Since 1975, the ITC has recommended relief in 23 cases, but the President has accepted those recommendations only nine times. While Congress has the discretionary authority to review negative presidential findings, in practice, it does not do so. Thus, Congress has effectively ceded to the President the authority to set national trade policy.

Under my bill, Congress would reassert its constitutional role in making trade policy. It would, in effect, give more weight to positive ITC findings of injury. The President would be required to notify Congress if he disapproves an affirmative ITC finding. Congress would have ninety days to review the issue. Unless Congress adopts a resolution concurring with the President's negative decision, the ITC recommendations would

be implemented. The bill retains presidential authority to repeal or modify relief once it is instituted if foreign policy or other considerations compel a re-evaluation of the matter.

I believe this provision will force Congress to reassert a more active role in trade policy.

The final feature of this measure is a new mechanism for Congress to warn trading partners of its dissatisfaction with their conduct. It would allow Congress to "shoot across the bow" of trading partners, providing an outlet to express its anger over a particular policy of a foreign country.

My bill would give the Senate Finance and House Ways and Means Committees the power to initiate section 301 complaints. Such complaints would automatically go to the GATT, triggering the formal dispute settlement procedures in that forum. It is true that many have given up on the GATT as an effective policeman of our world trading system. But a GATT complaint, I believe, can still be a powerful inducement to an offending country to correct its ways, particularly if that complaint has been initiated by Congress. Implicit in such an action would be the threat of more punitive measures should the country fail to reform.

These bills are not final answers to our trade problems. Legislation is urgently needed to promote U.S. exports and to forge a more direct link between monetary and trade policy. But I believe these two proposals suggest some responsible, effective options that may provide some relief without prompting disastrous retaliation.

HIGHLIGHTS OF "THE FAIR TRADE IMPROVEMENTS ACT"

*THRESHOLD TEST TRIGGERING AN ITC DETERMINATION OF INJURY

Under Section 201 of the Trade Act of 1974, the ITC must find that imports are the "substantial cause" of serious injury before recommending relief. This "substantial cause" test is defined as a "cause no less important than any other cause." Using this stringent standard, the ITC recommended relief in only 23 of the 46 cases it has considered since 1975.

This bill would change this standard to "considerable cause," defined as "a cause which is important but not necessarily more important than any other cause." This change will make it marginally easier for some deserving industries to successfully petition for relief and it is consistent with the protection a country can currently provide a domestic industry under Article XIX of the General Agreements on Tariffs and Trade.

*IMPLEMENTATION OF ITC FINDINGS

Currently, the President can accept, reject or ignore an ITC decision. Congress may override this negative determination if it chooses. Of the 23 cases where the ITC recommended relief, Presidents have rejected these findings in all but nine cases. Congress has never exercised its override discretion.

This bill would require a finding of injury and a recommendation for relief to go into effect unless the presidential decision against relief was upheld through a Congressional Concurrent Resolution. This change will provide the forcing mechanism needed to make ITC determination of injury meaningful.

*CONGRESSIONAL ROLE IN ELIMINATING UNFAIR FOREIGN TRADE BARRIERS

Section 301 of the Trade Act of 1974, and subsequent amendments to it in 1974, grant the President broad power to take "all appropriate action," including retaliation, necessary

necessary to obtain removal of foreign trade barriers. Under this provision, the U.S. Trade Representative is granted broad authority to quash 301 cases. As a result, this section has had little impact on U.S. trade policy.

This bill would provide specific authority to the Senate Finance Committee and the House Ways and Means Committee to initiate Section 301 complaints with the United States Trade Representative. Furthermore, the Trade Representative would be required to take such complaints to the GATT and implement the formal dispute settlement procedures available through that body. This change would commit the U.S. to using the international trading forums to the maximum extent possible as well as provide Congress with a viable role in removing foreign trade barriers.

HIGHLIGHTS OF "THE TRADE ADJUSTMENT RETRAINING ACT OF 1983"

*TRUST FUND

The bill would earmark one-third of existing tariff revenues for placement in a new retraining trust fund each year. This feature is eminently sound since it establishes the principle that those who cause industry dislocation -- importers -- should pay for the domestic readjustment.

*GROUP CERTIFICATION OF ELIGIBILITY

Currently, the Department of Labor reviews petitions for trade adjustment assistance on a firm-by-firm basis. Laid-off workers in these certified firms must then demonstrate individual eligibility. Although mandated to review these group petitions within 60 days, DOL is taking as much as 14 months to certify.

In addition to permitting firms to continue to file petitions directly with DOL, my bill would create a fast-track approval process based on affirmative 201 ITC decisions. For instance, if the ITC found that imports were injuring the specialty steel industry, all laid-off workers in that industry would be eligible to apply for assistance regardless of whether the ITC relief is ever actually implemented. In addition, workers would be automatically certified if the Secretary of Labor failed to act on their application within the required 60-day period. These changes would eliminate the need for costly and redundant investigations on the part of the Labor Department thereby speeding up a process that now takes as long as 14 months.

*RETRAINING ALLOWANCES

This bill would create a direct link between any assistance and retraining. Workers could not receive any funds unless they were enrolled and remained in a certified retraining program.

Workers would have to enter a program within three months after certification by the Labor Department.

Retraining allowances would be available for a maximum of two years and would be capped at \$5,000.

A worker enrolled in a training program would also receive a subsistence allowance equal to his or her unemployment level through the duration of the training program. This allowance would come from the Retraining Trust Fund, not the Unemployment Insurance Fund.

*ASSISTANCE TO FIRMS PROVIDING RETRAINING

The current trade adjustment retraining program -- and other federal retraining efforts -- lack a pivotal feature -- they do little to increase the prospect of employment at the end of the retraining program. This bill would provide incentives for private industry to provide jobs to workers when they complete the program, chiefly by paying 90 percent of a firm's retraining costs if it locates in a trade-impacted area. Assistance would also be available to firms that retrain their own workers for other jobs within their company.

*OTHER FEATURES

The current trade adjustment assistance program is due to expire in October, 1983. No new money is envisioned for it in the Administration's 1984 budget proposal. Under this bill, the Retraining Assistance Trust Fund would be funded at about \$3 billion for the program in FY '83.

This bill would utilize the Private Industry Councils, created by the passage last year of the Job Partnership and Training Act, to approve training requests and offer counseling to the displaced workers.

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98th CONGRESS
1st Session

S. _____

IN THE SENATE OF THE UNITED STATES

Mr. Metzenbaum introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Trade Act of 1974 to implement import relief recommended by the International Trade Commission under title II, and for other purposes.

