

**FY 1982 BUDGET FOR CUSTOMS,
ITC AND STR**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
FIRST SESSION

APRIL 3, 1981

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BUDGET AUTHORIZATION FOR THE U.S. TRADE REPRESENTATIVE, THE U.S. INTERNATIONAL TRADE COMMISSION AND THE U.S. CUSTOMS SERVICE

FRIDAY, APRIL 3, 1981

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (acting chairman) presiding.

Present: Senators Packwood, Grassley, Long, Matsunaga and Baucus.

[The press release announcing this hearing follows:]

PRESS RELEASE OF U.S. SENATE COMMITTEE ON FINANCE, SUBCOMMITTEE ON INTERNATIONAL TRADE

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING

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 April 3, 1981 on: The fiscal year 1982 Budget for the Customs Service; the fiscal year 1982 Budget for the International Trade Commission; the fiscal year 1982 Budget for the U.S. Trade Representative.

The hearing will begin at 10 a.m., in Room 2221 of the Dirksen Senate Office Building.

Requests to testify.—Chairman Danforth requested that persons desiring to testify during this hearing make their requests to testify in writing to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Tuesday, March 31, 1981. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.—Chairman Danforth urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Committee. This procedure will enable the Committee to receive a wider expression of views than it might otherwise obtain. The Committee urges very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—Chairman Danforth observed that the Legislative Reorganization Act of 1946, as amended, and the rules of the Committee require witnesses appearing before the Committees of Congress to file in advance written statements of their proposed testimony and to limit oral presentations to brief summaries of their arguments.

The Committee stated that all witnesses who are scheduled to testify must comply with the following rules:

(1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building,

not later than noon of the last business day before the witness is scheduled to appear.

(3) Witnesses are not to read their written statements to the Committee, but are to confine their oral presentations to a summary of the points included in the statement.

(4) Not more than 10 minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.—Persons requesting to testify who are not scheduled to make an oral presentation, and others who desire to present their views to the Committee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. Statements submitted for inclusion in the record should be typewritten, not more than 25 double spaced pages in length and mailed with five (5) copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Tuesday, March 31, 1981.

Senator Danforth. Good morning.

I would like to thank the Government witnesses and private parties who will appear at this morning's hearing on authorization of appropriations for the U.S. Customs Service, the USTR, and the USITC. Because of the committee's crowded schedule, another hearing has been scheduled for this room beginning at 12:30 this afternoon. I would, therefore, like to take this opportunity to remind each of the witnesses to summarize their prepared statements in order that we may hear all of the witnesses in a timely fashion.

I might also note that it is my understanding that the Subcommittee on Trade of the Ways and Means Committee has reported an authorization bill for these three agencies recommending the amount requested. That certainly is testimony to the high regard in which these agencies are held for their efficient and effective management and operation.

The first witness is Mr. William T. Archey, Acting Commissioner, U.S. Customs Service.

Mr. ARCHEY. Thank you, Mr. Chairman, and I will pay heed to your recommendation, your suggestion that we remain brief.

I'd like to introduce the members of the Customs Service who are at the table with me. On my far left, is Richard Abbey, who is the Chief Counsel, U.S. Customs Service. To my immediate left is George Corcoran, who is the Assistant Commissioner for Border Operations. To my far right is Wayne Hamilton, who is our Acting Budget Officer. To my immediate right is Mr. Al DeAngelus, who is the Assistant Commissioner for Commercial Operations.

STATEMENT OF WILLIAM T. ARCHEY, ACTING COMMISSIONER, U.S. CUSTOMS SERVICE, ACCOMPANIED BY A. R. DE ANGELUS, ASSISTANT COMMISSIONER OF COMMERCIAL OPERATIONS; GEORGE CORCORAN, ASSISTANT COMMISSIONER, OFFICE OF BORDER OPERATIONS; RICHARD ABBEY, CHIEF COUNSEL, U.S. CUSTOMS SERVICE; AND WAYNE HAMILTON, ACTING BUDGET OFFICER

Mr. ARCHEY. Mr. Chairman, we appreciate the opportunity to appear before you today to present the U.S. Customs Service fiscal year 1982 appropriations request of \$480,001,000.

This appropriation level represents a decrease of \$8,467,000 from the proposed authorized level for fiscal year 1981.

The fiscal year 1982 is the culmination of efforts by U.S. Customs Service to develop a lean and realistic budget request within the constraints imposed by administration policy decisions.

This process has involved extensive gleaning of our projected funding needs, and involved key decisionmaking by all of Customs top managers.

We are reviewing the ways we currently do business and are developing ways to minimize the impact of any change on revenue, service, and facilitation, and enforcement.

Our objective is to take as much of the budget reduction, as possible, in administrative and overhead areas, so that our basic mission operations are not severely impacted.

We are looking at ways to reduce low-priority operational programs, and those programs which have historically had minimal results.

We have also placed a major emphasis on utilizing modern technology and automation to enable us to efficiently and cost-effectively cope with the increased workload and carry out the U.S. Customs Service mission.

I just would like to comment that the U.S. Customs Service is a primary revenue collection agency and a major source of revenue for the Federal Government. During fiscal year 1980, Customs collected \$8.23 billion in revenue, and it is estimated that collections for fiscal year 1982 will total \$10.1 billion. This represents an increase of \$2 billion, or 19 percent in revenue, while staffing within the Customs Service will decrease.

As a major revenue producing and law enforcement agency, the Customs Service provides billions of dollars to assist in financing our Government operations and provides essential support in enforcing our Nation's laws and national policies.

In fulfilling our mission requirements, the U.S. Customs Service has direct or indirect impact on international trade and travel, our national economy, health, safety, and security.

We fully support the efforts and interest of the administration and this committee to keep Government expenditures to a minimum. Therefore, our program request represents a shared concern for fiscal restraint.

This concludes a synopsis of my introductory remarks. We'd be happy to go into detail on any of the information, or any part of our budget request, and answer any questions you or the members might have.

Thank you.

Senator DANFORTH. Senator Long.

Senator LONG. I'll pass for the moment with this witness, Mr. Chairman.

Senator DANFORTH. Well, let me ask you this.

The Customs Service, as you point out, is in the business of collecting revenues for the Government. It is also in the business of enforcing the laws.

Is it your view that the amount that you request is adequate?

Mr. ARCHEY. I think that, probably, in the 191 years of Customs Service, not anyone who has sat in this position, or in front of an Appropriations Committee, feels that we could always use more.

I think that the way we are going about dealing with the budget cuts, it is going to have minimal impact on our operational activity, because for the first time in this year, and, really, the last 18 months, we have a good fix on how well, or how badly, we're doing.

And, in some areas where we haven't had tremendous results—particularly, in the enforcement area we are taking a whole new assessment of the programs as to whether or not we need to continue them.

So, I think in terms of selective enforcement, in terms of the inspectional program, and programs like that—I'm not going to minimize the fact that is a substantial cut, but I think that we can still do the job.

Senator DANFORTH. Will the Customs Service be adequately staffed to monitor the trigger price mechanism?

Mr. ARCHEY. Yes, Mr. Chairman. We have absorbed the trigger price mechanism within our existing budget, since we were not funded for the program. As you know, when the responsibility was transferred to Commerce, the trigger price was discontinued for awhile. The program has been reinstated.

We have about 110 people in Customs, who are spending at least part of their time executing the trigger price mechanism. This equates to 55 or 60 people, working full time on the the trigger price mechanism.

Senator DANFORTH. And, it's your view that that's sufficient?

Mr. ARCHEY. Yes, sir.

Senator DANFORTH. Senator Long.

Senator LONG. Thank you, Mr. Chairman.

Well, I'm concerned about this suggestion over in the House Ways and Means Subcommittee that the number of regional offices be reduced from 9 to 6.

And, I assume that usually when they make that kind of suggestion, they know whose office it is that they want to close. Now, we in New Orleans were, I thought, pretty generous to sit around here and not complain about the matter when Houston came in and Houston wanted to have an office; so we went along with that. And, Miami wanted to have an office; well, OK, we didn't protest about that. So, Miami gets an office.

Now, the Ways and Means Trade Subcommittee has decided to say "Let's tell the Customs Service to cut nine offices down to six." And, my understanding is that the idea is to close the offices at Baltimore, Los Angeles, and New Orleans.

Now, can you—what can you tell me about that?

Mr. ARCHEY. First of all, what the Authorization Committee said is: "To go to 6 regions and 35 district offices by the end of fiscal year 1983." Is what the, at least, draft authorization shows.

Senator LONG. To go from what?

Mr. ARCHEY. From 9 regional offices to 6, and from 46 district offices to 35 district offices by the end of fiscal year 1983.

Senator LONG. Well, now, is that the proposal in the Department, or is that the proposal by that subcommittee.

Mr. ARCHEY. By the subcommittee.

Senator LONG. All right. Go ahead.

Mr. ARCHEY. And, in terms of the specific regions that we're cut, I think, Senator Long, that, as we said last year when this came

up, it's our view that our great preference would be that if the offices are to be closed, that someone in the Congress designate which ones. I think it would be a great deal easier for us.

Your assessment about how this evolved back in 1965, as to which regions there would be, is correct. Over the years there have been numerous studies that would suggest that we don't need nine regional offices.

And, I think that one of the reasons that this came up last year and came up again this year, is because of this austere budget climate. We are looking for ways to have some savings and some cost efficiencies.

As to the actual designation of the three regions that would be cut, if, in fact, this were to go through I think that anything that we are doing right now is quite preliminary.

Senator LONG. Well, couldn't the same result be just as well achieved by simply reducing the number of people in each of the offices?

Mr. ARCHEY. Well, we are doing that as a result of these budget cuts, anyway, Senator. We have to do that. We are cutting our overhead in our regional offices by 8 to 10 percent. We are going to have to do that this next fiscal year.

Senator LONG. Well, now, couldn't the same result be achieved by reducing it more?

Mr. ARCHEY. We did a redraft in the last month, went back to the drawing boards after the authorization committee in the House side looked at it.

We concluded that if we closed three regional offices—this is without regard to which ones, without any designation—that we would have a savings—and this is conservative—of about \$7.2 million annually, because we would actually eliminate overlapping or duplication of functions.

The second thing is we would save a minimum of 177 positions by doing that.

I think that if we were to just winnow it down, we are not going to get the kind of cost efficiencies, or management efficiencies, than if they were closed. But, we're looking at that too.

Senator LONG. Well, now, you'd like for the Congress, if I understand, to make that decision for you?

Mr. ARCHEY. I think in some ways it might be a little easier for us. Because, this has been proposed, either formally or informally, in my understanding—for the last 5 or 6 years—the closing of some of the customs regions. It's never gotten out into a bill.

Senator LONG. Well, just let me tell you what happens when that happens. When you put that ball into play, then you have Senators from each one of these States. And that means we'll have to have a donnybrook out there on the Senator floor.

Mr. ARCHEY. That's right.

Senator LONG. And after the game gets started, then regional pride gets involved. And, so far as I know, those two Senators from California don't even know that you're talking about closing the Los Angeles office.

And, so far as I know at this moment, those fellows in Baltimore don't know. They're talking about closing the Baltimore office.

Until recently, I didn't know they were talking about some proposal to close the New Orleans office.

But, once these fellows find out about it, they're going to say: Hold on just a minute. They ought to close the other guy's office. There's no point in closing mine; close theirs.

So, then you have nine delegations in there fighting. I can see that taking a week on the Senate floor to decide.

[Laughter.]

Senator LONG. And, that's just talking about the Senate. Everybody's got to prove that he's just as effective a Senator as the other guy.

And, so, by the time they get through with all that, it's taken about a week of the Congress. And, that being the case, I think that the thing ought to be carefully studied. And, hopefully, studied in broad overview. You know, one reason you have a President, and one reason we let him have so many people down there in that executive branch, in that Executive Office Building, is that they're supposed to be able to have a little overall supervision, once in awhile.

For example, if you say: Well, now, Senator, we're going to close this office down in one city, but, on the other hand, here's another program that's going on where we are going to close another office in another city, and people in the first city are going to get a few more jobs out of that.

But, I'll ask you this question: Is there any overall planning in the Federal Government that you're aware of in connection with this? Or, is it just, let's say, just inside the Customs Service or the Treasury, while the other Departments are going strictly on their own?

Mr. ARCHEY. In response to that, Senator, there is an OMB directive that if you are closing field offices, or field activities, prior to any closing, there is a whole system of procedures in which OMB is the coordinator and, in fact, final decisionmaker.

So, that the reason that hasn't gotten to them yet is because this is, quite preliminary. There's been no final decisions made by either Customs or Treasury. So, there hasn't been any real urgency about sending anything to OMB.

But, there is, in fact, a centralized coordinating mechanism for any closing of major field installations.

Senator LONG. Well, does it deal with movement of them from one place to another place?

Mr. ARCHEY. I think there is some threshold level. That, also, is incorporated under the OMB directive.

Senator LONG. Well, then it seems to me that, if we're going to do business that way, that's how it ought to be. Because, if we're going to be confronted with something that says: All right, this office here in New Orleans is to be closed, and we'll just throw that one up for grabs and let the Congress work on that.

But, then, on the other hand, here is a case that where we're thinking about moving an office from one place to the other. And, so, and on this one, we'll just propose to do business down in the executive branch with that one. And, we won't put that one with the Congress.

Now, if it works out that we lose on both ends, then, as far as we are concerned, we won't be happy about that at all.

Admittedly, we have two Democratic Senators from Louisiana. And, you've got a Republican administration. But, that State also has a Republican Governor. He's interested in that State.

So, that it seems to me that if in economizing, we're going to be cutting back on things, we ought to try to do it evenhandedly; we ought to try to do it fairly. So that no one area takes a whole brunt of it, while somebody else sits there and picks up the pieces.

Does that seem fair to you?

Mr. ARCHEY. Absolutely. And, I think that's precisely the approach we are taking. In all of our deliberations, forget the issue of consolidation of regions—in all of our activity, we have had all nine regional commissioners, and assistant commissioners in last month for three rather exhausting days.

I think that the guidelines that I gave out in terms of how we are going to handle this is: One, we are going to try to, as much as possible, not hit any operational activities. That we are going to try to do it, per what you were suggesting, Senator, the whole issue of overhead, of just cutting back on regional activities and headquarters activities.

And, I think the whole issue of the fairness of it—we are also in a situation because we've worked very hard in the last 2 years as managers to get an understanding of where the action is, and where the impact will be. If we were faced with these kind of budget cuts 2 years ago, we would be, in fact, groping in the darkness as to where to take the cuts, and how to be fair.

But, I think we are trying to be that; we will be that; and, I think that our managers are exhibiting that.

It is a pleasure for me to see some of our regional managers, who tend to be very turf conscious, not be so. Because, they understand how severe the cuts are.

Senator LONG. Well, now, it just happens that New Orleans has a black mayor for the first time in my lifetime. For the first time in this century, New Orleans has a black mayor. And, the population shift is such that New Orleans had a majority of blacks.

Now, people ought to be helping that mayor down there to try to do a good job. If you have a majority of blacks, you're going to have a heavier poverty burden than you have otherwise, because, according to Federal statistics on the average, blacks have lower per capita income.

And, they'll have some problems. As a group, they haven't had as much experience in administration as the average white's have had.

Now, you'd think a Federal policy would want to help these people to—to succeed. But, if we're not careful, it may just sort of work out that people will just start moving off and leaving them. And, who is leading the charge—the Federal Government?

Well, now, that ought to be looked at. It ought to be looked at as a matter of policy. To me, it's sort of a poor excuse to sit back there and say, "Oh, well, you know, we find, for whatever reason, that we think we'd like to close this office."

The First thing you know, leaving the city gets contagious. And, I just think that it ought to be considered on an overall basis. And,

what you're talking about here ought to be considered in connection with other activities of this Government.

Is this Government really going to say: "Well, let us participate in something that would be unfair to that city?" Or, "Is this Government going to make a policy that will be fair"? Does it say: "Well, now, hold on a minute. We may, in the interest of overall economy, going to take this thing out of your city." Here's something else, that—where we are going—where you'll pick up a few more jobs. But, if we're going to have one of these heads I win, and tails you lose propositions, you are going to have to convince everybody that represents that area.

Mr. ARCHEY. I would not disagree with that. And, I think as far as whatever happens, if in fact, it ends up in the bill, for purposes of economy, or whatever, we will consider the issue of fairness, and your concern about a centralized control of reorganizations.

Senator LONG. Thank you.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Now, Mr. Archey, I first want to thank you for the assistance you've given us in Montana, trying to provide better service in Kalispell, Mont.

If we are going to try to properly examine this budget request, it seems to me it would be helpful, at least, for this Senator to know those areas where you think the Customs Service is doing a good job, on the one hand; and, second, what are the two major shortcomings of the Customs Service.

That is, if you were to cast a critical eye, where would you find the problems of the Customs Service? So, where are you doing well? and where are you doing poorly?

Mr. ARCHEY. I think that the biggest issue that Customs faces is what we in Customs have classically called, the Customs dilemma; which is the tension that exists between the role of commercial activities and facilitation of people and cargo versus the enforcement posture that Customs has to have in terms of insuring not only protection of the revenue, but insuring the inspection and the prevention of contraband, particularly narcotics from coming in.

There's a lot of tension there. Because we have many groups that say: Stop. You inspect too much. And, cargo is being held up. It's taking too long for people to get through international airports. And, then, we have other people that say: Why don't you do more inspection; why don't you stop everybody, et cetera?

Now, in terms of what we do bad, I think that—I don't know if I want to put it quite in those terms, Senator, but I think the big issue that we have and the challenge, as I see it, for the 1980's, irrespective of budget levels, is: What are we going to do about the selectivity of examinations of both cargo and people?

Our data indicates that, for example, as far as airline passengers, the overwhelming majority of them are not violators.

What we need to do is be able to have the kind of intelligence, the kind of profile, the kind of information that can select out a universe of people that are potential violators and let other people go.

The same thing is true in cargo. Right now, I think, we don't have a systematic, scientific approach to the examination and inspection of cargo, or to the inspection of people.

Senator BAUCUS. That sounds good. What do you do about it?

Mr. ARCHEY. Well, we are testing right now, probably nine different experimental programs on dealing with profiles on cargo—countries of origin; type of cargo history of the importer, as far as violations; looking at where it is in the TSUS Code; whether or not the exporter, in fact, is legitimate, because sometimes we have bogus exporters, if, in fact, it's an attempt to smuggle contraband.

We are right now trying to test a program which we have been enjoined from doing, called the Customs Enforcement Measurement Program. That tries to look at scientifically, by random samples, how well are we doing in enforcing the laws. This procedure takes 2 percent of the cargo coming into a given port, examines it intensely, and compares it to how well we would have done under normal procedures.

Senator BAUCUS. What's your reaction to the green door or red door proposal? Is that something that makes sense or not?

I read about it in Business Week not too long ago.

Mr. ARCHEY. Yes. We read that same article.

Senator BAUCUS. And what was your reaction to that?

Mr. ARCHEY. What has happened this week is it appears the language "red door/green door" will probably not show up in the authorization hearing. But, what will show up is language requiring tests of improved facilitation programs at two major airports in fiscal year 1982.

It's my feeling that we can do more to facilitate passengers. I think it's our feeling that for this period of the test, we'd like to do something short of red/green. And, that's what we're intending to do. And, we are going to do it at two major airports.

And, we think we're going to show that we can not only facilitate passengers, but we can also have improved enforcement results. Or, at least, as good enforcement results as we have under the present system.

Thank you.

Senator BAUCUS. Thank you.

Senator DANFORTH. Gentlemen, thank you very much.

Mr. ARCHEY. Thank you.

Senator DANFORTH. Before you go, Senator Dole has—

Senator LONG. I want to submit a couple of questions on behalf of Senator Matsunaga, I'd like you to answer.

Mr. ARCHEY. Sure.

Senator DANFORTH. Yes. And the same for Senator Dole.

SENATOR DOLE'S QUESTIONS TO MR. ARCHEY

Question A. Will the \$25,000 cap in overtime pay which the subcommittee recommends provide the Customs Service sufficient flexibility to administer overtime work?

Answer. We anticipate that we will be able to keep all Customs employees within a \$25,000 limit this year. There are, however, several factors which may affect our ability to comply with the limitation. They are:

1. Declining resources.
2. Increased workload.
3. Future pay raises, including those resulting from promotions, which effectively reduce the earning limitation by the percentage of such raise.

4. The need to totally assume processing responsibilities, presently shared with the Immigration and Naturalization Service, because of that agency's reduction in resources through budget adjustments and the proposed legislation which would substitute Federal Employee Pay Act overtime for the present inspectional overtime.

While we do not presently foresee a significant problem this year in providing adequate service, we believe that a strict overtime limitation, particularly when combined with the above factors, could prevent us from providing adequate service and assuring the proper flow of international cargo, passengers and conveyances. It reduces our resource allocation flexibility and it may force us to undertake measures to reduce the level of service or to introduce other measures which reduce overtime. These measures could also prevent carriers from utilizing their equipment, prevent importers from timely receipt of their merchandise, increase stevedore and transportation costs, etc.

Question. B. Does the Customs Service believe the Service could be administered in a managerially sound manner through a reduced number of regional and district offices as recommended?

Answer. During the past fifteen years there have been conducted nine major organizational studies, all of which have universally supported the need to reduce the number of regions and districts. A 6-region, 30-district structure was cited most often for its potential efficiency and economy. In closing three regional offices we would eliminate overlapping of duplicate functions thus resulting in an estimated savings of \$7.2 million annually and 177 positions.

Question. C. Does the Customs Service presently have plans for reviewing the operational capabilities of the aircraft used in anti-smuggling activities and making necessary adjustment in the size of the aircraft fleet?

Answer. We are keenly aware of our equipment deficiencies and whenever possible we replace older, high-cost aircraft with better equipment. Based on reports which show utilization and operating costs of our aircraft, we are able to see utilization and operating costs of our aircraft, we are able to see where problems exist. Perhaps of more importance than the number of aircraft is the quality of aircraft. Most of our current fleet were obtained through either excess military inventory, or are aircraft which Customs seized and were subsequently awarded to us by the courts. These aircraft, in most cases, are not ideally suited nor do they possess the performance characteristics necessary to obtain maximum effectiveness. When resources have permitted we have obtained newer, more effective aircraft to supplement our fleet. We currently have four turboprops and one jet on lease; we have purchased two additional jets which serve as the backbone of our air interdiction efforts. Obviously, if we had the resources we would acquire more of this type of equipment.

Seized aircraft are a very unreliable source of good aircraft. The aircraft which have been on loan from the Department of Defense are very costly to operate and maintain, and seem to be always in a state of disrepair; parts are difficult to obtain and often require lengthy time periods. We have begun efforts to return some of these aircraft to the Department of Defense. Efforts to date to obtain more sophisticated equipment from the military have proven unsuccessful.

The evaluation of the Air Program, which was conducted in 1980, identified the type of equipment most suitable to meet the air smuggling threat. Before we can begin using this new strategy, additional resources are required. Meanwhile, we will continue to utilize our existing equipment in the most effective manner possible.

Question. D. Does the Customs Service have plans for studying methods of facilitating the processing of passengers at international airports?

Answer. Customs has recognized the growth of passenger loads caused by deregulation, liberalization of gateway airports, and carrier expansion. In doing so, Customs has in the past 3 years extensively expanded the Citizen By-pass System, whereby American citizens with passports are asked to stop only once for re-entry procedures, and actively developed One-Stop Inspection, whereby all arrivals are processed for re-entry by a single officer at locations where the procedure has been instituted.

In light of continuing pressures, Customs has gone even further to explore means to accommodate passenger loads. This summer Customs, in coordination with the Department of Agriculture, will expand the Agriculture Profile Screening Inspection System developed in Chicago to five other locations whereby greater coverage of agricultural quarantines can be achieved with less burden on the mass of the passengers by actively identifying those which experience indications are of no danger and quickly moving them out of the inspection stream. Also, Customs and Immigration have tentatively agreed to test an expanded Citizen By-pass System which will allow not only American citizens with passports but also those with other forms of

proof of American citizenship and those who hold Alien Registration Cards. Finally, in the past two months, with a target date of July 1, Customs has conducted extensive staff planning which will result in testing of alternative means of processing passenger arrivals at at least two of the nation's major airports. These tests will be aimed at rapidly identifying passengers who are low risk regarding the laws Customs is charged to enforce and allowing those passengers to leave as soon as the airline industry can deliver their baggage.

As a result, Customs, for the remainder of 1981, will be conducting eight tests throughout the nation to identify means to enhance facilitation of the passenger flow through those locations. This is in addition to several previously scheduled improvements planned for Tampa, San Antonio, and Anchorage by installation of One-Stop inspection.

Question E. Would you provide for the record an estimate of the cost or benefit to the government and affected individuals of the changes in the value limitations in duty-free entries proposed by the subcommittee on trade?

Answer. The following is an analysis of the cost and revenue impact of proposed changes in the value limitations in duty-free entries.

MINIMAL DUTY DIFFERENCE—INCREASE FROM \$10 TO \$20

In 1976, it was determined that it cost the Customs Service \$12.50 to process this type of change entry. Applying an average inflation rate of 10 percent to this amount, the cost of processing such a change in 1981 would be slightly over \$20. Thus, while this provision may result in some revenue loss, any such loss is more than off-set by the administrative savings. It should also be noted that our study indicated a ratio of 4 to 3 in such changes that actually resulted in additional duty collections; thus most of whatever revenue is lost would be actually off-set by not refunding in those instances where the refund would be less than \$20.

DUTY FREE GIFTS—INCREASE FROM \$25 TO \$50

In 1976 our studies indicated that the average cost of processing a mail entry was approximately \$5. It was also determined that the average duty rate for this type of merchandise was approximately 15 percent. Using again the 10 percent inflation rate for the intervening years, the cost of processing such an entry in 1981 would be roughly \$8. Even at the 15 percent duty rate we would only collect \$7.50 on a \$50 gift. Thus, while as above, enactment of this provision would result in some loss of duty collected, it is clear that this would be more than off-set by the administrative savings.

PERSONAL USE EXEMPTION INCREASE FROM \$25 TO \$50

In 1976 it was determined that to process a dutiable declaration would cost the Customs Service approximately \$3.50. Applying the 10 percent inflation rate, that cost in 1981 would be slightly under \$6. Since merchandise covered by this exemption would be subject to the 10 percent flat duty rate provision (in most instances), it is clear that the administrative cost to collect duty in these instances would exceed the \$5 in duty which might be collected. Thus, any revenue loss is more than off-set by the administrative savings.

GENERAL EXEMPTION INCREASE FROM \$5 TO \$10

As noted above, it now costs approximately \$8 to process a mail entry and slightly under \$6 to process a dutiable declaration. Even assuming a 15 percent rate of duty, it is clear that this increase will result in substantial administrative savings in excess of any possible loss of duties. (Note—using this type of cost to duty analysis this exemption could be increased to as high as \$50. For the mail entries the loss of revenue would still be less than the administrative costs and in the personal declaration situation the difference would be de minimus.)

TRAVELERS EXEMPTION INCREASE FROM \$300 TO \$400

The exact revenue impacts of this change are almost impossible to predict without a detailed study. In 1978, the Senate Finance Committee concluded (Senate Report No. 95-778) that an increase in the exemption from \$100 to \$500 would result in a total duty loss of \$4.9 million. Obviously, the proposed increase in the exemption will only create a duty loss that is a fraction of the amount, and still the exemption would be \$100 lower than the Finance Committee proposed several years ago. It should also be noted that since it costs almost \$6 to process a dutiable declaration, most of the revenue lost in those instances where a traveler has merchandise valued

between \$300-\$400 would be off-set by the administrative savings. The key consideration, however, as this committee recognized in 1978 is the advantaged of speeding passenger processing.

APPLICATION OF \$10 FLAT RATE OF DUTY—INCREASE FROM \$600 TO \$800

As the Customs Service noted when this provision was first proposed, the average rate of duty on merchandise generally imported by travelers averages 15 percent. Since this duty rate was applied to "wholesale" value this translated roughly to a 10 percent duty rate based upon the fair "retail" value. Thus, the duty effect of this change is negligible. While we have yet to conduct a study based upon "transaction value", we assume that the recent lowering of duty rates based upon the MTN negotiations would result in the same conclusion that the duty effect of this change would be negligible. The primary benefit is, of course, the ability to speed passenger processing.

SENATOR MATSUNAGA'S QUESTIONS TO MR. ARCHY

Question 1. It is my understanding that nearly half of the heroin brought into the United States is smuggled in on commercial airlines and carried through airport terminals, and that couriers travelling by this route will continue to be the most likely smugglers of heroin into the U.S. Senator Matsunaga has an estimate that only 1 to 2 percent of drugs that are smuggled into the United States are seized.

Why is such a low percentage of illicit drugs intercepted?

Is this likely to continue, and if so, why?

Answer. Although we do not know the precise amount of heroin smuggled into the country, we do believe that the current amount intercepted is a very low percentage of the total. Indicators such as narcotics availability, street price and quality have shown that there is no real shortage of drugs.

Interception of illicit drugs, especially heroin, has always been a difficult task because it can be easily concealed and smuggling is usually controlled by professional well-organized criminal groups. Furthermore, the traffickers have recently switched to smuggling of heroin in cargo coming through the airports. Detecting heroin in the enormous amount of cargo entering the country requires intensive inspections and very good intelligence. Although Customs developed profiles of heroin smugglers, the lack of advance information available demands the effectiveness of our interdiction efforts.

Unfortunately, we do project a continuing high-level of heroin smuggling. Currently, heroin from Southwest Asia is coming in at alarming rates. A lack of adequate governmental controls or the political orientation of the nations will prevent any effective crop eradication programs. Heroin continues, of course, to cross our borders from the traditional sources, such as Mexico and Southeast Asia. Customs introduction of improved interdiction programs has been stymied by the flexibility of smugglers and the use of new sophisticated smuggling modes. Our enforcement efforts also must compete with spiraling workloads and the constraints imposed by reduced staffing and budgets.

Question 2. In 1972 the Customs Service made 611 seizures and confiscated 635 lbs. of heroin. Yet by the end of 1979, annual seizures had fallen to 173, totalling only 122 lbs. Although 1980 showed some improvement, 149 seizures but 269 lbs. taken, in general, drug seizures are down not only by the Customs Service but also by the DEA (Drug Enforcement Agency).

What is the reason for the decline in seizures?

What is being done about it?

What are the constraints on Customs improving its performance in the future?

Answer. There are several factors which have influenced the decline in heroin seizures since 1972. Reductions in Mexican heroin reflect the effects of eradication efforts by the Mexican government assisted by severe weather conditions (droughts) in the northwestern portion of Mexico during the period 1977-1978. Similarly, a severe drought in 1978-1979, severely damaged Southeast Asian heroin production. Conversely, availability and seizures of Southwest Asian heroin, over the past few years, have increased so that it currently constitutes about 78 percent of all heroin seized.

While the availability of heroin in the U.S. has declined since 1972, we are now witnessing renewed production in Mexico, Southeast Asia, and Southwest Asia. A bumper crop of Southeast Asian heroin is also anticipated to increase and remain the top heroin supplier.

Customs, in conjunction with the DEA, is attempting to improve its intelligence gathering and border interdiction. At the airports an awareness program designed to alert enforcement personnel of the current heroin threat is currently underway.

This program has established updated profiles, methods for searching conveyances, and improved detection of heroin concealed in cargo and in baggage. These new programs are a high priority and will be maintained at the highest level possible despite reduced budgets.

Question 4. How will the following cuts affect Customs ability to counter the alarming heroin trade?

3 million from land and marine patrol presence?

2.9 million from air interdiction?

3.5 million from inspectional activities?

The elimination of 73 full-time land border patrol positions due to a 3 million dollar cut in this area?