1 Be it enacted by the Senate and House of Representatives
2 of the United States of America in Congress assembled, That
3 this Act may be cited as the "Trade Improvements Act".4 SEC. 2. IMPORT RELIEF FROM INJURY CAUSED BY IMPORT
5 COMPETITION.6 (a) International Trade Commission Recommendations
7 Adopted in Absence of Congressional Approval.--8 (1) In general.--Subsection (c) of section 203 of the
9 Trade Act of 1974 (19 U.S.C. 2253 (c)) is amended to read
10 as follows:11 "(c) (1) If the President reports under subsection (b)
12 that he is proposing action which differs from the action
13 recommended by the Commission under section 201 (d) (1) (A),
14 or that he will not provide import relief, the action
15 recommended by the Commission shall take effect on the date
16 on which the proclamation relating to such recommendation is
17 issued under paragraph (2) unless a concurrent resolution
18 approving the action taken by the President or his19 determination not to provide import relief under section 202
20 (a) (1) (A) is adopted by both Houses of Congress (within the

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1 90-day period following the date on which the document
2 referred to in subsection (b) of this section is transmitted
3 to the Congress) by an affirmative vote of a majority of the
4 Members of each House present and voting under the procedures
5 set forth in section 151.

6 `` (2) If a concurrent resolution described in paragraph
7 (1) is not adopted in accordance with the requirements of
8 paragraph (1), the President shall, within 15 days after the
9 close of the 90-day period described in paragraph (1),
10 proclaim the increase in, or imposition of, any duty or other
11 import restriction on the article which was recommended by
12 the Commission under section 201 (b).''.

13 (2) Effective date of Presidential action.--Paragraph
14 (1) of section 203 (e) of the Trade Act of 1974 is
15 amended to read as follows:

16 `` (1) (A) Any import relief provided under subsection
17 (a) which is recommended by the Commission under section
18 201 (d) (1) (A) shall be proclaimed and take effect
19 within 15 days after the import relief determination date
20 unless the President announces on such date his intention
21 to negotiate one or more orderly marketing agreements
22 under subsection (a) (4) or (5) of this section in which
23 case import relief shall be proclaimed and take effect
24 within 90 days after the import relief determination
25 date.

26 `` (B) Any import relief provided under subsection (a)
27 which differs from the action recommended by the
28 Commission under section 201 (d) (1) (A) shall take
29 effect on the day after a concurrent resolution approving
30 of such import relief is approved in accordance with the
31 requirements of subsection (c) (1).''.

32 (3) Elimination of President's discretion in
33 terminating import relief.--Paragraph (4) of section 203
34 (h) of the Trade Act of 1974 is amended by striking out

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1 "Secretary of Commerce" and inserting in lieu thereof
 2 "Chairman of the Committee on Finance of the Senate, the
 3 Chairman of the Committee on Ways and Means of the House
 4 of Representatives, the Secretary of Commerce,".

5 (4) Conforming amendments.--

6 (A) Subsection (b) of section 151 of the Trade
 7 Act of 1974 (19 U.S.C. 2191 (b)) is amended by
 8 striking out paragraph (3) and inserting in lieu
 9 thereof the following:

10 "(3) The term 'approval resolution' means--

11 "(A) a concurrent resolution of the two Houses
 12 of the Congress, the matter after the resolving
 13 clause of which is as follows: 'That the Congress
 14 approves the extension of nondiscriminatory treatment
 15 with respect to the products of

16 transmitted by the President to the Congress on
 17 .', the first blank space being filled with
 18 the name of the country involved and the second blank
 19 space being filled with the appropriate date, or

20 "(B) a concurrent resolution of the two Houses
 21 of the Congress, the matter after the resolving
 22 clause of which is as follows: 'That the Congress
 23 approves the action taken by, or the determination
 24 of, the President under section 203 of the Trade Act
 25 of 1974 transmitted to the Congress on

26 .', the blank space being filled with the
 27 appropriate date.

28 "(4) The term 'approval revenue resolution' means an
 29 approval resolution which involves revenue measures by
 30 reason of which it must originate in the House of
 31 Representatives."

32 (B) Paragraph (2) of section 151 (e) of such Act
 33 is amended--

34 (1) by inserting "approval revenue

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1 resolution'' after ''implementing revenue bill''
2 each place it appears, and

3 (ii) by inserting ''or resolution'' after
4 ''such bill'' each place it appears.

5 (C) Paragraph (1) of section 152 (a) of the Trade
6 Act of 1974 (19 U.S.C. 2192 (a)) is amended to read
7 as follows:

8 ''(1) For purposes of this section, the term
9 'resolution' means a resolution of either House of the
10 Congress, the matter after the resolving clause of which
11 is as follows: ''That the does not approve
12 transmitted to the Congress on .'', with
13 the first blank space being filled with the name of the
14 resolving House, the second blank space being filled in
15 accordance with paragraph (2), and the third blank space
16 being filled with the appropriate date.''

17 (D) Paragraph (2) of section 152 (a) of the Trade
18 Act of 1974 is amended by striking out ''paragraph
19 (1) (E)'' and inserting in lieu thereof ''paragraph
20 (1)''.

21 (E) Section 151 of the Trade Act of 1974 is
22 amended by striking out ''RESOLUTIONS APPROVING
23 COMMERCIAL AGREEMENTS WITH COMMUNIST COUNTRIES'' and
24 inserting in lieu thereof ''CERTAIN RESOLUTIONS
25 APPROVING ACTIONS''.

26 (F) The table of sections for chapter 5 of title
27 I of the Trade Act of 1974 is amended by striking the
28 item relating to section 151 and inserting in lieu
29 thereof the following:

''Sec. 151. Bills implementing trade agreements
on nontariff barriers and certain
resolutions approving actions.''

3Ø (5) Effective date.--

31 (A) In general.--Except as provided in
32 subparagraph (B), the amendments made by this

1 subsection shall apply with respect to reports of the
2 International Trade Commission made to the President
3 after the date of enactment of this Act.

4 (E) Termination discretion.--The amendment made
5 by paragraph (3) shall take effect on the date of
6 enactment of this Act.

7 (b) Causal Relationship Required for Relief.--

8 (1) In general.--Paragraph (1) of section 201 (b) of
9 the Trade Act of 1974 (19 U.S.C. 2251 (b)) is amended by
10 striking out "substantial cause" and inserting in lieu
11 thereof "considerable cause".

12 (2) Considerable cause defined.--Paragraph (4) of
13 section 201 (b) of the Trade Act of 1974 is amended to
14 read as follows:

15 "(4) For purposes of this section, the term
16 'considerable cause' means a cause which is important but
17 not necessarily more important than any other cause."

18 (3) Conforming amendments.--

19 (A) Sections 201 (b) (2) (C) and 202 (a) of the
20 Trade Act of 1974 are each amended by striking out
21 "substantial cause" and inserting in lieu thereof
22 "considerable cause".

23 (B) Paragraphs (3) and (4) of section 203 (f) of
24 the Trade Act of 1974 are each amended by striking
25 out "substantially".

26 (4) Effective date.--The amendments made by this
27 subsection shall apply with respect to investigations
28 conducted after the date of enactment of this Act.

29 SEC. 3. PETITIONS FOR ACTION TO ENFORCE TRADE RIGHTS OR
30 RESPOND TO CERTAIN FOREIGN TRADE PRACTICES.

31 (a) Filing of Resolutions by Committees of Congress.--
32 Section 302(a) of the Trade Act of 1974 (19 U.S.C. 2412(a))
33 is amended by inserting ", or the Committee on Ways and
34 Means of the House of Representatives or the Committee on

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1 Finance of the Senate may file with the Trade Representative
2 a resolution," before "requesting".