Answer. Customs will attempt to absorb these cuts in the most judicious manner with the least impact on current inspectional and patrol programs. With regard to our patrol and tactical interdiction programs, cutbacks will be in areas and functions having a minimum impact on heroin smuggling. For example, Customs Air Program which is scheduled for reductions, has been only involved in seizures of marihuana, cocaine, or drug tablets. Apparently the heroin is getting into the United States via other means. Therefore, we anticipate that reductions to the Air Program would not adversely affect heroin seizures.

Insofar as inspectional activities are concerned, the reductions also will be allocated to minimize the impact on our processing, particularly at airports, since 70 percent of all heroin seizures were made from airline passengers; and 20 percent from air cargo. At this time, the proposed reductions will only affect some secondary examinations of cargo and passengers.

Customs will continue to combat heroin smuggling on a priority basis. To insure that our border interdiction remains effective against heroin smuggling, we intend to increase the use of: (a) selective enforcement approaches, and (b) improved intelligence development and information gathering.

Question 5. What impact will all of these cutbacks have on controlling the U.S.-Mexican border where 80 percent of Mexican heroin is smuggled into the U.S. by vehicle and pedestrian through entry ports?

Answer. Land Border traffic represents approximately 90 percent of passenger traffic for the U.S. Customs Service. Customs processes the majority of this traffic on the Mexican border. Reductions in staffing would impact upon our ability to provide adequate facilitation and enforcement. With traffic volume increasing each year, we would expect longer delays which has the potential of diminishing inspectional effectiveness. In addition, cutbacks could result in reduced hours of service at some border crossings and even the closing of lesser used facilities. Customs will of course try to reduce the impact of any cutbacks on our processing along the Southwest border.

Question 6. The raw opium production this year in Thailand, Burma, and Laos will be 1,000 tons. These countries supplies 50 percent of U.S. heroin used last year. What impact will the proposed budget cuts have on interdicting Asian heroin entered into the U.S. by commercial air travelers?

Answer. Customs is aware of the potential problem of growing heroin smuggling at our international airports. Traffickers continue to smuggle in significant amounts of heroin through these airports. In addition to the growing enforcement requirements, Customs is confronted with a growing passenger and cargo workload at these same facilities. Currently, Customs is attempting to provide efficient service to this growing passenger workload while operating at many locations in outdated facilities. Based on past experience, we anticipate that the smugglers will attempt to take further advantage to increase the smuggling of heroin through the airports.

Mr. ARCHEY. Wayne, do you want to get those?

[The prepared statement of Mr. William T. Archey follows.]

STATEMENT OF WILLIAM T. ARCHEY, ACTING COMMISSIONER OF CUSTOMS

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today with my associates to present our fiscal year 1982 requirements, and to discuss my views on the future needs and direction of the U.S. Customs Service.

Our revised fiscal year 1982 Budget request submitted to the Congress on March 10, 1981 is \$480,001,000. This budget was revised in accordance with the President's budget reduction plan. We have reviewed how we do business and developed ways to minimize the impact of any change on revenue, service and facilitation, and enforcement. Our objective is to take as much of the reduction as possible in administrative and overhead areas so that our basic mission operations are not severely impacted,

however, it is obviously not possible to guarantee that there will not be some reductions in service given this budget figure.

I want to emphasize that we will continue to look for ways to improve the efficiency and effectiveness of operational activities. We are especially concerned with improving our selectivity systems in both cargo and passenger processing. I want to add that we have recently had to divert critical resources to implement the Trigger Price Mechanism and will continue to support similar important efforts as required. Although we project some growth in our workload for fiscal 1982, we are confident that we can operate effectively within this revised budget request. I know our managers will successfully meet the challenge.

Customs basic mission is to collect the revenue from imports and to enforce Customs and related laws. As the principal border and enforcement agency, Customs enforces the provisions of the Tariff Act of 1930 as well as 400 laws for 40 other government agencies. Customs fulfills this mission in a highly dynamic environment through a widely dispersed organization, performing a variety of functions which impact the traveling public, the import and trade community, the health and welfare of American business and the general public.

The U.S. Customs Service is a primary revenue collection agency and a major source of resources for the Federal Government. During fiscal year 1980, Customs collected \$8.23 billion in revenue, and it is estimated that collections for fiscal year 1982 will total \$10.11 billion. This represents an increase of almost \$2 billion, or 19 percent, in revenue, while staffing within the Customs Service will decrease.

Utilization of modern communications and computer technology will enable Customs to efficiently and effectively process the growing numbers of travelers and the volume of merchandise entering the United States each year. I am a firm believer in the capabilities of automation and the benefits of research and development. We must apply state-of-the-art technology and equipment to improve our means of selectivity in an all out attack on smuggling of narcotics and other prohibited articles and in revenue protection. Therefore, this submission is capital-oriented rather than people-oriented.

Within the context of limited resources, the Customs Service is practicing modern management techniques to refocus its efforts and better utilize resources in several basic ways, including the following:

- Reduction of Headquarters staffing by 21 percent in the last two years, allowing us to divert resources to primary mission activities in the field;

- Implementation of Program Development System, enabling managers to make realistic decisions based on thorough analysis of new initiatives;

- Implementation of Program Evaluation System, ensuring that programs meet objectives in an efficient and effective manner (for example, specific follow-up actions were taken in the Detector Dog Program, resulting in a significant increase in the cost benefit ratio. Further, implementation of ACCEPT was stopped until the program was restructured and could be adequately tested);

- Implementation of Management By Objectives System to measure organizational and individual effectiveness;

- Emphasis on Planning and Budget process, institutionalizing long-range planning as a key element of management decision-making;

- Reallocation of available resources to meet changing mission needs and maximize program results, specifically in the Patrol and appraisalment/classification functions (for example, Patrol seizures in the New Orleans Region during the first quarter of fiscal year 1981 are far in excess of the seizures for all of fiscal year 1980);

- Development of an investigative strategy which targets our scarce investigative resources on high priority, high quality cases; and

- Implementation of queuing model which has reduced traffic congestion associated with border inspection operations.

In addition, it is the U.S. Customs Service responsibility to process persons and cargo entering the United States. Customs must continue to improve and refine its passenger and cargo processing services. We must increase the use of profiles and new techniques so that facilitation of passengers at major airports and border locations is improved. We must be responsive to the traveling and importing public's needs for protection, safety and efficient processing. At the same time we are seeking to optimize inspection productivity.

Finally, Customs has continued to support its long standing practice of recruitment at the lowest possible grade levels, with emphasis on the long range development of lower level employees to meet direct operational needs. The Customs Service will continue to develop modern management techniques to determine future demands for our services and better ways for us to meet those demands.

As a major revenue-producing and law-enforcement agency, the U.S. Customs Service provides billions of dollars to assist in financing our government's operation

and provides essential support in enforcing our nation's laws and national policies. In fulfilling our mission requirements, the U.S. Customs service has a direct or indirect impact on international trade and travel, our national economy, health, safety and security.

We fully support the efforts and interests of the Administration and this Committee to keep government expenditures to a minimum. Therefore, our program request represents our shared concern for fiscal restraint.

This concludes my introductory remarks. We will be glad to go into any detail of our request and answer any questions you or the members may have.

Senator DANFORTH. The next witness is Michael Hathaway, Office of the General Counsel USTR.

Mr. Hathaway.

STATEMENT OF MICHAEL HATHAWAY, OFFICE OF THE GENERAL COUNSEL, USTR, AND JOHN GIACOMINI, DIRECTOR OF MANAGEMENT

Mr. HATHAWAY. Mr. Chairman, I am Michael Hathaway. I am the Senior Assistant General Counsel, USTR.

I think with our Office's relationship with this committee and with the Congress, I did not want to waste your time with a long explanation of what we do, because I think you know that very well already.

With me today is John Giacomini, our Director of Management, and we would be pleased to answer and take back for further response any questions you might have on the budget requests that we have, or any other matters that are before our office now.

Senator DANFORTH. Very well. Senator Long.

Senator LONG. I have a question here from Senator Cranston. Will you please relate it? The International Trade Subcommittee—the status of Citrus Section 301, filed against the European Economic Community.

Senator Cranston has been following this case with great interest and notes that it has been pending since 1969. We would like to see the case move forward and go to a GATT panel under the USTR plan to ask the GATT panel for action on this case.

Mr. HATHAWAY. The most recent report states that we have been consulting with the European Community on that. As you know, it is a complicated question. It involves both the enlargement of the Community and other rather complicated trade questions.

Throughout the first half of 1980, every effort was made to resolve the citrus preference problem by negotiating tariff reductions on citrus products. Unfortunately, the EC refused to negotiate so the dispute settlement procedures under the General Agreement on Tariffs and Trade (GATT) were initiated in July.

The first step under these procedures is to attempt to resolve the matter amicably through consultation under Article XXII. These consultations were held on October 3, 1980, in Geneva. Since they failed to achieve a meaningful result, we are now in the process of developing the legal arguments and supportive evidence for the next step in the dispute settlement procedure.

In this regard, it is important to note that even where flagrant violations of international trade rules can be demonstrated, a panel is less likely to render a favorable ruling to the complaining party if there is little or no concrete evidence of trade damage resulting from the violation. Therefore, it is essential that we develop the strongest possible evidence of such damage. Hence, my staff is working with USDA officials in an attempt to define precisely the extent to which U.S. citrus trade has been adversely affected by the preferences.

There has been no decision to request a panel on that particular case. I would be happy to have Jeanne Archibald, who is the chairman of our section 301 Committee provide a detailed update

to this committee and to the Senator on the status of those consultations.

Senator DANFORTH. Senator Long has made a point in the past that is also a matter of concern to me, namely, that the business of negotiating trade agreements is the one that requires a high degree of talent. Some people are just better at negotiating than others. Thus, we need people who have the kind of temperament to be good negotiators, who know what is going on, who have experience, perhaps even people who know more than one language.

The concern is whether we have the capacity to create and keep what amounts to an elite corps of negotiators. Do we keep them? Do we train them?

My impression is that not only in trade negotiations, but in other kinds of international negotiations as well, other countries have the capacity of designating people who will stay in one position for 5, or 6, or 10 years, whatever it takes, and know everything there is to know and have all the patience in the world to just hang in there. Whereas, in the United States, we tend to shift people around. We lose people. They get hired by the private sector. It is more or less a revolving door.

The question is: Is this the case with USTR, and are there ways we should be exploring for finding and training the kind of personnel we need.

For example, we could simply retain law firms, or as an alternative, we could have a special group of people, who, by statute, would not be subject to restrictions on what they could be paid.

Mr. HATHAWAY. Well, those ideas certainly would have appeal to the people who are subject to pay restrictions.

It is difficult for any executive branch agency that has a high level of responsibility and a great deal of exposure to private sector interests to keep personnel after there has been some major accomplishment.

The Office, working through an interagency process, has been fortunate in having the resources of other departments of other agencies, people from congressional staffs and from the private sector, who are interested in working in the area and are interested in staying long enough to make some significant contribution.

But, it has been very difficult to keep all the qualified people after the MTN. A number of very good people left the Office for greener pastures. That will, I assume, continue to happen.

But, I don't know of any organized plan that, given the current constraints, would be——

Senator DANFORTH. I don't either. I am just concerned about whether we should be thinking in that direction.

Mr. HATHAWAY. I certainly think it would be helpful if we were. I know there actually has been less of a turnover of some of the very competent negotiators and people in the Office than one might have expected.

But, it is a very difficult problem. There are always opportunities for those who attain the level of expertise that one can obtain in our Office.

Senator LONG. Let me just ask you an item about this since the chairman of the subcommittee did bring it up. Let me just ask this question, Mr. Chairman.

Senator DANFORTH. Certainly.

Senator LONG. If you were trying to advise some young person, you know, some young person, who is strictly a summa cum laude type, who has the competence to graduate at the head of his law school class, at the head of his commerce school class, business school class, interested in the field of trade, and he or she had a graduate degree and you were to advise him where to go get himself a post-graduate degree in international trade, where would you send him?

Mr. HATHAWAY. Probably to the Finance Committee staff, first.

Senator LONG. Assuming money is no problem now. You want to be the best educated that you can get; where would you send him?

Mr. HATHAWAY. There are a number of graduate schools in international trade and finance that we have a number of people who have graduate experience there. I would be reluctant to start naming them. I am afraid I would leave out someone and—

Senator LONG. Would you mind naming some?

Mr. HATHAWAY. Yes.

Senator LONG. It is certainly perfectly all right with me if you would supplement it for the record. But, I don't think there are many that are that well regarded.

What would you say the best are?

Mr. HATHAWAY. We have a number of people that have gone to the Fletcher School, to the Kennedy School, to the University of Pennsylvania to SAIS, and to Georgetown.

Senator LONG. Where?

Mr. HATHAWAY. Well, the Kennedy School is affiliated with Harvard University.

Senator LONG. Where is that?

You mean in Massachusetts?

Mr. HATHAWAY. Yes.

Also, there are a large number of people coming into international affairs that have gained their experience rather than going away into graduate programs, have done graduate work within the local universities, Georgetown and at George Washington University, and while a Government employee, either on a congressional staff or another department or agency.

It is not an enormously large number. I think it is partly because of the emphasis or lack of emphasis in the past on exports and on foreign markets. As this increases the demand in schools will increase and the quality as well.

Senator LONG. Let me just ask you this question. Have you ever gone to school in Europe with regard to trade? Have you yourself ever been to school over there?

Mr. HATHAWAY. I have not. Others in the office have had intensive training in at least 1- and 2-year programs for graduate degrees in various universities throughout Europe.

Senator LONG. Well, you see, here is the kind of a thing I am thinking about. I just happen to believe that our people have nothing like the experience of those people we are negotiating against, have nothing like the experience they have, can't compare, can't hold a candle to them.

Basically, I am not saying our people are incompetent. I am just saying if I were a lawyer pleading a case that had to do with

something like that over there in Geneva, and about the best I had was the experience I could get being a graduate of a first-rate law school like Louisiana State University, which I think is the best law school in Louisiana and compares favorably with Harvard, I don't think that I would be any match for some fellow that specialized in that field and been educated in schools where they specialized in trade. They would be talking about things we don't even discuss at LSU, and I doubt if they discuss much of it at any university, including Harvard.

We need to find where is the best education we can get for some of our people, send some people over there, and we ought to have somebody say, "What do they teach their people that our people are not being taught?"

Now, most of what I know about trade, I had to just absorb it over a period of 30 years in the Congress. But, I am here to tell you it has been my experience, in the main, with what we are doing around here is the blind leading the blind. Half the time people tell me something that is not necessarily so at all.

Mr. HATHAWAY Over the past year it has been very difficult during the course of the MTN to focus on long-range organization of the office and training of the staff that are there.

We have that ability now. John Giacomini has been working extensively on the training program. We have the people who are on the staff, particularly the younger people who are on the staff, going through a career development program so that we will be having people extending the education they have.

Senator LONG. I had the opportunity to be at Geneva a couple of times and see what we had over there and pass on the people we sent. I am just saying that this area is an area where we don't have the competence we ought to have.

Do you agree with that?

Mr. HATHAWAY. No, sir, I don't. I believe that the people in the office we are working with, my colleagues, are every bit as competent as their counterparts in other countries. There is difficulty in keeping people in the job as long as the people stay in other countries. It is a constant problem of making sure that the people who are involved in the negotiations are aware of all of the history and background that the fellow across the table from them is going to be aware of.

I think we have been lucky in the past to have people who were capable of bridging that gap.

Senator LONG. Well, now, you may be right, and I may be in error about this. But, if I am right, then we are in even worse shape than I thought we were in because if we lack the competence and don't know we lack it, in the people who speak for us, then we really are in trouble.

Mr. HATHAWAY. I am not saying we can't improve or we shouldn't be trying to improve. I think the point you are making about seeking more training and making sure we have, is something that ought to be explored and something that Chairman Danforth raised. We ought to be considering something more to make sure we can obtain and maintain the level of expertise that is necessary.

I don't think we ought to be shooting at staying levels that are even with other countries. I think we ought to be in a better position, if we can.

Senator LONG. Let me say that part of my problem around here is I have had to fight this battle over many years, is that we have had people who, one, were running a great big deficit for us and publishing fraudulent figures to make it appear they were making a profit all at the same time.

Now, I am happy to say, as far as I can recall, whoever had that job of STR agreed with me every step of the way about that particular item.

By the way we were reporting our trade figures, we were reporting a profit in 4 years in a row where we were losing money. We are talking about billions of dollars of difference.

You know what I am talking about, don't you?

Mr. HATHAWAY. Yes, sir, I do. I have been here long enough to know that and know the resolution, at least the partial resolution, that you achieved in the Trade Agreements Act on the reporting of that data.

Senator LONG. You would have thought you could have turned that thing around about a year or two. Well, it took about 10 years to finally turn that thing around.

It seems to me that we have some situations where we ought to be doing better about it. Now, we ought to be, for example, we know that the Japanese are more productive than we are.

Do you think that is right or not right? I mean, as far as their new industries, their export industries?

Mr. HATHAWAY. Well, I just received some more recent data yesterday that showed productivity in general, that the United States was still ahead, but that the lead that we had was much smaller, and if the trends continued, we would no longer have the lead in productivity.

Senator LONG. I will just make you a bet. When they say our productivity is still ahead, that they are still averaging in those little 1-acre rice paddies against those big manufacturing establishments to arrive at that conclusion.

Can you tell me whether that is the case or not?

Mr. HATHAWAY. I suspect there are some industries in which their productivity far exceeds ours and probably those industries in which they have a competitive advantage now.

Senator LONG. That is what I am getting to.

You see, there is another area. Are they ahead of us or not?

Well, it seems to me, in the area of manufacturing automobiles, in the areas where we are really suffering, they are ahead of us. It doesn't make too much difference whether they are ahead of us in productivity of rice. We can produce rice so far below their price that our problem there is to make them stop shipping, subsidizing rice in the markets which ought to be our markets.

Now, all I am saying is, relatively speaking, knowledge is one of the cheapest things you can buy for your money, I would think. If you are talking about a program, what is it, the annual flow of commodities in this market right now, the latest figure you have now. How much is it?

Mr. HATHAWAY. I can't tell you.

Senator LONG. Well, can you give me a guess? Who can give me a guess? How many imports and how many exports did you have last year?

Well, you have to have someone around here who can answer that, can't you? I mean, that should be fundamental.

Can't you give me a guess and come within 10 percent of it?

Mr. HATHAWAY. Between the amount of exports?

Senator LONG. Well, let's say on a CIF basis, how much imports and exports did we have last year? It seems to me that you ought to know that.

Mr. HATHAWAY. I would guess, and stand subject to correction, that we are probably in the \$30 billion in the export area.

Senator LONG. Well, that is the deficit. How much were the imports and how much were the exports?

Mr. HATHAWAY. Our deficit was not that large if anybody has the figures.

Senator LONG. Well, if nobody knows around here we better find out. It is \$220 billion in exports and \$250 in imports. So, we are \$30 billion behind on that item.

Now, what I am saying is, that is a very important matter. Here you have \$250 billion of imports and you have \$220 billion of exports, and we are running a deficit of \$30 billion. That is a very serious matter; would you agree with that?

Mr. HATHAWAY. I certainly would.

Senator LONG. Now, looking at the totality of the problem, knowledge, just somebody who knows what this whole thing is all about from A to Z, should be about the cheapest thing and the best buy we could make, I would think. Would you agree with that?

Mr. HATHAWAY. It certainly should be a good buy; yes.

Senator LONG. That being the case, if you don't have a program to get your people thoroughly educated, we ought to get one.

Mr. HATHAWAY. I would be happy to report back on what our efforts have been on career training and development and if we see we have shortcomings—I would be glad to report back on them. It is not only within our Office. As you know, most of the work of our Office is done through an interagency process that we have drawn upon the resources of all of the other agencies in the executive branch and analyze where we have lost people over the years.

That is the perennial problem of our form of government that we end up, once people are particularly well trained, and their market value increases, with them exercising the market system and improving their income by taking jobs that pay them more than they can earn if they stay in the Government.

Senator LONG. Well, you have another problem. You have two problems. One, you have the problem of getting somebody educated, and two, you have the problem of keeping them around after you get them educated.

If you are talking about which comes first, the hen or the egg, if you don't have a hen or an egg, you are in a lot worse shape than if you have one or the other.

The chances are if you have one, you might be able to acquire the other. So, it seems to me we need to get started. All I am saying is, I want to help STR. I want STR to succeed.

What I am saying, if we need better education, you ought to be asking for it and we ought to be helping you to get it.

Mr. HATHAWAY. There are elements in the budget for some expenditures for the career training and development. Frankly, over the past year, it has been a new element, that there has not been that much of it in the past. Practically all of it that had been done for full-time USTR employees was obtained by them when they were with another agency that had that.

There are other agencies that have programs where their people go away for a year and get graduate degrees at the best universities and the best educations available.

The problem has been in our Office, frankly, Senator, that it has been very difficult to afford the time, at least in the past 4 or 5 years in which I have been associated with the Office, it has been hard to say that if you have a key person that you think would benefit from extra training, that you could do without them for a year while they went off and got training.

Senator LONG. Well—

Mr. HATHAWAY. That has been as much a problem as anything else.

Senator LONG. Would you provide me, and this subcommittee, with a summary of what has been done during the last year to try to help qualify people in the area where you would need it and what is being planned for the future?

One thought that occurs to me, in some of this we do not have to have Government money to do. I don't have any doubt if we went to almost any big foundation, the Rockefeller Foundation, Ford Foundation, some of the others, and told them we just don't have the people who are adequately trained in the trade area, they might provide some scholarships to help them.

I think they would do it. What do you think?

Mr. HATHAWAY. They may. It would be something that is certainly well worth pursuing, because it is difficult to keep them. The demand for people with special training in this area is such that it is not an easy matter to recruit someone at Government salary levels when that person has advanced degrees.

Senator LONG. Thank you very much.

Senator DANFORTH. Well, if you are going to be furnishing something for the record, I would also like some elaboration, not only from the standpoint of how you train or educate people in this area, but how you go about finding them in the first place. How do you recruit them? I don't know if indoctrination is the right word. How do you instill in them the kind of philosophy or the kind of spirit that you want?

It seems to me that a trade negotiator is really less like a diplomat than he is like—I don't know, a labor lawyer, maybe; that is, the real job is to make a deal. The deal has to be in the best interests of the United States, not pursuit of some vague overall national policy or some philosophy. We are talking about simply negotiating deals. There are people who can do that very, very well. They seem to be born with the talent. They are patient. They are tough. They have the right kind of mentality. It is not a matter of trying to create a kind of philosophy of international trade.

Rather, it is to take the negotiation that is going on and to come out with the best possible arrangement for the United States.

So, what I would like you to do, if you are going to furnish more for the record, is to tell us how you go about finding people. What kind of people do you look for? What sort of indoctrination or instilling of an attitude do you do with them? How many people do you lose and where do you lose them to? And, to what extent is that a problem?

I think that it is not just a question of academic training or scholarship. I am sure that is important. But I think it goes beyond that. How do we get the right type of person and give him the sense of mission, and then how do we keep that person and not have him take off. I would doubt that they would be leaving for other parts of Government, if they are the kind of people that I envision. I would guess they would be picked off by law firms.

So, that is the kind of thing I would like to concentrate on. It is not just idle curiosity. Maybe there is something we can do about it. I mean, maybe this is one thing where we in Congress can really help. Maybe it has to do with pay or maybe it has to do with the way the thing is set up. I don't know. I think that this is something we could really address. I would like your considered opinion on it.

Mr. HATHAWAY. I would be happy to provide that for you. I think, as you know, from observing our Office and the people who are in it, as long as you have, that there has been a fairly close relationship both with the Congress and with the other agencies in the executive branch, and in addition to the academic training which Senator Long had mentioned, the on-the-job training and the experience in the area is something that is also essential.

That is one of the key elements that has really led to the people coming there. You are quite right, there are not that large a number of people who move to other executive branch agencies. They usually suffer the same problems, and more of them, in another office, with the isolated exception of somebody like John Greenwald who went to run the dumping and counterveil laws, which was something that was in the best interest of the administration of those laws.

It is a very difficult task to find the people and to actually to get them or steal them from the appropriate agencies or staffs or whatever before somebody in the private sector steals them first.

Senator DANFORTH. Or to hire them from the private sector.

Mr. HATHAWAY. That is a possibility. The problem is, the people with the level of experience and expertise, you have to get them very early on, and in many instances right out of school, unless they are willing to take an enormous pay cut.

Senator LONG. Let me just make the point, though, that is being lost here. If we made it know to young people, let's say just in law school alone. Let's just talk about law school. I am interested in law school, because I went there. So did the chairman of this subcommittee go to law school. He went to one. I went to another.

You just take in law school alone. If young people knew, bright, young law students, that here was an area where there was a magnificent opportunity to be a success, make a lot of money, serve with distinction in Government, travel all around the world, travel

at Government expense or someone else's expense on the expense account, that is the kind of a job that they talk about on television.

It is a marvelous job. Go all around the world and live in the best hotels and enjoy the best meals and see the beauty spots of the world and usually be there at the best season. What a nice business to be in.

If young folks knew about that, all kind of young people would want to say, "Where can I go and find out about all this." If only they knew that we, on the committee, were looking for people like that. You are looking for people like that.

Furthermore, if they knew that they can leave school and go make a good living somewhere else, it wouldn't be many years before we would have lots of them available; isn't that right?

Mr. HATHAWAY. That is true. I think it is not quite as big a secret as you might think. When we do have openings, and there haven't been that many, when you are talking about 113 full-time positions, including chauffeurs, secretaries and everybody in the whole agency—there aren't that many positions, at least in our office—and we ended up with 3 or 4 positions that we advertised. We received about 350 applications from people who had excellent backgrounds and excellent qualifications.

I think part of the disincentive is that the area of international trade and exports and people looking at other markets and looking at the international side of it.

Senator LONG. You just said that you think those people have excellent backgrounds. Some of the best people that ever served over there came from this committee, and they don't have excellent backgrounds. I happen to know better. Mind, I am talking about the best. If that is how good the best is, what are your worst or your average?

So, I am just saying here is an area where we ought to be doing better. I am not here to give you a bad time. I am just trying to see that you do a better job and so do we.

Basically, I am saying we are not as well informed as we ought to be.

Anyway, I would appreciate it if you would give us the information that we asked for. Show us what you are doing and what do you hope to do along that line; what your plans are.

Mr. HATHAWAY. I would be happy to provide that for you, Senator.

Senator LONG. Thank you.

[Material was subsequently supplied to the committee.]

RECRUITING AND RETAINING QUALIFIED INDIVIDUALS

We definitely share your concern for the need for recruiting and retaining qualified, highly professional individuals in the area of trade policy and negotiations.

We have also been concerned about the need to encourage students to consider these specialized areas as careers, and the need for academic institutions to design programs which provide adequate preparation and background. International economics, trade, and negotiations have extremely great significance for this nation, and for the world. Although the investigation and development of curriculums is beyond the scope of this agency, we believe this matter merits greater attention. We offer suggestions to address curriculums and describe our efforts to acquaint students with trade policy and negotiations. Also, we offer suggestions on possible Congressional actions.

RECRUITMENT

Since its inception, USTR has devoted considerable time and effort to identifying talents required for specific jobs, and when vacancies occur, recruiting qualified individuals. Following the trade organization when Congress approved additional positions for the agency, an especially intense effort was made to recruit talent needed to implement the Trade Agreements Act of 1979. Also, we continue to give much thought to how we can best retain talent, once we have individuals on-board and after they have gained valuable experience with the agency and have proven their worth. The rule, rather than the exception, is that we attract a far greater number of applicants than vacancies.

Recruitment procedures which have worked well are:

Vacancy announcements posted governmentwide (USTR is a "competitive" agency) and dispatched to private organizations and universities.

Word-of-mouth.

Contacts through information networks which selecting officials have established over the years (agencies, Congressional, trade associations, academia).

During the recruitment phase following the trade reorganization, more than 350 individuals applied for 4 attorney positions and more than 1,900 for about 30 other vacancies. Thus we were in a position to select only the "cream of the crop"—individuals with strong trade records and substantial experience in the trade field.

The knowledge, skills, and abilities which we look for when recruiting for most professional positions are listed below.

1. Proven negotiating ability.
2. Demonstrated ability to formulate policy, taking into account diverse and often conflicting national and international interests, and ability to manage the inter-agency policy processes.
3. Broad appreciation of the contents of the Trade Agreements Act of 1979 and other statutory guidelines for U.S. trade policy.
4. An understanding of Congress, the legislative process, and the special relationship between the Congress and the Executive Branch in trade policy formulation.
5. Experience in working with representatives of foreign governments, the Congress, the private sector, and the media.
6. Understanding of sound management techniques and the need for effective interpersonal relationships.
7. Understanding of legal developments as they affect trade policy.
8. Ability to communicate effectively.
9. Leadership qualities.
10. Ability to operate successfully under extreme pressure and very tight deadlines.
11. Experience with results-oriented activities.
12. Academic training and work experience in international economic and trade issues.

RESULTS OF RECRUITMENT EFFORTS FOR PROFESSIONAL STAFF

The 70 members of the professional staff have been recruited primarily from Congressional staffs, business, and other government agencies involved in international trade. We realize that education and language proficiency do not generate, in and of themselves, the acumen necessary for a successful negotiator or policy manager. However, we thought it would be useful to provide some data on the background of our staff.

The staff has language proficiency in Spanish, French, Finnish, German, Russian, Portuguese, Italian, Hungarian, Greek, Swedish, Danish, Japanese, and Thai languages. About 43 percent have resided overseas in 24 different countries for periods of time ranging from 2 to 12 years.

Regarding degrees, 65 have undergraduate degrees, 52 have graduate degrees, 12 have law degrees, and 8 have doctorate degrees. About three-quarters have more than one degree. Most have taken other training related to their primary field of expertise and in general management topics. Several have been selected for participation in programs such as the Congressional Fellows Program, the Federal Executive Development Program, and the Executive Seminar in National and International Affairs of the Foreign Service Institute.

Twenty-three individuals have attended foreign universities or institutes in Mexico, Iraq, Nigeria, England, France, Denmark, Switzerland, Italy, Japan, Taiwan, Thailand, Israel, Spain, Brazil and Austria. Several also attended schools abroad at the high school level.

Members of the staff are actively involved in several professional societies and honor societies. Many have received fellowships and scholarships, recognition in

honor programs, distinguished service awards, outstanding performance awards, and recognition by foreign governments.

Our senior management officials, i.e., heads of policy/negotiating units have a total of 184 years of experience in the international trade and economics fields, or an average of 13 years. Not all of our negotiations were as successful as we or the Congress would want, however, the shortcomings were more a function of conflicting pressures, regarding what would be acceptable, and historical problems regarding who had negotiating responsibility (which we are seeking to eliminate in the current administration). Often, the staff has had to act as "change agents" on unpopular, difficult positions, such as removal of trade barriers, which were not of real concern to other countries.

RETENTION OF STAFF

We have been fortunate that a number of our experienced people have remained with the agency for several years. Given the mobile, transient nature of our society, and as that impacts on professionals in the Washington environment, we have a good retention record. However, the transferability of experience gained in the agency and the attraction of better salaries and fringe benefits elsewhere, has had an impact, and could easily have a very significant impact in the years ahead. Other factors which influence an individual's desire for change are generally better opportunities, reorganization, more responsibility, and a less strenuous work environment. Agency personnel who have left have been attracted to private law firms, other government agencies, international organizations, private businesses, trade associations and the Congress. Among the professional staff assigned to Geneva during the MTN, about 40 percent have left government service.

REDUCING STAFF TURNOVER AND ENHANCING PROFESSIONAL CAPABILITIES

To reduce staff turnover and reduce personnel losses to the private sector, Congress should continue to investigate more appropriate salary levels and fringe benefits for professionals. This is a growing problem since 40 percent of the USTR professional staff is already constrained by the pay ceiling.