3 (b) Investigation Required.--Section 302 of the Trade Act
4 of 1974 (19 U.S.C. 2412) is amended by adding at the end
5 thereof the following new subsection:

6 "(c) Action on Resolutions.--The Trade Representative
7 shall initiate an investigation regarding the issues raised
8 in any resolution filed with the Trade Representative under
9 subsection (a). The Trade Representative shall publish the
10 text of such resolution in the Federal Register and shall, as
11 soon as possible, provide opportunity for the presentation of
12 views concerning the issues raised by such resolution,
13 including a public hearing within 30 days after the date on
14 which such resolution is filed with the Trade
15 Representative."

16 (c) Consultations and Proceedings Under Trade
17 Agreements.--Section 303 of the Trade Act of 1974 (19 U.S.C.
18 2413) is amended--

19 (1) by inserting "or the date on which a resolution
20 is filed with the Trade Representative under section 302
21 (a)" after "to a petition" in the first sentence
22 thereof,

23 (2) by inserting "or resolution" after "the
24 petition" in the first sentence thereof, and

25 (3) by inserting "(including procedures under the
26 General Agreement on Tariffs and Trade)" after "such
27 agreement" in the second sentence.

28 (d) Conforming Amendments.--

29 (1) Section 301(c) of the Trade Act of 1974 (19
30 U.S.C. 2411(c)) is amended by inserting "or resolution"
31 after "petition" each place it appears in the text and
32 the heading of paragraph (2).

33 (2) Section 302 of the Trade Act of 1974 (19 U.S.C.
34 2412) is amended--

1 (A) by inserting "or resolution" after
2 "petition" in the heading for subsection (a), and
3 (E) by inserting "OR RESOLUTIONS" after
4 "PETITIONS" in the section heading.

5 (3) The table of sections for chapter 1 of the table
6 of contents of the Trade Act of 1974 is amended by
7 inserting "or resolutions" after "Petitions" in the
8 item relating to section 3Ø2.

9 (4) Section 3Ø3 of the Trade Act of 1974 (19 U.S.C.
10 2413) is amended by inserting ", the appropriate
11 committee of Congress," after "petitioner".

12 (5) Section 3Ø4 of the Trade Act of 1974 (19 U.S.C.
13 2414) is amended by inserting "or resolution" after
14 "petition" each place it appears in subsections (a) (2)
15 and (b) and in the first place it appears in subsection
16 (a)(1).

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98th CONGRESS
1st Session

S. _____

IN THE SENATE OF THE UNITED STATES
-----Mr. Metzenbaum introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Trade Act of 1974 to provide for job retraining for workers who have become unemployed due to imports.

1 Be it enacted by the Senate and House of Representatives
2 of the United States of America in Congress assembled,

3 SHORT TITLE

4 Section 1. This Act may be cited as the "Trade
5 Adjustment Retraining Act of 1983".

6 FUNDING FOR TRADE ADJUSTMENT RETRAINING PROGRAM

7 Sec. 2. Section 245 of the Trade Act of 1974 (19 U.S.C.
8 2317) is amended to read as follows:

9 "SEC. 245. RETRAINING ASSISTANCE TRUST FUND.

10 "(a) There is established on the books of the Treasury
11 of the United States a trust fund to be known as the
12 'Retraining Assistance Trust Fund' (referred to in this
13 section as the 'Trust Fund'). The Trust Fund shall consist of
14 such amounts as may be deposited in it pursuant to subsection
15 (b). Amounts in the Trust Fund may be used only to carry out
16 the provisions of this chapter and of section 266 (including
17 administrative costs). The Secretary of the Treasury shall be
18 the Trustee of the Trust Fund and shall report to the
19 Congress not later than March 1 of each year on the operation
20 and status of the Trust Fund during the preceding fiscal
21 year. The Secretary of Labor shall also report to the

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1 Congress not later than March 1 of each year as to whether
2 the amounts in the Trust Fund are in excess of the amounts
3 needed to carry out this chapter.

4 "(b) There is authorized to be appropriated to the Trust
5 Fund, out of amounts in the general fund of the Treasury, for
6 each fiscal year beginning on or after October 1, 1982, an
7 amount equal to one-third of the amount attributable to the
8 collections of customs duties for the preceding fiscal
9 year."

10 STANDARD FOR GROUP CERTIFICATION

11 Sec. 3. (a) Section 222 of the Trade Act of 1974 (19
12 U.S.C. 2272) is amended--

13 (1) In paragraph (3), by striking out "substantial
14 cause" and inserting in lieu thereof "considerable
15 cause"; and

16 (2) by amending the last sentence to read as follows:
17 "For purposes of paragraph (3), the term 'considerable
18 cause' means a cause which is important but not
19 necessarily more important than any other cause."

20 (b) (1) Section 201 (b) (1) of such Act is amended by
21 striking out "substantial cause" and inserting in lieu
22 thereof "considerable cause".

23 (2) Section 201 (b) (4) of such Act is amended to read as
24 follows:

25 "(4) For purposes of this section, the term
26 'considerable cause' means a cause which is important but not
27 necessarily more important than any other cause."

28 (c) The amendments made by subsections (a) and (b) shall
29 apply with respect to determinations by the Secretary of
30 Labor under section 223 of the Trade Act of 1974 made on or
31 after the date of the enactment of this Act, and with respect
32 to findings of the International Trade Commission under
33 section 201 of such Act made on or after such date.

34 EFFECT OF FINDING BY INTERNATIONAL TRADE COMMISSION

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1 Sec. 4. (a) Section 223 of the Trade Act of 1974 (19
2 U.S.C. 2273) is amended by adding at the end thereof the
3 following new subsection:

4 "Effect of Finding by International Trade Commission

5 "(e) Whenever the International Trade Commission makes a
6 finding under section 201 that an article is being imported
7 into the United States in such increased quantities as to be
8 a considerable cause of serious injury, or the threat
9 thereof, to any domestic industry, such finding shall be
10 deemed to constitute a certification by the Secretary under
11 section 222 with respect to any group of workers employed in
12 such industry, unless the Secretary determines within 60 days
13 after such finding by the Commission that such group of
14 workers would be denied certification under section 222 if
15 they had filed a petition for such certification under
16 section 221."

17 (b) The amendment made by subsection (a) shall apply with
18 respect to findings made by the International Trade
19 Commission under section 201 of the Trade Act of 1974 on or
20 after the date of the enactment of this Act.

21 DETERMINATIONS BY SECRETARY OF LABOR

22 Sec. 5. (a) Section 223 (a) of the Trade Act of 1974 (19
23 U.S.C. 2273) is amended by adding at the end thereof the
24 following new sentence: "Failure to make a determination
25 with respect to a petition within the specified 60-day period
26 shall be deemed to constitute a certification that the
27 petitioning group meets the requirements of section 222,
28 effective on the date on which the separation began or
29 threatened to begin as alleged in such petition."