Although we are told that European counterparts receive higher remuneration and greater benefits, we have not been able to locate comparative data that officially sets forth the differences and the bases for comparison. This is a complicated matter which gets into classification systems, national civil service systems, indexing and cost of living factors, and which country should be used as the comparator. The United Nations system, in developing its salary scale, has always used the U.S. Civil Service as the comparator because, up to now, it has been considered as the highest paid civil service in overall terms. Currently, the United Nations is reviewing Western Germany's system to determine if the comparator country should be changed. Also, we understand that the International Civil Service Commission will become involved in the "comparator" issue.

One way to forestall or reduce turnover for members of the Senior Executive Service (SES) would be to reconsider restrictions on the bonus system which was established under the guidance of the Civil Service Reform Act and the Office of Personnel Management. These restrictions cause serious problems for a small agency with a proportionately higher number of high performers. As we understand it, the General Accounting Office has studied the SES bonus system and payments, and detected no abuse. Such an innovative system with the demands it places on management needs time to operate efficiently. Those who joined the SES have assumed greater risks in return for the promise of rewards for outstanding performance. Turnover in the SES ranks, according to the Merit System Protection Board, can be attributed, to a large degree, to insufficient incentives to remain in government service.

Despite the disincentives which do exist we still have been able to maintain a high-quality corps of professional staffers.

At USTR we intend to provide for continuing developmental activities for the professional staff under our Career Development Program. To assure best utilization of our resources, staff members have the opportunity to consult with professional guidance counselors regarding which courses, seminars or other suitable activities will best meet their needs and those of the agency. Needs, preferred courses (e.g. procurement law, international finance, techniques of negotiation, international economics, hearings process, ABA seminars), including language training (Japanese, Spanish, French), and potential assignments outside the agency in areas related to the agency's mission, are outlined for each person in an Individual or Career Development Plan. Also, we have instituted recently a program for long-term mid-career training.

Currently under way in the agency is an SES Candidate Development Program (SES-CDP). Individuals are selected for the program through established agency procedures, formulated under OPM guidelines. After selection for participation in the program, they are scheduled for activities which will prepare them for entry into the SES. "Activities" usually take the form of OPM-recommended or required courses which are managerial in nature, i.e., emphasizing management skills, analytical techniques, resources problems, and national issues. The SES-CDP will also include developmental assignments with agencies and organizations in areas which have direct application to trade policy.

We are continuing to develop exchange programs with other agencies and with Congressional staffs. Those organizations involved would benefit from the experience gained by participants, the sharing of information and development of new ideas or approaches to problems. Currently, we have several individuals on detail to use from three agencies. We expect to establish an exchange program with the Foreign Service later this year.

CAREERS IN TRADE POLICY AND NEGOTIATION

We have been concerned for some time about how students, and young professionals (GS 9-12), might be encouraged to pursue careers in the trade policy and the negotiations fields. With this thought in mind we do the following:

Recruit summer interns from the university population. We always attract many more qualified students than we can employ. This is an excellent method for introducing students to trade policy and negotiations in an agency setting.

Utilize student assistants during the regular school year if feasible. This is also a very successful program.

Participate in university career day programs, and accept invitations from universities and other groups for featured speakers.

Accommodate legal interns when practicable.

Participate in the Presidential Management Intern Program and White House Fellows Program when practicable.

Plan to offer assistance to universities with curriculums.

Regarding university curriculums and their relevance to the field of negotiations, we contacted several individuals who are associated with universities. There are several courses which cover trade law and trade negotiations, or integrate the latter into the structure of a course. We did not find consensus or whether one university (local and around the U.S.) is better than another in these fields. Apparently, some are more "academic-oriented" in approach, while others seems to be more "business-oriented". Also, course quality and program status is often related to the professors in charge and can vary from year to year.

No plans were detected for curriculums which would be devoted to "negotiations", nor were any individuals aware of courses being offered overseas which could be compared with courses being offered in U.S. universities. Also, in our quick survey, we did not find any data which compares U.S. universities with those in Europe nor any individual who knew of such data. One person indicated that the GATT has a training course for country representatives; "negotiations" is part of that effort.

Congress might wish to consider convening a blue-ribbon panel to investigate the feasibility of curriculums in the field of negotiation, i.e., their development, content, and implementation. We suggest that such a group might include practitioners in the field, e.g., selected members of the USTR staff and other "trade agencies". Another idea to consider is an intensive, short-term series of courses.

POSSIBLE CONGRESSIONAL ACTIONS

We have several suggestions for ways in which Congress can become directly involved in attracting individuals to careers in trade policy and negotiations, and for encouraging young professionals to pursue careers in these fields.

Congressional fellowships and scholarships for qualified students who will pursue specific areas of study, e.g., international law and economics. This could apply to both graduate and undergraduate programs.

Outstanding Achievement Certificate, with a cash award, to young professionals in government who have demonstrated significant potential in the trade field.

Summer programs in Congress for university students who are in trade-related fields of study.

Exchange of staff for limited periods of time between "trade" agencies and Congressional committees.

Convene panel of practitioners and academicians to investigate feasibility of a "negotiations" curriculum and content (or intensive short-term series of courses).

These are several ways which Congress might consider for underscoring its concern and interest in development of a cadre of highly qualified negotiators and policymakers.

Senator DANFORTH. I have some questions submitted for the record, one for Senator Dole and some others from us.

Mr. HATHAWAY. I would be happy to take them and respond to them promptly.

Senator DANFORTH. Thank you very much.

Mr. HATHAWAY. Thank you.

SENATOR DOLE'S QUESTIONS TO MR. MICHAEL HATHAWAY, OFFICE OF THE GENERAL COUNSEL, USTR

Question. It has been widely reported in the press that the Administration is organizing a Cabinet-level group to deal with Commerce and Trade. What function does this group have in the formulation, coordination, or implementation of U.S. trade policy? What is the relationship between this group and the USTR?

Answer. The Cabinet Council on Commerce and Trade (C&T) with the President presiding, is one of several subgroups of the Cabinet. The C&T will have responsibility for issues involving major segments of the U.S. economy. International trade policy matters will be integrated within its general work on sectoral or other issues within the Council's ambit. It is understood, however, that, by law, the U.S. Trade Representative (USTR) is the primary adviser to the President on international trade and trade-related investment policy. The USTR will exercise this responsibility with the advice of the Trade Policy Committee, the Cabinet-level body established under Section 242 of the Trade Expansion Act of 1962.

Senator DANFORTH. The next witness is William R. Alberger, Chairman, U.S. International Trade Commission, also Commissioners Calhoun and Bedell.

STATEMENT OF WILLIAM R. ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION; MICHAEL CALHOUN, VICE CHAIRMAN, USITC; AND CATHERINE BEDELL, COMMISSIONER, USITC

Mr. ALBERGER. Mr. Chairman, members of the subcommittee, I am accompanied today by two of my colleagues, Mr. Calhoun, our Vice Chairman, and Catherine Bedell, Commissioner, and our Acting Chief of our Finance and Budget Division, Philip Katz and Director of Administration, Mr. Wallington.

I have a statement for the record, and I would like to highlight just a few key items.

Our budget is \$18.5 million. We feel this is a modest budget request, less than 4.5 percent over our fiscal year 1981 appropriation including the pay supplemental.

As you know, our caseload was up sharply in fiscal year 1980 over fiscal year 1979. It more than doubled, and there is no sign of any decline so far in fiscal year 1981.

We have had expanded responsibilities since the 1974 Trade Act. Our commodity analysts who knew imports, now know exports too. They are trying to become world commodity experts.

We have concentrated analysis on export competitiveness as well as sensitivity to imports. We had various statutory reports, the OTAP report, and numerous other reports that require knowledge beyond tariffs, such as the MTN studies we did for the Congress, the MFA study, petrochemicals report, North American trade agreements report for USTR and many others.

Trade problems are changing fast. The shift from tariffs to non-tariff barriers was a major change that we saw in the last 10 years.

Now we are looking at shifts from manufacturing to services. New major issues are surfacing. We are being asked to provide helpful analysis on trade and services, and here, we are not experts. But, there aren't many in the entire Government who are.

We will be asked for information on banking, insurance, technology transfer, and investment to help negotiate reductions in barriers to trade in areas where the U.S. economy is very strong.

The demand for expertise from an independent agency in the international trade field seems to be increasing rapidly.

Despite these increasing demands for our services, both in the case of petitions for relief filed by domestic producers and labor unions, and requests from Congress and the executive branch, we have tried to economize, do more with less.

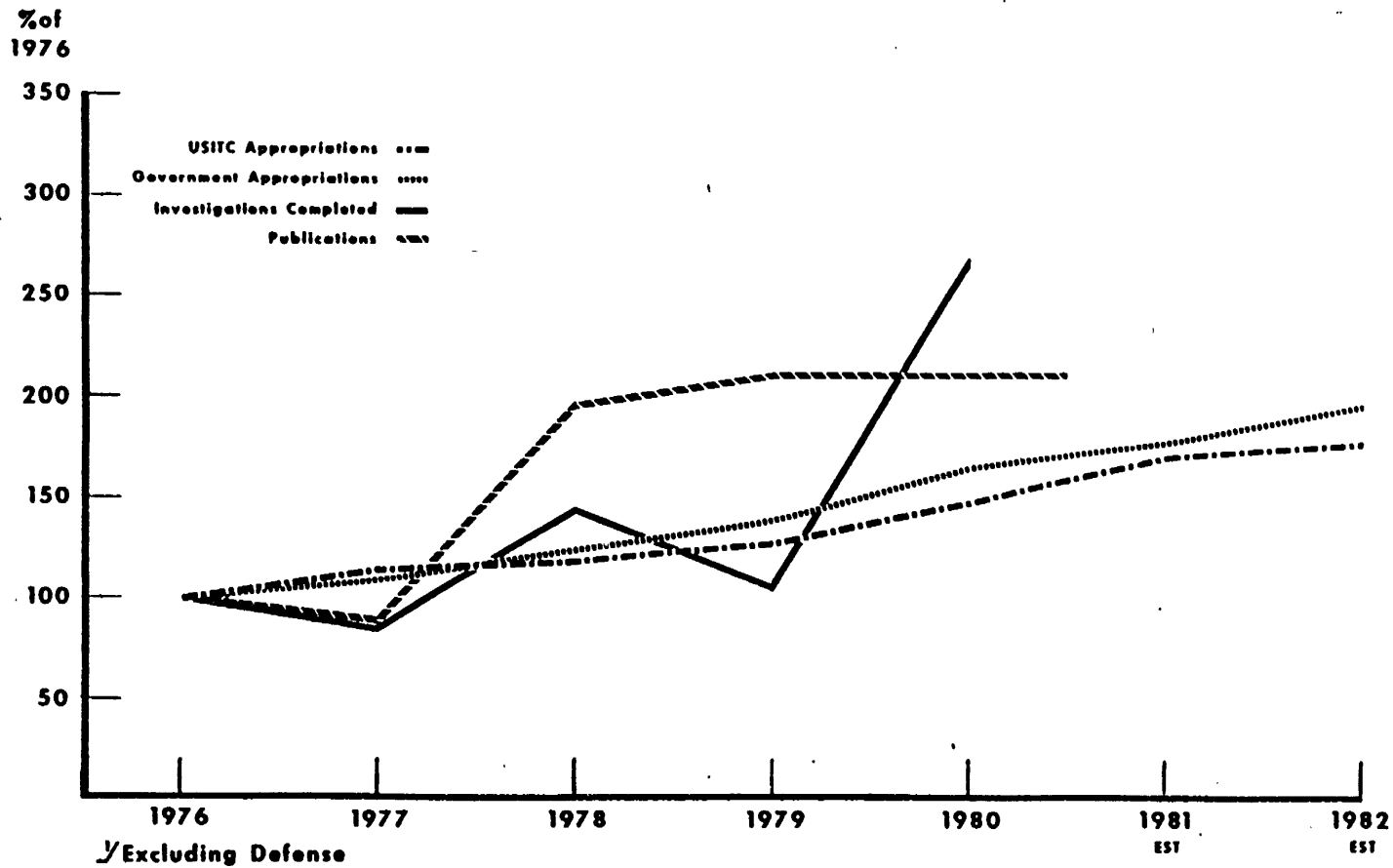
We think we have had some great successes.

There is a graph attached to my testimony which shows four lines. One is the Commission's own budget. Another line is the Federal budget, another a line for reports published by the Commission, and a line for investigations conducted by the Commission, indexed to 1976.

The highest line is the increase in our investigative caseload. The second highest line is reports published by the Commission. The lowest line is our budget.

[The above-mentioned chart follows:]

USITC and Gov't γ Appropriations, Numbers of Complete USITC Investigations, and Numbers of USITC Publications (As Percentage of FY 1976 Base)



Specifically, in the 1982 budget process, we found ways to economize and terminated two programs that were found not to be cost-effective. We did it in fiscal year 1981, without waiting for fiscal year 1982.

One was a 1-percent sampling of custom's documents that has been going on for several years, and had not been as cost-effective as we originally thought it would be.

The other was an expanded New York office which did not provide any great benefit. We scaled it back.

We have held travel constant, despite the 50-percent increase in per diem cost, and big jumps in air fare that you are all well aware of.

Our greatest problem is in trying to save more. As you know, we have no control over the timing and the volume of cases or requests from Congress or the executive branch.

We have to be prepared with the necessary expertise to handle them all within strict timeframes. All deadlines must be and are met.

In order to have the expertise necessary to provide the services you demand, we require our commodity analysts to keep current on their commodities and periodically to publish the results of that research effort in the form of summaries of trade information.

We consult with staff of congressional committees and USTR to determine areas of critical concern where our expertise can provide special studies of maximum benefit to the policymakers. We must anticipate more trade problems rather than reacting to them.

We hope our new trade monitoring system, which follows imports and exports in 2,500 commodity groupings and changes in trade flows by source or target country, in quantity, value, and unit value, will be helpful in monitoring the gains from the MTN codes. We will work with other agencies and the Congress to insure that our system is beneficial and nonduplicative.

One other area of increasing importance is our continuing role in harmonized commodity code negotiations in Brussels. We expect a request from USTR for a draft conversion of the TSUSA into the format of the harmonized commodity code. This will include public hearings in our continuing effort to insure industry participation and cooperation with an ultimate support for the conversion.

The final matter I want to mention is the condition of our building, which is not the finest structure in the city of Washington. We have been in need of structural renovation for years.

In 1974, the Congress authorized funds for this purpose. Those funds don't amount to much in today's dollars, but they would help.

We have had some cosmetic renovation outside the building, particularly in terms of roof repair, almost routine maintenance, but there has been no movement lately on behalf of GSA to continue this project of structural renovation of our building.

We could use some assistance here to see that GSA carries out its obligations to renovate our building so that the domestic industry and foreign representatives may have more pleasant surroundings for conducting trade business.

Thank you. I would be pleased to answer any questions.

Senator LONG. That old building you are in, what is the location? What streets intersect there? I have been in that building.

Mr. ALBERGER. It is on E Street, between 7th and 8th.

Senator LONG. I have been in that building.

Mr. ALBERGER. Yes.

Senator LONG. Frankly, we have a better building in Baton Rouge, you know, for the poverty agency people than you have over there for something where you bring the most distinguished trade leaders of the world.

I assume that the Japanese, for example, came over there and helped present their case about the automobiles, didn't they?

Mr. ALBERGER. Yes. We held that hearing in the Department of Justice. Our hearing room was not large enough to accommodate the needs of the crowd.

Senator LONG. I am not talking about the size of the hearing room. Someone tells me Ms. Bedell's office caved in.

Ms. Bedell, is that right? Would you mind telling us about that?

Ms. BEDELL. I wasn't in it at the time.

[Laughter.]

Senator LONG. We are fortunate you were not in there at the time. But, it is in sort of a rundown neighborhood. I think, when we invite all the people in the world to come and hear our trade situation, we ought to at least make a favorable impression on them.

I would think they would be comforted they are going to receive justice. The Finance Committee is the most discriminated against committee in the Senate. We have the smallest hearing room and the least facilities for the responsibility we have. But, if I do say it, what we have is commodious compared to what you have over there.

It seems to me that is a very sad thing indeed.

Mr. ALBERGER. Yes.

Senator LONG. What you are doing here is something that all of the American business community ought to rally behind. I shouldn't think that any businessman would object to paying his share of the taxes for your function.

Basically, if he is being put out of business by unfair trade practices, the logical place for him to go, more often than not, is this Commission; is that not correct?

Mr. ALBERGER. That is correct.

Senator LONG. A fellow works his fingers to the bone, makes all the sacrifice on Earth and then, having done everything that an honorable person can do to make his business succeed he finds he is being put out of business, and then he finds he is not only put out of business but by an unfair method that somebody outside the country is using to kill his business. Goodness knows, at that point he is willing to pay whatever it would take for this Government to function effectively. That means that they come to your Commission.

Mr. ALBERGER. Yes, sir.

Senator LONG. You are not going to get what you need unless you ask for it.

Frankly, I would invite you to do a little lobbying. You don't need to work on me. I will vote the right way and get up and make

a speech for you anytime. I am for what you are doing over there. It is very important that you do that.

Now, can we be assured that this Commission is going to continue to operate as a completely independent Commission, that we are going to have the honest judgment, the ITC, every member of the Trade Commission, honest, intellectual judgment on these things, quite apart from pressure that you might receive from somewhere in the executive branch?

Mr. ALBERGER. I firmly believe that we will be independent. I am sure I speak for all of my colleagues when I say that.

Senator LONG. You understand that you are not working for the executive branch? That you are expected to be independent and exercise your own judgment?

Mr. CALHOUN. Senator, since I am the most recent appointee, it was not too long ago that I was in this very room speaking to you on this issue. In fact, you were speaking to me on this issue at my confirmation hearing.

I can assure you in the year and a couple of months that I have been on the Commission, I have been impressed that this Commission operates completely independent, not only of the executive branch, but also of the Congress.

I speak with some knowledge about it, because prior to my appointment here, I worked with the Ways and Means Committee for 3 years, where my job was to overlook the activities of the Commission.

I can assure you, my reports back to my former bosses on the Ways and Means Committee are consistent with what I am telling you now. It is independent, much to the consternation of a lot of people.

Senator LONG. I think Ms. Bedell has been on this Commission as long as anybody; is that right, Ms. Bedell?

Ms. BEDELL. I am the senior citizen.

Senator LONG. You know, many times when people introduce me, they say, "The Senior Senator," and invariably they will say, "The Senior Citizen from Louisiana." [Laughter.]

Senator LONG. I know how it feels to be called a "senior citizen."

You have seen as much as anybody over there has seen. I would like to ask, what is your thought about the educational process, about trying to get the best trained and educated people we can to help in this work.

Can you give us your thoughts on that subject?

Ms. BEDELL. Senator, I listened to the colloquy between you and the previous group of witnesses representing the USTR and Senator Danforth's colloquy with them.

To me, a most crucial point, not only for our agency, but for every trade agency, is that there has to be a different emphasis and a stronger emphasis on training. The demands of modern trade and the great sophistication that international trade negotiations require demand that we bring more men and women into this field that are basically trained in negotiation—among other things.

If I may be so bold—on the basis of being 10 years with the Commission, and a senior citizen now—I would like to say Senator Long that you forgot one possible answer here. To get good people to negotiate on behalf of the United States, it has always struck me

that you should have a mix of young and older people. We need to attract to Government those that are about ready to retire, but have had actual training in the private sector field on tough negotiations, where if they didn't make that contract or get something to bring back from the bargaining table they lost their jobs.

I know what you gentlemen are saying about having people representing the United States on a tough, knowledgeable basis. I agree.

I think none of us have paid enough attention to this and I believe it is extremely important to the future of all those areas of the U.S. Government where trade activities are going on.

Senator LONG. Well, I appreciate your saying that. If you look at all the money we are spending on education. I must say a lot of it is being just completely wasted. When I was in school, one thing I think they did right at the law school where I went, the first semester, was just routinely to flunk out one-third of that class on the theory that a lot of people are not going to make it, that they don't have what it takes to be lawyers, and the sooner they find it out the better off they are all going to be.

But, goodness knows, how many young people we are paying to educate in college who don't even know what they are doing there. Half of them think they are there as a social club or something, it is some place to meet young people and all that.

If you think in terms of priority and look at all the money we are spending on education, we ought to consider training them in areas that will help our economy. At one time education was not regarded as a Federal Government function at all, but as a State and local function. But now we spend money on education at the Federal level. Why don't we spend some of it, I am just talking about one one-thousandth of 1 percent, in the area where we desperately need better expertise, better knowledge.

We have these Fulbright scholarships sending people abroad to study. It seems to me while we are at it we ought to be picking out certain areas where we don't have enough adequately trained people.

Do you agree with that, Mr. Chairman?

Mr. ALBERGER. Yes, I certainly do, Senator. I think that is very important. To the extent we can, we would be pleased to cooperate with USTR and any other agencies in the trade field in trying to set up some kind of a program that can get us better training for trade negotiators, for trade experts.

One of the key pushes that I have made during my term as Chairman of the Commission, is trying to get the word out to the Commerce Department and USTR of the expertise we have in-house. We have people who have been working on particular commodities for years and years and are probably the foremost experts, maybe even in the world, on their commodity. I am trying to make sure that that expertise is tapped when something comes up in the area of that particular commodity so that all of the expertise that can be brought to bear within the Government is done so.

Senator LONG. We ought to see that they are educated, that they have the best training and education that can be provided anywhere in the world. We will be providing a lot to private industry

if we do that, but we ought to be borrowing a lot back from private industry too.

I have thought that of all the departments in Government that the Treasury has the best competence. The reason it tends to be that way is that men like the present Secretary of Treasury, who made tremendous successes out in those lush fields of free enterprise, they are willing to come back on call from the President, to do a tour of duty for this Government for 4 years.

If we can get that type thing working in our trade system, keep in mind, compared to some of these few who are doing the best in it, we are relatively new. Maybe we could really look at this Nation's interests.

Yes, sir, go ahead.

Mr. CALHOUN. I would like to add to what Commissioner Bedell said. I am the youngest member on the Commission by a few years. When Commissioner Bedell speaks in terms of a need for bringing people with experience into the trade activities, I think it is something all us ought to pay a lot more attention to.

I came in, at the age of 32. I considered myself to be fairly bright.

Senator LONG. How old are you now?

Mr. CALHOUN. I am 33 now. I have grown up a little bit. [Laughter.]

There is certainly nothing wrong with bringing young people into Government. I think we bring energy. I think we bring an academic background, a lot of enthusiasm, new ideas, but there is a value to be had that can only come from experience and wisdom, having been exposed time and time again to issues couched in different formats. It is something we are sorely in need of. I don't mean to say that to deprecate myself or people like me. I think we do very well. I think we do very good for the national interest.

But, there is a resource that isn't tapped. We need to bring those in. My experience during the MTN, when I was in Geneva, on behalf of the Ways and Means Committee, instructed me for one thing and that is that they have people negotiating that have been in the battle for years, just as you say. No amount of enthusiasm or academic knowledge can match against someone who has that plus years of experience under their belt.

I think it is something that I just wanted to associate myself with.

Senator LONG. Thank you.

Senator DANFORTH. In 1979, when we passed the Trade Act, a lot of attention was put on the attempting to improve the procedural aspect of enforcing the antidumping and counterveiling duty laws. It was quite a long ordeal, as a matter of fact, in Congress. It lasted about a year and a half and there was a lot of compromise and it was very tedious.

The effort was clear and simply stated, and that is, where there is a right there should be a remedy. If you are going to have laws on the books they should be enforceable and we should have some expeditious or reasonably expeditious method of making sure that if there is dumping and there are sales of subsidized goods in the American market, the remedies should be forthcoming in a reasonably rapid order.

In your opinion, has sufficient time gone by so that we know whether or not the system is working smoothly? Should we address the question again?

Mr. ALBERGER. Well, it is difficult for us to assess really. I have heard some comments from people who are active in the trade field, in the private bar and so forth that one aspect of bringing a case under either dumping or countervailing duty is causing some grief in the private sector. That is simply the cost that is involved in bringing a case, because unlike prior law, you are really operating before two agencies at once in a very compact amount of time. That is one of the tradeoffs that you make when you shorten the time limits involved; you compact the activity.

Perhaps you require the attention of more lawyers in a particular firm, working almost full-time on a particular case, therefore, the fee goes up so as to be able to do a thoroughly competent job in presenting the case before both Commerce and the International Trade Commission.

I don't know how serious a problem this is becoming. But I have heard that some suspect it is becoming a serious problem.

Now, if it is discouraging people from bringing cases because they can't afford to bring cases, because they are too injured, there is something wrong. That is a serious problem that we all ought to be quite concerned about.

Granted, you probably can't bring a case if you have just gone under and maybe you found out about the laws too late. But, if you are suffering and you are not sure you can pay the firm you think you need to do the work and give it the quality and form that you want, that is a problem. Our trade laws shouldn't operate in that fashion.

I do not know what the solution is, whether there ought to be any reward for success on a case, you get your fees back or something like that. That gets into a controversial area as well. So you have a problem then of monitoring whether the fees are reasonable.

But, I think it is something that may reach the stage where it ought to be addressed.

Senator DANFORTH. I think that this should be an ongoing concern of ours. I don't think what we did in 1979 was intended to be forever, but simply a means of correcting what was then perceived as the problem; namely, that there could be a case where someone really felt aggrieved and nothing was done.

Mr. ALBERGER. Yes.

Senator DANFORTH. It would just go on forever.

Mr. ALBERGER. That is right.

Senator DANFORTH. So, the notion was to try to collapse the timeframe.

One other thing I would like to say in this connection is, I would appreciate it if you have some ideas for correcting the system, you should talk to the staff of the committee and give them your notions as changes that could be made in the law.

My next question has to do with the procedure for making a preliminary determination of injury and, as a screen against frivolous proceedings, the ability to throw out cases at a preliminary stage.

Do you know the percentage of cases that have in fact been thrown out at the preliminary stage?

Mr. ALBERGER. I have some figures here that I think were accurate at least 2 or 3 weeks ago. I should mention they may appear to be somewhat high in terms of the percentages of those that were thrown out. There is a reason for that.

A number of these cases, particularly, for instance, in the countervailing duty area, were preliminary cases that came before us in the transition that started in 1980. At the time they were filed, there was no injury test. So, in a number of these cases that had 45-day determinations, nobody suspected that they were going to have to prove injury. The percentage that I have here is 38 percent that were negative on countervailing duty cases in the preliminary stage.

On dumping, I don't know why, but the percentage is actually higher. It is 45 percent.

So, there have been a number of cases that were terminated at the preliminary stage.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Concerning the ITC decision on the impact of automobile imports, particularly with reference to imports from Japan, you spoke of maintaining an independent posture. Were you or any Commission member at any time pressured by the executive branch or the legislative branch?

Mr. ALBERGER. With respect to making a decision on the case, no, absolutely not. As far as I know, none of us were.

Senator MATSUNAGA. None at all?

Ms. BEDELL. No contacts at all from the administration.

Senator MATSUNAGA. Mr. Calhoun?

Mr. CALHOUN. I was contacted by a member of the administration with respect to the issue of the timing of the hearing. You may recall, there was some debate at the time as to when the Commission should vote. There was a desire on the part of the administration to have the vote earlier rather than later. I was contacted on that issue and made my position fairly clear that the matter was an internal Commission matter and decided as such.

Senator MATSUNAGA. Was any pressure placed on any of you to change your vote on the final decision?

Mr. ALBERGER. Change the outcome of the vote?

Senator MATSUNAGA. That is right.

Mr. ALBERGER. None whatsoever.

Mr. CALHOUN. Absolutely not.

Ms. BEDELL. No.

Senator MATSUNAGA. Now, with reference to the education of your staff, is there any effort to have your staff members trained in the language, the customs, and business practices of our foreign trading partners?

Mr. ALBERGER. No; not specifically. I am not personally aware of training funds having been used for language training. We have not set up any program to provide language training for people.

Senator MATSUNAGA. Why not?

Mr. ALBERGER. Generally it has not been a problem in gathering data. The main contact we have is with the foreign industry and

we have not found that lack of language is necessarily a barrier. We do have some people on our staff who speak various foreign languages quite fluently.

I am aware that in one case under section 337, in particular, one who was fluent in the Japanese language found the skills useful in depositions.

But, by and large it has not been a problem requiring us to focus on additional language training.

Senator MATSUNAGA. Well, I think we ought to set aside a part of your budget for such purposes. Perhaps you have made such allocation?

Mr. ALBERGER. We have funds set aside for training which has—

Senator MATSUNAGA. Which does not include specifically training in foreign languages or foreign business customs and practices?

Mr. ALBERGER. Certainly in terms of learning customs and practices of foreign countries our commodity analysts and our economists are always working in that area to become more knowledgeable about the practices in various foreign markets since we are called upon by the Congress and the executive branch to provide expertise in export possibilities. We need to know more and more about foreign markets. I think we are moving strongly in that direction.

Senator MATSUNAGA. I raise this question because I had occasion to attend an interparliamentary conference in Tokyo and observed the need for increased awareness of foreign language and customs. I found, for example, that depending solely upon the interpreter was very misleading at times. As a matter of fact, there was one conference which nearly broke up because of misinterpretation by the official translator, which I fortunately happened to catch, even with my limited knowledge of the Japanese language.

I think that many of our trade problems with foreign countries would be minimized, if not eliminated, if we were aware of the little nuances in their language, customs, and practices.

When the Japanese ask me what they can do to improve relations with the United States, I tell them to learn to speak English, for they can't expect the Americans to learn to speak Japanese. [Laughter.]

Before I ask my next question, let me say, that I am delighted to have my former colleague in the House here today. It has been a long time, Cathy. It is nice to see you.

Ms. BEDELL. Nice to see you, Senator Matsunaga.

Senator MATSUNAGA. I have another question, Mr. Chairman, which I will ask on the second round, since my time has expired.

Senator DANFORTH. I have no more questions. You may go ahead.

Senator MATSUNAGA. I understand that the recent ITC decision on auto imports was decided by one vote. One vote could have gone the other way and the decision would have been different.

Mr. ALBERGER. That's correct. A vote of 3 to 2.

Senator MATSUNAGA. In such instances does the commission spend much time in its deliberations, perhaps to see whether that one commissioner would change his or her mind? [Laughter.]

Mr. ALBERGER. Well, it varies, of course, by the case and by how many other cases we have to decide in approximately the same time frame.

I can assure you that with respect to the auto case, every one of us spent countless hours considering all aspects of the issue before arriving at our decision.

I know I was in there on the weekend before the vote. I found several of my colleagues also in there, pouring through charts and graphs and tables prepared by the staff trying out every different approach that seemed possible.

From my own point of view, since my vote was in the negative, I was looking for some argument for the domestic industry's position that might change the picture as I saw it and explored everything for hours and hours.

I suspect I am not alone in that regard in terms of how my colleagues approached that particular vote. This was the biggest industry ever to come before the commission and obviously was in a state of serious injury. The question was simply in terms of causation.

Ms. BEDELL. Mr. Chairman, I might try this as one who wrote a dissenting opinion from the majority vote. If I understand the purport of your question, Senator Matsunaga, traditionally, we do not lobby one another on these votes. We are not allowed to even talk to each other about a case except two at a time under the Sunshine Act.

But, we certainly exchange views, we also have public briefings. We each arrive at our conclusions pretty independently, but on the same basic set of facts.

Senator MATSUNAGA. You realize the importance that one person's decision can have, as in this case affecting the domestic auto industry. I often wonder just how much thought goes into making that decision. I certainly would hate to be in a position where my decision would possibly bankrupt a major company in the United States, if I voted on my conscientious finding that the domestic industry was not in fact being affected by the imports.

Yet, on the other hand, I might question my own decision on the basis that I might have failed to consider what my colleague who voted the other way had considered.

I think you bear on you shoulders graver responsibilities for this country. I am sure you all realize that. I think from time to time, even as we serve in the Senate here, we need to be reminded how important that single decision might be. By casting the vote one way or the other and having the decision made by one vote, we take action leading at times to grave consequences.