30 (b) The amendment made by subsection (a) shall apply with
31 respect to petitions filed under section 221 of the Trade Act
32 of 1974 on or after the date of the enactment of this Act.

33 RETRAINING ALLOWANCES

34 Sec. 6. (a) Section 231 (a) of the Trade Act of 1974 (19

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1 U.S.C. 2291 (a) is amended by adding at the end thereof the
2 following new paragraph:

3 “(5) Such worker--

4 “(A) agreed to enroll in a retraining program
5 under section 236 within 12 weeks after the date of
6 certification by the Secretary of Labor,

7 “(B) is enrolled in such retraining program
8 under section 236, and

9 “(C) has not been determined under section 236
10 (c) to be failing to make satisfactory progress in
11 such retraining program.”.

12 (b) Subsection (b) of section 231 of such Act is
13 repealed.

14 (c) Section 236 of such Act (19 U.S.C. 2296) is amended--

15 (1) by striking out “TRAINING” in the heading and
16 inserting in lieu thereof “RETRAINING”;

17 (2) by striking out “training” each place it
18 appears in such section and inserting in lieu thereof in
19 each instance “retraining”;

20 (3) in subsection (a) (1), by striking out the first
21 sentence and inserting in lieu thereof the following:

22 “‘If the Secretary determines that a retraining program
23 approved by a private industry council established under
24 section 102 of the Job Training Partnership Act is
25 available to an adversely affected worker from either
26 governmental agencies or private sources (which may
27 include area vocational education schools, as defined in
28 section 195 (2) of the Vocational Education Act of 1963,
29 and employers), and that the worker is qualified to
30 undertake and complete such retraining, the Secretary
31 shall approve such retraining for the worker.”; and

32 (4) by adding at the end of subsection (a) the
33 following new paragraph:

34 “(4) The total amount of the payment under paragraph (1)

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1 on behalf of any worker shall not exceed \$5,000."

2 (d) (1) The heading of part I of subchapter B of chapter
3 2 of title II of such Act is amended by striking out "TRADE
4 READJUSTMENT ALLOWANCES" and inserting in lieu thereof
5 "RETRAINING ALLOWANCES".

6 (2) The heading of section 233 of such Act is amended by
7 striking out "TRADE READJUSTMENT" and inserting in lieu
8 thereof "RETRAINING".

9 (e) (1) Sections 231 (a), 232 (a), 232 (b), 232 (c), 233
10 (a) (1), 233 (a) (2), and 233 (b) of such Act are each
11 amended by striking out "trade readjustment allowance" each
12 place it appears and inserting in lieu thereof in each
13 instance "retraining allowance".

14 (2) Sections 232 (b), 233 (a) (1), 233 (a) (3), 233 (d),
15 and 234 of such Act are each amended by striking out "trade
16 readjustment allowances" each place it appears and inserting
17 in lieu thereof in each instance "retraining allowances".

18 (3) Section 232 (b) of such Act is amended by striking
19 out "undergoing training" and inserting in lieu thereof
20 "undergoing retraining".

21 (f) (1) The amendments made by this section shall apply
22 with respect to workers who are eligible for allowances under
23 part I of subchapter B of chapter 2 of title II of the Trade
24 Act of 1974 on the basis of certifications made under section
25 223 of such Act on or after the date of the enactment of this
26 Act, or within the 12-month period preceding such date.

27 (2) Any worker who is eligible for allowances under part
28 I of subchapter B of chapter 2 of title II of the Trade Act
29 of 1974 on the basis of a certification made under section
30 223 of such Act during the 12-month period preceding the date
31 of the enactment of this Act, may elect, in accordance with
32 such procedures as the Secretary of Labor may prescribe, to
33 have the amendments made by this section be inapplicable to
34 him.

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6

1 (3) Any individual who was eligible for such allowances
2 on the basis of a certification made prior to the 12-month
3 period referred to in paragraph (2), shall be eligible to
4 participate in a retraining program under section 236 of the
5 Trade Act of 1974, but shall not be eligible for any
6 retraining allowance under section 231 of such Act.

7 DURATION OF RETRAINING ALLOWANCES

8 Sec. 7. (a) (1) Section 233 of the Trade Act of 1974 (19
9 U.S.C. 2293) is amended by striking out subsections (a) and
10 (b) and inserting in lieu thereof the following:

11 "(a) Retraining allowances shall be payable with respect
12 to the period covered by any certification to any adversely
13 affected worker only for weeks (during which such individual
14 meets the requirements of section 231 (a)) preceding the
15 earlier of--

16 "(1) the 105th week during which such individual is
17 participating in a retraining program under section 236;
18 or

19 "(2) the completion of such retraining program."

20 (2) Section 233 of such Act is further amended by
21 redesignating subsections (c) and (d) as subsections (b) and
22 (c).

23 (b) (1) The amendments made by subsection (a) shall apply
24 with respect to workers who are eligible for allowances under
25 part I of subchapter B of chapter 2 of title II of the Trade
26 Act of 1974 on the basis of certifications made under section
27 223 of such Act on or after the date of the enactment of this
28 Act, or within the 12-month period preceding such date.

29 (2) Any worker who is eligible for allowances under part
30 I of subchapter B of chapter 2 of title II of the Trade Act
31 of 1974 on the basis of a certification made under section
32 223 of such Act during the 12-month period preceding the date
33 of the enactment of this Act, may elect, in accordance with
34 such procedures as the Secretary of Labor may prescribe, to

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7

1 have the amendments made by this section be inapplicable to
2 him.

3 **JOB SEARCH ALLOWANCES**

4 Sec. 8. (a) Section 237 (a) (1) of the Trade Act of 1974
5 (19 U.S.C. 2297 (a) (1)) is amended by striking out ``\$600``
6 and inserting in lieu thereof ``\$1,000``.

7 (b) The amendment made by subsection (a) shall apply with
8 respect to allowances granted on or after the date of the
9 enactment of this Act.

10 **RELOCATION ALLOWANCES**

11 Sec. 9. (a) Section 238 (d) (1) of the Trade Act of 1974
12 (19 U.S.C. 2298 (d) (1)) is amended by striking out ``90
13 percent`` and inserting in lieu thereof ``100 percent``.

14 (b) The amendment made by subsection (a) shall apply with
15 respect to allowances granted on or after the date of the
16 enactment of this Act.

17 **ASSISTANCE TO FIRMS PROVIDING RETRAINING**

18 Sec. 10. (a) Chapter 3 of title II of the Trade Act of
19 1974 is amended by adding at the end thereof the following
20 new section:

21 ``SEC. 266. ASSISTANCE TO FIRMS PROVIDING RETRAINING.

22 (a) If the Secretary determines that an employer can
23 make available a retraining program approved for purposes of
24 section 236, the Secretary shall make payment directly to
25 such employer for 90 percent of the costs of such retraining
26 provided to adversely affected workers covered by a
27 certification under section 223, including current and former
28 employees of such employer. Such payments shall be in lieu of
29 payments which would otherwise be made on behalf of such
30 adversely affected workers under section 236 (a).