Well, thank you for your attendance here today.

Mr. ALBERGER. Thank you.

Senator DANFORTH. Thank you very much.

Mr. CALHOUN. Thank you.

Ms. BEDELL. Thank you.

[The prepared statement of Mr. Alberger and a letter to Senator Dole with answers to questions asked by the Senator follow:]

STATEMENT OF WILLIAM R. ALBERGER

Mr. Chairman and members of the subcommittee, I am pleased to meet with you to discuss the Commission's budget request for fiscal year 1981. I am accompanied

by Michael Calhoun, our Vice Chairman, Edward Wallington, our Director of Administration, and Philip Katz, Acting Chief of our Finance & Budget Division. Other staff members are also present.

While recognizing the need to assure adequate funding to support what has been an expanding mission, the Commission has strongly emphasized the need for fiscal restraint in developing this budget request. The fiscal year 1982 request for \$18,501,000 is only \$790,000, or less than 4½ percent, higher than the fiscal year 1981 appropriation, including the pending supplemental appropriation for pay increases. Over one-half of this increase is for built-in cost changes such as within-grade increases and provision for a full complement of Commissioners, and for the effects of inflation.

During my three and a half years of service on the Commission we have consistently developed budgets that I have felt were lean. Our responsibilities for knowledgeable contributions have increased significantly during the Multilateral Trade Negotiations and with the passage of the Trade Agreements Act of 1979. We have charted a course that has allowed us to forego major staff increases, as other agencies in international trade have undergone, yet we have produced what we trust has been a high quality of work on an ever increasing number of investigations. In fact, the fiscal year 1982 budget request provides for only 12 more positions than we were authorized at the close of fiscal year 1976 and is the same number (438) provided for fiscal year 1980 and 1981. There has been growth in the Commission's total dollar budget during this time, but this has resulted primarily from the impact of inflation, general pay increases, and special factors such as the approximate doubling of GSA's rental (SLUC) charges.

As an agency with responsibilities for conducting a variety of investigations upon petition by domestic industry representatives, labor unions, and now foreign governments and importers, as well as upon requests from the President or the Congress, we have limited control over the volume of our workload. We must be staffed with broad based commodity expertise, as well as economic, investigative, legal, and accounting skills necessary to handle all investigations within the limited statutory time frames. Thus, we must have a staff with a size and flexibility sufficient to carry out even more investigations than we expect. Statutorily mandated, import related investigations continue to comprise the largest segment of our workload, and we prepared this budget with the knowledge that the Congress continues to expect us to carry out these investigations in a thorough and timely manner.

We also conduct a number of projects of overriding importance to U.S. trade and tariff administration. One of the major programs currently underway is our work pursuant to the Trade Act of 1974 on the Harmonized Commodity Code now being negotiated in Brussels. This is the largest nomenclature-related activity undertaken by the Commission since formulation of the revised TSUS in 1962. Since January 1975, the Commission has prepared comments on 77 chapters of the Harmonized System. Commission representatives have participated as members of the U.S. delegation to the Harmonized System Committee at all sessions of the Committee. Input has been actively solicited and received from domestic industry groups in a continuing effort to insure that the negotiated results meet U.S. needs. Currently, the Commission's staff is aligning the Tariff Schedules into the format of the Harmonized System in order to identify potential complications and technical inaccuracies. These alignments, along with comments received from industry, will be used as the basis for U.S. input into the review sessions which will take place this year, and is the foundation for a formal conversion of the TSUSA into the format of the Harmonized System. We understand the Trade Policy Staff Committee (TPSC) is considering a request to the Commission for such a conversion during 1981. The Commission expects a conversion project, which would include public hearings, to take two years and has budgeted 13 work-years toward this endeavor in fiscal year 1982.

The Commission also conducts a variety of investigations pursuant to Section 332 of the Tariff Act of 1930 which are an essential part of our service to the Congress and the Executive. We believe that the broad scope of topics now under study will prove invaluable to those who formulate our trade policies. These studies bring our commodity and economic expertise to bear on a number of isolated trade issues and provide a sound body of factual material to put at the disposal of those responsible for implementing trade policy. For example, we are studying the effects on U.S. trade of the expansion of the E.E.C., the impact of the Multifiber Arrangement, and the effects of Foreign Export Restraints. In addition, we continue to respond to Executive or Congressional requests for sectoral studies relating to conditions of competition. Any self-initiated studies are discussed with Congressional staff first to determine interest and feasibility.

The Commission has, since the enactment of the Trade Act of 1974, steadily increased its concentration on trade-related developments in other countries and other matters affecting U.S. exports, without reducing the attention given to its traditional areas of responsibility. The Commission's growing development of trade monitoring capabilities and concern with non-tariff barriers are examples of this broader range of program emphasis. Our expertise seems to be in greater demand by the USTR, Commerce and the Congress. We recognize the need to expand and develop this expertise in new areas of concern in international trade, such as trade in services, and are working with congressional staff members and staff at other agencies to identify subjects of maximum interest to trade policymakers. Our overall approach is toward early recognition and analysis of critical trade areas so that we will be better able to supply the policymakers with timely information and assistance.

In the budget preparation process this year, I proposed and my colleagues approved, significant program reductions or eliminations. I did this because it was the responsible thing to do, and I took the necessary steps to implement these changes in fiscal year 1981, not fiscal year 1982. These savings have allowed us to shift resources to meet new responsibilities. For example, we have eliminated the cost-ineffective New York Office. Three positions previously assigned to that office have been transferred to Washington. We have also eliminated a long time program of extracting detailed information from documents representing a 1 percent sample of all Customs entries.

The savings achieved through these program eliminations have been used to support the Commission's new Trade Monitoring Information Support System. This system of compiling and maintaining trade data for some 2,500 major commodity areas greatly expands the information the Commission is able to make available to the Nation's trade policymakers. It also provides a comprehensive and standardized data base to support the Commission's analytical and investigative responsibilities. We have never requested additional funds for this new program but have provided for it through the reductions mentioned above.

It is our understanding that other agencies have received funding targeted for development of a trade monitoring system, and have met with little, if any, success. As an independent agency, we are quite conscious of the need to avoid duplication of trade services and functions, and thus are taking all necessary steps to insure that our new system will be available and of maximum benefit to the Congress and the Executive Branch. In this ongoing effort to limit duplication, I have urged other agencies and Congressional Committees in the trade field to tap our staff expertise rather than duplicate it in their own shops. This is another area where we are doing everything we can to help save government monies.

The Commission must have the flexibility to shift resources between programs in response to fluctuations in cases filed, rather than trying to add or eliminate staff with each project initiated or completed. For example, we initially projected an fiscal year 1982 reduction in our work on countervailing duty investigations on the then reasonable assumption that much of the task of reviewing outstanding countervailing duty cases would be completed in fiscal year 1981. Since the information required to initiate these investigations has not yet been received from the Department of Commerce, it now seems possible that more work will need to be done in fiscal year 1982 and less in fiscal year 1981. Rather than adjust staff to these uncontrollable workload requirements, the Commission makes increases or decreases in the resources which it allocates to activities, such as Section 332 studies, which are subject to some internal control.

Finally, one matter I must again raise with this Committee is the continued deterioration of the Commission Building and the difficulties we have experienced in getting the General Services Administration to begin the structural renovation of the building. During the past year things have improved to a limited degree with GSA completing a good deal of cosmetic renovation, such as painting and plastering, and beginning the structural renovation with work on the roof. However, at this point, GSA is not moving ahead with the balance of the structural renovation for which money has already been authorized. We have been unable to get a clear reason for the delay in the next portion of the renovation and we get the feeling we have once again become a low priority with GSA. As this Committee well knows, our building is in need of repair and we once again ask your help. Last year, Chairman Vanik contacted the House Appropriations Subcommittee with jurisdiction over GSA. We feel that his efforts were largely responsible for the improvements we were able to make in the past year. The Commission and its employees will appreciate any help you can give us in this regard.

The Commission has closely examined its needs, using zero base budgeting techniques. We believe that the projection of workload used to develop this budget

request is reasonable. We believe that our request provides for the resources necessary to meet the growing demand for Commission services and also reflects the national need for fiscal restraint.

U.S. INTERNATIONAL TRADE COMMISSION,
Washington, D.C., May 8, 1981.

Hon. ROBERT J. DOLE,
Senate Committee on Finance,
Dirksen Building, Washington, D.C.

DEAR SENATOR DOLE: This letter is in response to the question sent to me on May 7, 1981, to be answered for the record in connection with the April 3, 1981, Hearing on the Commission's Authorization Bill for fiscal year 1982.

The Commission did discuss with the General Accounting Office (GSA) the report prepared by that Office on its study of the conduct of Investigations under the "Escape Clause" provisions of the Trade Act of 1974. The Commission provided GAO with comments on the study. I have attached a copy of those comments.

Sincerely,

BILL ALBERGER,
Chairman.

Attachment.

U.S. INTERNATIONAL TRADE COMMISSION,
Washington, D.C., April 10, 1981.

Mr. J. K. FASICK,
Director, International Division,
U.S. General Accounting Office, Washington, D.C.

DEAR MR. FASICK: Thank you for your letter of March 12, 1981, and the accompanying copy of your draft report to the Congress on "Administration of the 201 Import Relief Program—Some Changes Needed." The Commission has reviewed the report and is submitting herewith its written comments. The comments were prepared as responses to the specific recommendations made on pages 27, 28, 78, and 79 of the report concerning the Commission's role in the 201 import relief process.

On the basis of the cases examined from the 1976-1978 period, the GAO has cited a number of issues which have been of interest to the Commission for years. The Commission could endorse many of the GAO recommendations. But, as will be noted, the Commission has already identified and taken steps to correct these problems.

If you have any questions concerning the attached comments or you require any additional information, please contact me on 523-0133 or Mr. Charles Ervin, the Commission's Director of Operations, on 523-4463.

Sincerely yours,

BILL ALBERGER,
Chairman.

Attachment.

Recommendation.—The International Trade Commission should insure full participation by the Offices of Economics and Industries, as well as the Office of Investigations.

Response.—It is an ongoing management concern of the Commission that all its offices and employees make the fullest possible contribution of their expertise to our investigations. There is full participation by the Offices of Economics and Industries in all our investigations, including the escape-clause cases. At least one and often more than one representative from the Offices of Industries, Economics, and the General Counsel is assigned to each 201 investigation, in addition to representatives from the Office of Investigations. The Commission approves these staff assignments. In addition, a nomenclature analyst from the Office of Tariff Affairs must approve all notices and reports issued in connection with these investigations. The Office of Data Systems reviews and approves all reports for the accuracy of the statistical data contained therein, and all final reports are reviewed by our Editorial Section before they are released for publication. Thus, the investigative process at the Commission is a total team effort, involving full participation by all Commission offices which can contribute to an investigation.

The four investigations which were examined in depth—color television receivers, citizens band radio transceivers, high-carbon ferrochromium, and industrial fasteners—were conducted by the Commission between September 1976 and November 1978. During this period, the Commission approved and implemented a major reorganization plan, which became effective on January 4, 1977. An Investigative Staff was established under the Deputy Director of Operations in order to provide more control over investigations by having one person bear the primary responsibility for

gathering information and preparing the report in each investigation. However, the investigator was to obtain assistance from individuals in the Offices of Economics and Industries on each investigation and from other Commission offices on an as-needed basis. In the early stages of an investigation, the person assigned from the Office of Industries was to assist in developing a mailing list, designing questionnaires, and defining the products to be included in the scope of the investigation. The person assigned from the Office of Economics was to assist the investigator in developing the price section of the questionnaire. Comments and suggestions on prehearing and final staff reports were requested from these offices prior to the reports being put in final form for distribution to the Commission. Representatives from other offices were requested to provide input to investigations on an as-needed basis.

The level of participation by representatives of other offices during the months following this major reorganization varied by investigation. Informal moves to insure more participation occurred during 1977 and 1978 and culminated in official assignments of analysts and economists to all 201 and 203 investigations beginning in March 1978. On January 2, 1980, the Commission changed the alignment of its staff organization to establish a separate Office of Investigations with responsibility for all statutory investigations of the Commission (see new organization chart). At the same time, the Commission, recognizing the need for full participation by all Commission offices in investigations, implemented a policy whereby an investigative team, under the supervision of a supervisory investigator, is assigned to each investigation. All the Commission's principal offices—Investigations, Industries, Economics, and the General Counsel—are represented on the investigative teams.

Recommendation.—Improve financial analysis and technological expertise. If these types of expertise cannot be fully developed in-house, ITC should consider using consultants as team members.

Response.—We recognize that the financial analysis in Commission reports should be improved and have taken several specific measures to accomplish this. Since May 1980, two experienced accountants have been assigned to the Office of Investigations on a full-time basis to assist each 201 investigating team with respect to financial analysis. In addition, all members of the investigative staff have taken or are scheduled to complete within the next 2 months an in-house training course, Financial Analysis for Nonfinancial Executives, provided by the Wharton School. Several members of the investigative staff have taken or are currently taking accounting courses from local universities. In addition, when we hire new investigators, we look for persons having an educational background or work experience in the area of accounting or financial analysis.

In the area of technological expertise, analysts in the Office of Industries are improving their knowledge of the technology and technical advancements in each of the industries for which they are responsible through field trips to plants, frequent contacts with industry officials, and attendance at training courses or industry conferences. The Office of Economics has obtained advanced data processing equipment to aid in the development of econometric models and to improve the forecasting capabilities of the Commission's economists.

We do not agree that the ITC should consider using consultants as members of its investigative teams. We believe this is consistent with statements of Members of Congress discouraging Government agencies from contracting for such services. We have explored the possibility of using consultants in the past but have found an efficient method of hiring them on a timely basis. The tight statutory deadlines for investigations which are imposed on the Commission do not allow sufficient time to select a consultant through competitive bidding and have an acceptable product returned in time to be incorporated in the staff's final report to the Commission. In addition, our experience has shown that many of the business firms which are required to provide the Commission with highly sensitive business data would be reluctant to furnish this information if they knew it would be reviewed by outside consultants. Furthermore, some of the most capable consultants would not be interested in working for the Commission if we imposed rigid conflict-of-interest limitations on their acceptance of future work from the industry involved in our investigation.

Although it is our view that it is not cost effective to use consultants as team members on investigations, the Commission has hired consultants to improve the investigative process as a whole. For example, the financial analyst mentioned on page 14 of the GAO report was a consultant who was hired to develop a 20-hour financial analysis course for all investigators and to work with individual investigators to improve their skills in financial analysis on specific investigations. The Commission will continue to hire consultants in the future for comparable projects for the purpose of improving the overall investigative process.

Recommendation.—The International Trade Commission should insure date verification from firms with multiproduct operations or with sophisticated accounting procedures by requiring the petitioner's certified public accountants to certify the accuracy of data presented for deliberations and followup.

Response.—We believe that the Commission has a strong ongoing data verification program. Both an investigator and a statistical assistant review questionnaire responses to determine whether there are any apparent errors in the document prior to the data's being tabulated. Entries that appear to be of questionable validity are immediately discussed with the respondents. Financial data from the questionnaires are reviewed by an accountant, who checks any questions he might have concerning allocation of costs and questionable accounting practices with the respondent. If necessary, the accountant will visit a producer and verify what he believes to be questionable financial data. The economist assigned to the case reviews pricing data and data on lost sales. Such data are frequently verified by the submission of invoices and salesmen's reports. The accuracy of the statistical table presented in the Commission reports are checked by a statistician in the Office of Data Systems.

In addition, the Commission requires that each questionnaire returned in connection with an investigation contain a certification statement, signed by an appropriate officer of the company (president, treasurer, controller, and so forth), stating that the information supplied in response to the questionnaire is complete and correct to the best of the official's knowledge and belief. The Commission also requests that companies submit copies of their completed auditors' reports showing their profit-and-loss experience in producing the product which is the subject of the investigation. If certified copies of auditors' reports are not available, or if they do not give enough detail to substantiate the information reported, companies are requested to submit copies of their internal reports or other reports prepared by their accountants which will show their profit-and-loss experience on such products. Firms are also required to submit any annual reports to stockholders, as well as 10-K forms submitted to the Securities and Exchange Commission. All these submissions are used by the Commission accountant assigned to the investigation as additional means of verifying the accuracy of the profit-and-loss information supplied in the questionnaire. It is our view that these procedures constitute an effective data verification process and that the certification by a petitioner's certified public accountant would in some instances result in delaying receipt of the data. Any such delay would be at the expense of the time available for analysis of the data and thus would be of considerable concern to the Commission.