31 (b) Payments under subsection (a) shall be made only
32 with respect to retraining provided by such employer for the
33 purpose of qualifying an adversely affected worker for a bona
34 fide job position available with such employer (or which was

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8

1 reasonably expected to be available at the time such
2 retraining was provided).''.

3 (b) The amendment made by subsection (a) shall apply with
4 respect to retraining provided on or after the date of the
5 enactment of this Act.

6 INDEPENDENT SUPPLIERS

7 Sec. 11. (a) Section 222 of the Trade Act of 1974 is
8 amended by inserting ''(a)'' before ''The Secretary'' and by
9 adding at the end thereof the following:

10 ''(b) (1) The Secretary shall certify a group of workers
11 as eligible to apply for adjustment assistance under this
12 chapter if the Secretary determines--

13 ''(A) that not less than 25 percent of the total
14 sales, or not less than 25 percent of the total
15 production, of such workers' firm or subdivision is
16 accounted for by the provision to import-impacted firms
17 of--

18 ''(i) any article (including, but not limited to,
19 any component part) which is essential to the
20 production of any import-impacted article,

21 ''(ii) any service which is essential to the
22 production, storage, or transportation of any import-
23 impacted article, or

24 ''(iii) any article and any service described in
25 clauses (i) and (ii);

26 ''(B) that a significant number or proportion of the
27 workers in such workers' firm or subdivision have become
28 totally or partially separated, or are threatened to
29 become totally or partially separated;

30 ''(C) that the sales or production, or both, of such
31 workers' firm or subdivision have decreased absolutely;
32 and

33 ''(D) that the absolute decrease in the sale or
34 production, or both, by import-impacted firms of import-

1 impacted articles, with respect to which such workers'
2 firm or subdivision provides articles or services
3 referred to in subparagraph (A), was a considerable cause
4 of the total or partial separation, or threat thereof,
5 referred to in subparagraph (B) and to the decline in
6 sales and production referred to in subparagraph (C).

7 "(2) For purposes of this subsection--

8 "(A) the term 'import-impacted article' means any
9 article produced by an import-impacted firm, if such
10 article is one with respect to which a determination
11 under subsection (a) (3) or section 251 (c) (3) was made
12 incident to the certification of the group of workers or
13 firm concerned; and

14 "(B) the term 'import-impacted firm' means--

15 "(i) any firm or appropriate subdivision thereof
16 the workers of which have been certified pursuant to
17 subsection (a), or

18 "(ii) any firm which has been certified pursuant
19 to section 251 (c).".

20 (b) The amendments made by subsection (a) shall apply
21 with respect to petitions filed under section 221 (a) of the
22 Trade Act of 1974 on or after the date of the enactment of
23 this Act.

AMERICAN TEXTILE MACHINERY ASSOCIATION

7297 N LEE HIGHWAY FALLS CHURCH, VIRGINIA 22042 (703) 533-8251 TWX 710-831-9800 ATMA F5CH CABLE AMTEX

March 21, 1983

Senator John C. Danforth
Chairman, International Trade Subcommittee
Committee on Finance
United States Senate
Washington, D. C. 20510

Dear Senator Danforth:

This is to inform you of the U.S. textile machinery industry's keen interest in the Office of Trade Adjustment Assistance.

OTAA has provided this industry association and its members some means to compete with the inequitable trade practices of offshore textile machinery suppliers. With these practices, many government sourced, offshore competitors have penetrated markets at an amazing rate since 1960 when U.S. textile machinery makers commanded 93 percent of domestic sales and 15 percent of the world market share. These shares have been halved in just 20 years. We seek technological and marketing parity.

The enclosed report examines this decline and recommends realistic methods to reverse it. Without the OTAA program this valuable work would not exist. Further, this study has exposed the industry collectively, and its individual units, to the many fine programs of OTAA. We need this resource; in fact, we need more of it.

The industry and several firms have received high quality adjustment advice to compete technologically and in the marketing arena. Through OTAA our industry of small businesses - more than 400 of the 600 firms have fewer than 20 employees - have been given some hope of regaining markets and jobs, more than half of total employment being lost in 20 years.

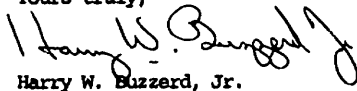
The stabilization and revitalization of this nation's textile machinery industry is vital to basic economic health and national security. Without this, textile machinery's customers - perhaps the largest employers in the nation - are subject to questionable pricing practices from offshore and being hostages to offshore controlled technology. Truly, OTAA can materially help this.

Finally, in recent years, despite inequity in competitive practices, our industry has exported its production in the 25 percent range of annual sales. This contribution to the trade balance can be continued, and expanded, on a broader base as the developing and lesser developed nations of the world become more self-sufficient. Some potential growth projections are staggering, the U.S. textile machinery industry should share in this growth, and OTAA can be a factor in making this happen.

hwb/vcc

Enclosure: "Opportunities and Strategies
for U.S. Textile Machinery Manufacturers
to Improve Their Competitive Positions in
Domestic and Foreign Textile Markets"

Yours truly,


Harry W. Buzzard, Jr.
Executive Vice President

President
GORDON HACKER
Senior Vice President
Gaston County Dyeing
Machine Company

First Vice President
DAVID M. GIBBERN
President
American Arms Corporation

Second Vice President
WILLIAM H. HUGULEY IV
Senior Vice President
West Point Foundry
& Machine Company

Treasurer
PERCY THACKSTON
Executive Vice President
The Behman Company

Executive Vice President/Secretary
HARRY W. BUZZARD, JR.
Senior Vice President/Asst. Treasurer
CHRISTOPHER R. BEVINGO

U.S. Council for an Open World Economy

INCORPORATED

7216 Stafford Road, Alexandria, Virginia 22307

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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the Senate Committee on Finance in hearing on Fiscal 1984 budget authorizations for international-trade functions. March 17, 1983

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

This statement is limited to the International Trade Commission, specifically the structure of the Commission and the adequacy of ITC investigation and analysis in import-relief cases. The Council has made these points in previous Congressional hearings, but to no avail.

We question the need for six commissioners (the statutory complement). Only one of the three current vacancies need be filled (at most only two) in the interest of a properly structured Commission. The Commission has got along well with four or five commissioners at various times in its long history. The Commission might operate more efficiently with fewer than six commissioners, and each seat terminated would save the taxpayers more than \$100,000 a year when the total costs of each Commissioner's office are considered.

We question the statutorily required rotation of the ITC chairmanship (and vice chairmanship) every two years. Each commissioner is not ipso facto qualified to be chairman. We also suggest that Congress look into the necessity for each commissioner to have a professional staff (including a legal advisor) in addition to a secretary. We understand that each commissioner is currently authorized to have four persons, of whom no more than one can be higher than GS-15 and no more than one additional person can be higher than GS-14. We question the need for such private professional staffs when account is taken of the full access each commissioner has to the Commission's formidable legal and economic personnel. We suggest inquiry into the possibility that these private staffs have led to undesirable rivalries between the respective staffs, and adversarial relations between commissioner staffs on the one hand and the Commission staffs on the other -- affecting

adversely the quality and utility of commissioner opinions in import-relief and other cases. The budget savings from reducing or eliminating these personal professional staffs may be of little consequence, but this is no justification for neglecting inquiry into the desirability of such reforms.

The Commission is not fulfilling its explicit and implicit obligations under the Trade Act of 1974 in import-relief investigations. It is neglecting the full implications of Section 201(b)5 by not fully assessing the adequacy of steps the petitioning industry has taken toward becoming more competitive with imports, and not assessing the extent to which government statutes and regulations may be impairing the industry's adjustment capability. Also neglected is assessment of the differential impacts which import restriction may have on different sectors of the industry. Windfall gains for some sectors that may not need government help may cause additional problems for those that do.

Not all these analytical factors may materially affect the Commission's decision in every case, but all are important for the President to assess if he wishes to develop a coherent industry-adjustment policy whether or not the Commission finds serious injury or threat thereof, but particularly if it does. Such an adjustment strategy should be the framework for any resort to import control, and the trade law should so require. However, the President is free to proceed along these lines even without a legislative mandate, and the ITC should want to help him in this regard in every way it can. Nothing in the trade law prevents the Commission from doing so. In this regard, the Commission is less imaginative and innovative than it can and ought to be.

**Statement
of
United Automobile, Aerospace and Agricultural Implement
Workers of America (UAW)
before the
Senate Committee on Finance
Subcommittee on Trade**

March 17, 1983

The International Union, UAW, represents approximately 1,300,000 workers and their families in North America. The UAW welcomes this opportunity to again testify before your Subcommittee on that program.

The UAW supports continuation of the worker trade adjustment assistance (TAA) program under the Trade Act of 1974. This program has been an integral part of U.S. trade policy for over twenty years. It represents a special covenant between the victims of trade policies and their government which has made and administered those policies.

The primary goal of U.S. trade policy has been to increase commerce between the nations of the world thereby improving both opportunities for consumer choice, the market for exporting industries and the prospects for world peace.

However, it is also recognized that significant problems flow from liberalized trade programs. Some domestic industries and workers previously insulated from foreign competition are obviously going to be injured, and possibly even destroyed by increased imports.

Given the overall benefits to our society, Congress therefore provided two safety nets for the relatively few victims. For industry and workers threatened with survival, an escape clause mechanism was established. Upon a showing of substantial injury, the President may invoke marketing

arrangements, quotas or even tariffs so as to protect the domestic industry and its workforce.

For less serious injury, a system of adjustment assistance was created to target relief for individual workers and employers. The TAA safety net also avoids the international repercussions which necessarily attach to escape clause remedies.

For workers certified as displaced by imports, the TAA program provided income maintenance, job search and relocation and retraining benefits. Employers are to receive assistance and low interest loans to become more competitive or develop new product lines. Thus TAA is designed so that both workers and employers should receive temporary federal aid to adjust and to find new areas of endeavor.

This system was established under the original Trade Expansion Act of 1962 and improved upon under the Trade Act of 1974. In 1981, under the Omnibus Budget Reconciliation Act, the income maintenance aspects of the worker adjustment assistance program was substantially slashed in exchange for a claimed improvement in training benefits.

The entire program is now up for renewal. The Reagan Administration wants to terminate the program thereby eliminating one more safety net from the domestic sector. The Administration's position is both deceptive and contrary to our national interest. It is deceptive because this current posture is 180 degrees opposite to the Administration's original position. It is contrary to our national interest because trade adjustment assistance fulfills a central role in our overall trade policy.

The TAA Program is Needed Now More Than Ever

In March 1981, the Office of the U.S. Trade Representative testified before this Subcommittee that TAA was a "necessary adjunct" and an "integral part of U.S. trade policy." If TAA was essential in 1981, what has changed to make it unnecessary in 1983? Is unemployment no longer a problem? Have imports suddenly dried up? The facts show that unemployment and import levels have continued to rise since 1981.

Unemployment has hit over 12 million Americans. This figure does not include approximately 1,800,000 available workers who have stopped looking for work. A recent study of the AFL-CIO Industrial Union Department concluded that 3,000,000 manufacturing jobs have been lost since June, 1979, of which 2,300,000 jobs are in the durable goods industries such as steel and auto.

Employment in the U.S. auto industry has been especially hard hit for the last three years. More than 260,000 workers are currently laid off from the automobile manufacturing companies. Approximately 30 auto plants have closed since 1980. From 1978 levels, employment is down 30 percent and new car and truck sales are down 35 percent. The U.S. auto industry is operating at about 55 percent of its capacity.

Automotive imports, primarily from Japan, have continued at extremely high levels in recent years. Overseas imports captured 28 percent of all new car sales in 1982, compared to an 18 percent figure in 1978.

Nor does the future look any better. In a recent Department of Commerce publication entitled 1983 U.S. Industrial Outlook, one author predicts that after removal of export restraints, "import penetration (including European cars) could easily increase from the current 27 percent to 35 to 40 percent of the new car market before the end of the decade . . ."

The rise in imports has not been confined to finished vehicles. In the last decade, the value of auto parts imported into the U.S. from countries other than Canada has grown at an annual rate of 24 percent. The Department of Commerce estimated in December 1981 that 2.5 million engines and 1.7 million transmissions will be imported during each of the next several years. There is considerable evidence that without government action, this will only be the tip of the iceberg.

According to a 1982 survey of automotive industry experts conducted by the accounting firm of Arthur Andersen, the import content of domestically assembled vehicles (now less than 5 percent) could reach 30 percent by 1985 and 39 percent by 1990.

Total imports of manufactured goods are also at record levels — reaching 150 billion dollars in 1982 up from 77 billion in 1976. In sum, the Administration seeks elimination of the TAA program precisely at the time of its greatest need.

**TAA Represents a Special Covenant
Between the Victims of U.S. Trade Policy
and Their Government**

The Administration was correct in 1981. TAA remains an "integral part of U.S. trade policy". Nothing has changed to challenge the underlying rationale for providing targeted benefits to the victims of federal trade programs. Congress has previously described that justification:

"The program is premised upon the belief that trade-related unemployment and market disruption may differ somewhat in nature from that arising from other causes, and upon the belief that such trade-related imports, resulting from a Federal policy of encouraging increased foreign trade for the benefit of the country should not be borne unaided by particular segments of U.S. industry and labor.¹

The unemployed victims of trade policies are different from the great mass of the unemployed because their unemployment is directly traceable to changes in trade policies. Congress acknowledged this fact when it passed the TAA program in 1962.

This special covenant between Congress and labor has existed for over twenty years. Congress has repeatedly promised American workers that federal programs for expanding trade would only occur within a system of assistance for these workers directly displaced by these trade policies. It is difficult to believe that Congress will renege on that bargain now. The nation has enjoyed the benefits of liberalized trade policies; it would be most unfair to tell its current and future victims that their promised assistance is to be withdrawn.

We ask that the program be renewed despite its current defects because we know that the concept of TAA can work.

This administrative abolition of a current statutory program is a scandal that cannot be rewarded by non-renewal. It has been almost two years since passage of changes made by Omnibus Budget Reconciliation Act of 1981 and we still have no regulations on the revised TAA program from the Secretary. The UAW currently has three separate lawsuits pending against the Secretary

1. Staff Data and Materials Relating to Trade Adjustment Assistance Program Prepared for use of Subcommittee on International Trade, Staff of Senate Committee on Finance (96th Congress, 1st Session, 1979).

of Labor in the U.S. District Court for the District of Columbia, challenging his anti-beneficiary administration of the Trade Act. (Case Nos. 81-1954, 82-1458, and 82-3137) On January 17, 1983 in Case No. 82-3137, Judge Harold Greene issued a nationwide injunction against the Secretary's handling of TRA overpayments. Judge Greene's order scores the Secretary for attempting "to take advantage of his unlawful refusal to issue guidelines to recoup overpayments without providing for waivers where equitable, as intended by Congress".

The program is conceptually and structurally sound and deserves continuation but with a specific directive from this Congress to have the Secretary of Labor to release his handbrake and quit putting sugar in the gas tank. It should not be necessary to sue the Secretary of Labor to force him to administer TAA on behalf of its intended beneficiaries.

Absent a viable TAA program, we can only warn Congress that the current displeasure over this country's policies will grow even faster. With no TAA mechanism available, industries and workers adversely affected by imports will have no choice but to seek escape clause or other legislative relief.

In 1981 the Administration claimed it wanted to convert TAA from a program of income maintenance to training. The President has often stated that he supports retraining of unemployed workers along with better targetting of federal aid programs. What better group exists for targetting training benefits than those found to be directly displaced by foreign imports. Retraining the victims attacks both the problem of unemployment and alleviates some of the deserved resentment against federal trade policies.

Upon renewal, several program changes are needed to finally allow the program to work.

A. Training Must be Part of the Entitlement Package

The training, job search and job relocation aspects of the current TAA program have been allowed to wither on the vine. Prior to this year, the Secretary's annual requests for training ranged between \$5.6 to \$17 million. In fiscal 1981, the budget for training was zero. The Secretary's consistently meager budget requests underscore a historical decision to downplay training as part of the TAA program. This deliberate sabotage of the training programs has been most effective. From 1975 through March 1981, only 3 percent of certified workers enrolled in training and only 1.2 percent ever completed their program. From March 1980 until March 1982 — a span of two years with record TAA applicants — the training program was out of funds.

The Administration now uses this same data and its own mismanagement to justify terminating TAA training entirely. But the low usage rates are not due to lack of worker interest as the Administration implies. In 1980, out of 176,000 TAA recipients who applied for employment services, about 40 percent (71,644) applied for training. A January 1980 survey of certified workers conducted by the Michigan Employment Security Commission (MESC) showed that 78 percent were interested in training and 38 percent were willing to relocate to take jobs. The MESC 1980 budget request for \$5.4 million to open two training offices in Detroit was rejected by the Secretary as being too ambitious. Only one training center was actually opened, only to be closed several months later when the program ran out of funds.

The Secretary's implementation of the 1981 Omnibus Budget Reconciliation Act TAA changes also demonstrates the need for training amendments. You will recall the Administration's rhetoric about changing TAA from income maintenance to training with a promised allocation of \$112

million for fiscal 1982. However, only \$25 million was actually appropriated and even then that money wasn't allocated to the states until February 1982. Thus, for the first four months of the new TAA training program, with 600,000 eligible trainees available, the Secretary left the entire program dormant with no training being approved.

In addition, the 1981 "reform" bill contained one single improvement which was subsequently misapplied. The Omnibus bill amended Section 236(a)(1) to provide that where the individual training program is approved, the worker is entitled to have the training cost paid by the Secretary. As of October 1, 1981, approximately 15,000 workers were self-financing approved training programs with the expectation that they qualified for the 26-week extension of TRA. Workers had to self-finance because no training funds were appropriated in 1981. These workers were using the 26-week TRA extension to finance their training. But the Department of Labor used this one sentence improvement in the 1981 amendment to issue clearly illegal and improper guidelines which have:

- (1) discontinued worker rights to self-finance; and
- (2) conditioned the approval of training on the availability of allocated funds.

When the amendment cut off extended TRA for these 15,000 workers who had self-financed, the UAW demanded that the Secretary reimburse their training costs — which was what we believe Congress intended. The Secretary refused, saying that while the cutbacks in TRA were to have an immediate effect, the improvements in training were to be applied only prospectively.

The net effect of these actions by the Secretary is that more than 95 percent of the 15,000 workers in training on October 1, 1981 were forced to

drop out of the program. The Secretary's enactment of these 1981 changes is currently the subject of litigation as previously mentioned (Case No. 82-1458), but regardless of the legal outcome, this story adequately demonstrates the Secretary's negative attitude toward training.

In sum, we believe the record is clear that the Secretary has failed to properly administer the TAA training program. A training program, left to this Secretary's discretion in matters of funding and promotion, is almost guaranteed to fail. By making training a program entitlement, the Secretary will be forced to finally make training a priority benefit.

The criteria for individual training approval is more than adequate to protest against individual abuses:

- (1) the individual is laid off from a workplace covered by a certification;
- (2) no suitable employment is otherwise available;
- (3) a suitable training program is available;
- (4) the worker would benefit from the training program;
- (5) there is a reasonable expectation of future employment after training; and
- (6) the individual is qualified to undertake such training.

The Administration has previously opposed making training part of the entitlement because of its general opposition to the expansion of entitlement programs. But this response doesn't really address the issue. Why would anyone oppose training for a worker indefinitely laid off due to imports? Training is no dole — it is work. We should encourage and support any person with the ambition and desire to learn a new skill.

Despite this period of record unemployment, there are an estimated one million job openings going unfilled because of a lack of qualified and skilled applicants. In several press conferences, the President has held up the classified sections of local papers containing hundreds of job listings. He has stated that training workers to qualify for these jobs is a top priority of his Administration. Making training an entitlement is therefore an opportunity for the President to honor his own commitment.

Under this approach, the Secretary will finally be required to give something more than rhetoric to the training program. He will have to promote and approve training applications. He will have to request sufficient appropriations to implement the program. Given the Secretary's track record, training as an entitlement is the only way to convert TAA into a viable training program.

B. A Subsistence Allowance Must Be Provided

We believe that minimum subsistence allowance of \$15 a day for workers in training who have no other unemployment income is also essential. The \$15 may only be enough to pay for transportation and lunch — but at least it is enough to get the trainee through the day. It is not reasonable to expect that unemployed workers, cut off from all other income sources, can get through training without some out-of-pocket expenses.

C. The Adjustment Assistance Trust Fund Should Be Restored

The adjustment assistance trust fund as set forth in the original Trade Act of 1974 at Section 245 should also be restored. Even though the fund was never established, the concept of the trust fund provides an important link between TAA program costs and amounts collected from customs duties. For example, customs duties in 1982 were around \$10 billion. Total customs

duties obviously correspond directly to changes in imports. Linking the costs of aiding the victims of trade policies to customs duty revenues is important for assessing future TAA appropriation requests.

D. The Low Approval Rate Must be Remedied

The low-petition approval rate is an insult to Congress and the American worker. What good is it to provide a realistic TAA program if very few workers ever get certified? The approval rate has dropped from 50 percent in 1975 to 8 percent in 1981 and 18 percent in 1982. As a practical matter we have regressed to the depressing years of a paper TAA program under the Trade Expansion Act of 1962.

In response to written questions from this Subcommittee last year, the Secretary was asked to specify the assumptions on which the 1982 Reagn Budget was based. His written response said "The current level of new certifications will continue with no new large numbers of workers certified. (100,000 per year)" In fact, however, 229 petitions were totally approved in 1982 covering 22,000 eligible workers. In 1981 only 28,000 workers were covered by total certifications. By comparison, 900 petitions were granted in 1980 covering 570,000 workers.

This low approval rate has never been satisfactorily explained. We acknowledge the fact that petitions filed by supplier and component workers, due to an uncorrected loophole in the law, are usually denied -- but these groups were also filing petitions in 1975 and 1976 when the approval rates were much higher. The evidence suggests that there may be some informal and undisclosed restrictions on the certification process. We can think of no other explanation. Imports and unemployment are at record highs -- yet the petition approval rate during this administration is at a record low.

Alfred Eckes, Chairman of the U.S. International Trade Commission presented the following testimony on February 15 to the House Subcommittee on Trade.

Using a conservative assumption that each \$1 billion increase in the trade deficit costs 25,000 jobs, it is reasonable to expect trade dislocations to have a growing impact on U.S. industries and workers. Indeed, the widening trade deficit could cost from 1 million to 1.5 more U.S. jobs in 1983.

* * *

At one time this import competition touched only labor-intensive products, like footwear and textiles. Now the competition has extended to industries like steel, transportation equipment, and machinery; and there is growing evidence that chemicals, pharmaceuticals, and high-technology electronics are experiencing increased pressure from foreign producers.

Thus, while the ITC predicts a loss approaching 1.5 million jobs, the Department of Labor wants us to believe that everything is normal when only 25,000 workers are certified annually.

It seems obvious that the Secretary has taken private steps to implement the Reagan termination proposal two years in advance of its actual introduction. A program providing benefits to 25,000 workers per year when imports are high and 12 million are unemployed is worse than no program. The current TAA program is paying benefits to less than two-tenths of one percent of these unemployed. To hold out a promise of assistance when we all know the actual chances of timely benefit delivery are almost nil, is doubly cruel.

Given the lack of approvals from 1962 to 1969, with only slight improvement thereafter, one of the major reforms of the Trade Act of 1974 was to remove the certification process from a hostile Tariff Commission to the fairer and more sympathetic Department of Labor. Unfortunately, this Secretary appears to be neither fair or sympathetic to the TAA program.

The application of certification criteria under the current Section 222, "contributed importantly" test is loaded with discretion. In our complex world economy, many factors contribute to unemployment — interest rates, war, oil embargoes, technological change, crop failures and so on. Determining how and when increased imports contribute to unemployment is perhaps more of an art than science. The Secretary should have sufficient discretion in applying the standard so as to deal with the hard cases.

But something must be done to let the Secretary know that it's time for him to take his thumb off the scales: A "sense of Congress" proviso should be added to Section 222 stating:

Congress anticipates that a substantial portion of the petitions filed during periods of increasing imports and unemployment will be certified.

It is also obvious that the "contributed importantly" test must be maintained for the program to have any hope of aiding import-impacted workers.

In addition, the slow processing of petitions with decisions being rendered many many months beyond the 60 day statutory deadline set out under Section 223 also has to be corrected. Petitions pending after 60 days should be automatically certified. The tardy delivery of benefits a year or two after the onset of unemployment has been one of the major defects in the TAA program.

E. TAA Coverage Must be Extended to Parts and Supplier Workers

Now that TAA is essentially a training and job relocation program, we should be expanding the pool of potential trainees rather than restricting it. How long can Congress deny extending program benefits to workers who supply essential parts and services to end-product firms affected by imports? This

arbitrary exclusion has TAA eligibility turn on corporate structure rather than what the worker actually makes. Thus a General Motors worker making spark plugs gets benefits while a Champion worker making spark plugs for use in the same GM automobile does not. Parts and supplier workers are victims of trade policies to the same extent as end-product workers. If TAA is essentially a training program rather than income maintenance, there should be no serious opposition to including independent parts and suppliers.

F. The One-Year Benefit Period for TRA Must be Extended to 18 Months

The Omnibus Budget Reconciliation Act of 1981 cut the benefit period for drawing TRA from two years to one. It was this change which eliminated most of the 200,000 covered workers drawing TRA in October 1981 even though they had not exhausted their 52 weeks of benefits.

A one-year benefit period to draw 52 weeks of state unemployment and TRA is just too short. The benefit period is triggered by the exhaustion of state unemployment. Thus, where a worker has several months of periodic unemployment, the benefit period starts and may expire before a permanently unemployed worker draws his or her full weeks of TRA. As of today, less than 12,000 workers are receiving weekly TRA primarily because of this ridiculously short benefit period. We propose extending the benefit period to at least to 18 months.

G. Where Multinational Corporations Relocate in Foreign Countries, Certification Must be Mandatory

Section 283 of the Act makes it the "sense of Congress" that firms relocating in foreign countries should give workers 60 days advance notice of such a move and offer relocation to other domestic facilities to the affected workers. It is bad enough that our laws encourage multinational corporations

to export vast amounts of capital for overseas expansion, but when an American worker's job is exported, you would think that Congress would do much more than "sense" the need for relief.

Indeed, the Secretary has held that plant relocations to foreign countries do not qualify for TAA unless the increased imports actually precede the plant closing. Workers making bicycle parts at a Bendix plant in Elmira, New York were denied certification when the company moved the plant to Mexico and imported the bicycle parts back into the U.S. The Secretary ruled that the imports had not "contributed importantly" to domestic unemployment because the imports occurred after the closing. These provisions and the availability of TAA must be mandatory.

In addition, to work effectively, the advance notice provisions must extend not only to plant closings, where the work is going to foreign countries, but to all situations where there are significant reductions in employment. Since adjustment assistance benefits coming from the federal treasury operate as a subsidy to foreign plant relocation, the Department of Labor should also exercise oversight and licensing responsibilities to determine when these moves are not in the public interest.

CONCLUSION

The justifications for maintaining a trade adjustment assistance program are even stronger today than in 1962 when the program was originally enacted. Since all citizens supposedly benefit from liberal trade policies, it is only fair that the few victims displaced be given some real assistance to restart. The 20-year covenant of this government with the American workers must not be repudiated. Indeed given the prospects for even greater levels of import-related unemployment, the program needs to be strengthened.