Recommendation.—The International Trade Commission should expand price analyses to require explanation of the possible underlying reasons (quality, delivery period, cost of raw materials or other, such as labor costs) for the price differences between imported and domestic products.

Response.—Commission staff is on notice to seek out full explanations, where possible, of the underlying causes of the phenomena affecting an industry's performance. We have made several moves to expand price analyses since 1977-78, the period covered in the in-depth investigation review. The principal approach to expanding price analysis has been to reorganize and strengthen the Office of Economics, whose staff are responsible for obtaining and analyzing prices. The office reorganization included the creation of the Investigation Support Division, whose economists are assigned to investigative work on a full-time basis. This organizational change assures that the work of junior economists assigned to an investigation will be reviewed by senior economists to insure complete and accurate analysis. To strengthen its participation in all investigations, the Office of Economics has also recruited several new economists, including an experienced transportation economist. The latter's expertise will be particularly helpful in analyzing the impact of transportation costs in investigations where injury to a regional industry is an issue.

The current system provides for more extensive participation by economists in the analysis of prices for import-injury determinations and in the preparation of the Commission's questionnaires. Also, if the Commission is to recommend import relief to the President, the Office of Economics prepares an extensive analysis of prices for the Commission's consideration. The analysis includes estimating the effects on prices of alternative remedy proposals, such as tariffs, quotas or tariff-rate quotas.

The Commission's analyses of the underlying reasons for price differences between imported and domestically produced articles should be thorough; however, we recognize that questionnaires which request pricing information from a company in great detail tend to discourage prompt and complete responses. Accordingly, the staff assigned to each investigation (including the economist and accountant) devise the pricing section so as to obtain sufficient detail without imposing an undue burden on those who must respond. Although we do not take the position that price

analysis is not important in a 201 or 203 investigation, we do note that it is less critical in these types that it is in dumping and countervailing duty investigations.

Recommendation.—The International Trade Commission should include the Offices of Economics and Industries in a formal draft review process.

Response.—We concur with this recommendation but a review process involving these offices has always been in effect. When the Staff Coordinating Committee (composed of the Directors of Investigations, Economics, Industries, and the General Counsel) was disbanded after the Commission's reorganization on January 4, 1977, senior review by these offices continued on every 201 investigation. Copies of final reports are sent to the Office of Industries, Economics, General Counsel, Tariff Affairs, and Data Systems for their review and comments prior to transmittal to the Commission.

The question of adequate review of investigative reports continues to be of concern to the Commission. The Director of Investigations schedules a meeting of the team assigned at the beginning of each investigation to discuss issues and problems which may arise and outlines procedures to resolve these questions early in the investigative process—before the questionnaires are drafted. Furthermore, additional time for senior review of both prehearing and final reports is being provided for in the work schedules for all current investigations and, in those involving particularly controversial issues, a meeting of the reviewers is scheduled to discuss the content of the final staff report.

In the event that there are differences of opinion among staff members concerning the content of reports, there is a procedure for informing the Commission of differing staff views. Most disagreements among staff members regarding reports relate to matters of fact which can be resolved through additional research and to nonsubstantive issues such as writing style and format. Disagreements on substantive issues probably do not occur in more than one out of every three or four investigations. In instances where disagreements primarily involve legal issues or nomenclature consideration, it is the practice of the Office of Operations to accept the advice of the General Counsel or the Office of Tariff Affairs as to what information will be included in the report. Where investigators, commodity analysts, and economists disagree concerning substantive issues such as the relevancy of certain data, the scope of the domestic industry, regional markets, the reliability or the interpretation of price and financial data, the supervisory investigator endeavors to resolve the differences. If an acceptable compromise is not reached, the views presented in the staff report generally reflect those of the supervisory investigator. It should be stressed, however, that staff members agree on the information presented on substantive issues in virtually all reports which are transmitted to the Commission.

The Commission's policy with respect to unresolved disputes on substantive issues permits staff members who believe that their views were not correctly or adequately presented in a staff document to submit dissenting or more comprehensive views in a memorandum to the Commission at the same time that the staff document is forwarded to the Commission. This policy was designed to assure the Commission that it was not being shut off from dissenting staff views. In addition, individual Commissioners generally meet with investigative teams prior to voting. At this time, they solicit the views of individual staff members concerning various issues involved in the case, and staff members are encouraged to present their points of view.

Recommendation.—The International Trade Commission should require that the Commissioners fully explain the significance of critical facts used in making their decisions.

Response.—The Commission agrees with the drafters of the report that Commissioners' opinions should clearly explain determinations. The statute and legislative history so require.¹ However, the Commission disagrees with the conclusion of the report that opinions are "incomplete or unclear."² The two examples of such incomplete or unclear opinions given by the GAO report drafters do not support the GAO report's conclusions.

On pages 32 and 33 of the GAO report, the drafters refer to discussion concerning the idling of productive capacity in the industrial fasteners industry, apparently in the views of Commissioner Bedell in investigation No. TA-201-37, Bolts, Nuts, and Large Screws of Iron or Steel (the GAO drafters do not expressly identify the opinion, but it apparently is that of Mrs. Bedell). The drafters conclude that Commissioner Bedell's statements on industry capacity utilization are "not supportable

¹ See sec. 201(d)(1) of the Trade Act of 1974, and pp. 120-21 of the Senate Finance report on the act.

² GAO report, p. 32.

by the facts" in the "staff" report, that Mrs. Bedell should have used an alternative approach to calculating capacity use suggested by Commission economists, and that she should have cited possible shortcomings discussed in the Commission report concerning capacity utilization data.

The GAO report's comments on this opinion overlook several key considerations. First, Mrs. Bedell cites and quotes from the data in the Commission report (p. A-16). Thus, her conclusions are supportable by facts which are the best available. Second, the capacity utilization data which Mrs. Bedell cites are the only such data in the Commission report. Third, no matter how the data are calculated—i.e., whether "full" capacity is considered to be 100 percent of maximum capacity (allowing for normal maintenance downtime) or is arbitrarily set at 80 percent of the 100 percent level on the theory that the latter is unrealistically high—the still show the same economic trend, namely, that capacity utilization had declined very sharply from prior levels despite reductions in total industry capacity as a result of plant closings. And fourth, the report itself notes possible shortcomings in the capacity data.

The GAO report criticism is not realistic. First, the Alberger opinion, which supports a finding of serious injury (as opposed to a "threat" of serious injury) fully discusses each of the three economic factors which the statute requires to be discussed (capacity utilization, profits, and employment). Thus, the discussion in the opinion on inventory and other trends, while relevant, is of secondary importance. One is required to discuss trends when one has found a "threat" of serious injury. Second, the inventory analysis which is set forth in the attached Commission report (p. A-25; additional data are on p. A-77) is, as a practical matter, part of the opinion. The final report in an investigation is a Commission document, not a staff document, because the Commissioners approve the content of the report before it is released. Opinions are, among other things, analyses of information in the report. No Commissioner will approve a report that contains statements or conclusions that conflict with those to be expressed in his or her opinion. Thus, any analysis or conclusions in the report are those on which all Commissioners agree. Third, there was no need to rebut the staff analysis of inventories in the remedy paper. That paper was concerned with remedy, not injury, and was not prepared for the purpose of assisting Commissioners in their injury determination.

Recommendation.—The International Trade Commission should require that reports on investigations include evaluations of petitioners' efforts to become competitive—including Government policies which may hinder competitive efforts.

Response.—The Commission recognizes the requirements of section 201(b)(5) and in each investigation includes any information obtained concerning efforts of domestic firms to compete with imports in its report to the President. In cases where there is strong domestic competition, there may be little additional information to report to the President. In cases where there is strong domestic competition, there may be little additional information to report to the President on adaptations made specifically to meet international competition. The Commission always seeks this information through specific questions in its producers' questionnaires and reports what it finds, both from responses to questionnaires and from information submitted by the petitioner in the petition, briefs, and testimony at the public hearing. Whenever appropriate, this information is given in a separate section on this subject. However, information on efforts to compete and Government policy affecting an industry may be spread among different sections of the report, reflecting the fact that there may be a number of areas in which firms and workers are making efforts to compete. For example, the report on certain fish did not contain a separate section on efforts to compete; however, it did contain an analysis of such efforts as the building of new vessels, the development of a frozen fish block industry, the pursuit of joint ventures with fishing fleets of other countries, and the development of underutilized species.

The Commission will endeavor to obtain more comprehensive and detailed information concerning the industry's efforts to compete in future investigations.

Recommendation.—The United States Trade Representative, in cooperation with the International Trade Commission, should require petitioners to submit more detailed adjustment strategies, tied to the level of relief granted, and monitor their compliance with the strategies. These strategies should be supported by operating and financing plans detailing planned actions and how they will be financed.

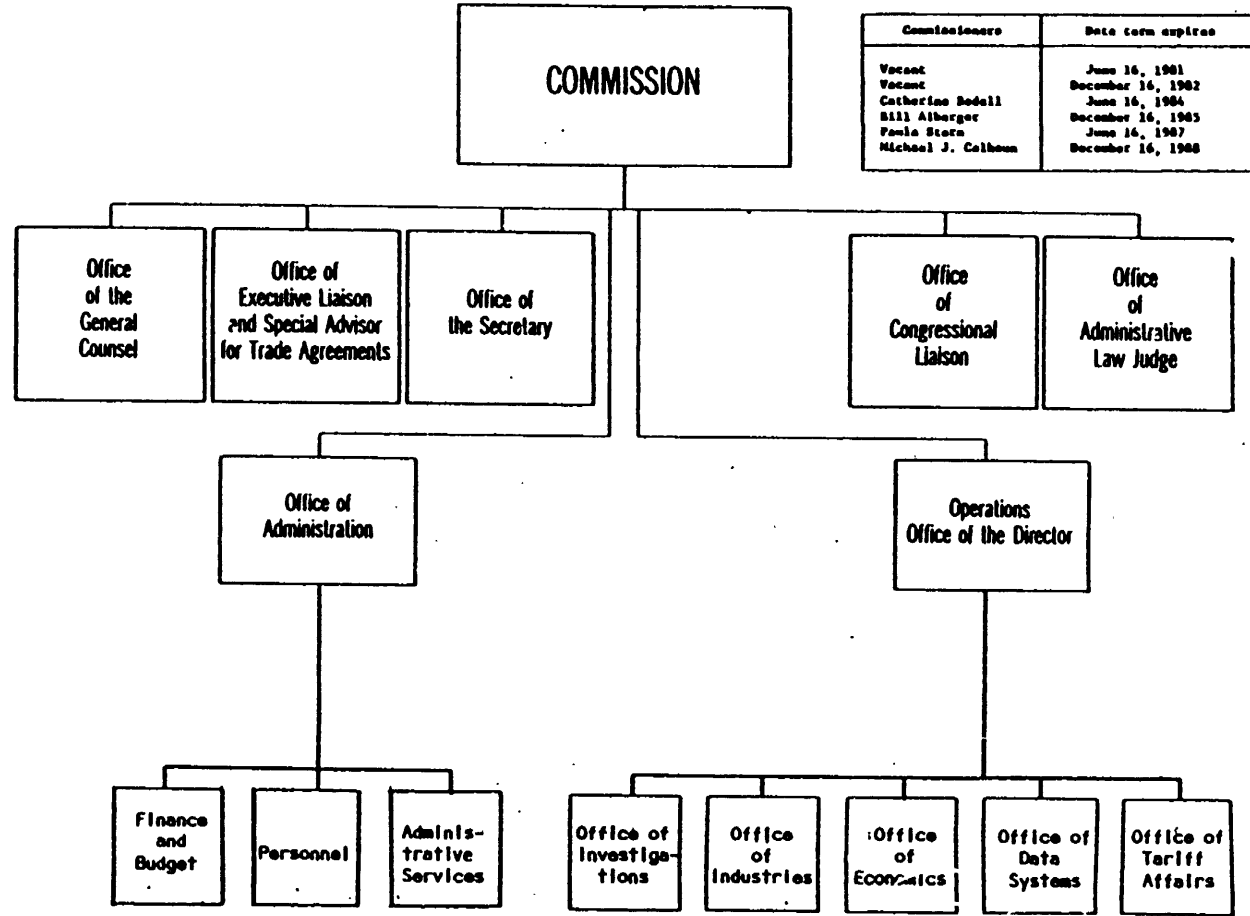
The two agencies should also periodically collect data on the conditions of all industries provided with import relief to determine whether their financial conditions have improved and what they have done to increase their competitiveness.

Response.—We do not agree that the Commission should become involved in negotiating detailed adjustment strategies, tied to the level of relief granted, with petitioners in escape-clause investigations. Since the President is the ultimate decisionmaker regarding the level of relief to be granted to a petitioner, we believe that

executive branch agencies such as the United States Trade Representative and the Department of Commerce should negotiate any such detailed adjustment strategy. This is currently done by the Department of Commerce when it grants trade adjustment assistance to firms, and thus that agency has the requisite experience to negotiate and monitor detailed adjustment plans with escape-clause petitioner.

The Commission currently collects data on the condition of industries provided with import relief when instructed to do so by the President. Such Presidential instructions generally specify the frequency of the data collection and are usually contained in the Presidential proclamation of the import relief, which is published in the Federal Register at the same time. The President may also request, at any time during the period of import relief, that the Commission conduct an investigation under section 203(i)(1) of the Trade Act of 1974 regarding the industry's efforts to compete with imports. The President's memorandums to the United States Trade Representative on import relief in the porcelain-on-steel cookware and mushrooms cases instructed the USTR to request the Commission to conduct such investigations about midway through the period of import relief. Accordingly, the President has requested a review by the Commission of an industry's efforts to compete when he has determined that such a review is needed.

UNITED STATES INTERNATIONAL TRADE COMMISSION



Senator DANFORTH. We have three more witnesses.

I wonder if Mr. Gorson and Mr. Graves could present their testimony, one right after the other.

Senator LONG. Mr. Chairman, you have been most considerate of all of us here, and you deserve all the cooperation we can give you, by all means.

Senator DANFORTH. Thank you, Senator Long.

Dr. EASTMAN. Mr. Chairman, Mr. Graves is detained at another hearing. I am Mr. Eastman, the designated hitter.

Senator DANFORTH. Very well.

Mr. Gorson.

**STATEMENT OF JAMES R. GORSON, DIRECTOR, FACILITATION,
AIR TRANSPORT ASSOCIATION OF AMERICA**

Mr. GORSON. Thank you, Mr. Chairman.

To comply with the 5-minute rule, and in the interest of conserving time, I will simply summarize my comments.

My name is James R. Gorson. I am director of facilitation of the Air Transport Association which represents virtually all of the U.S. scheduled airlines.

With me on my left, is Mrs. Linda Pinegar, ATA's director of Federal legislation.

We appreciate the opportunity to appear before the subcommittee to discuss U.S. Customs Service inspection requirements as they affect international air commerce.

Our primary interest is in seeking to assure that the responsibilities of the Customs Service, and the means by which they are carried out, do not nullify or erode the benefits of air transportation—benefits which are wholly dependent on the speed, efficiency and reliability of airline service.

Our concern is that current and future authorizations for customs' staffing at our international airports will cause serious air service disruptions and extensive public criticism unless resource adjustments are made, and ways are found to reduce inspection workload through simplification.

Current inspector staffing is well below the level needed today. Extensive inspection delays and public inconvenience have occurred and longstanding inspection practices have not been changed significantly.

The principal current responsibilities of the Customs Service, as you know, were established by the Tariff Act of 1930. This act provided no special direct or indirect benefits to the airlines or to airline customers as a class, nor was the law intended to promote or support air transportation, or to make it a better, or more salable product.

As a matter of fact, putting public policy objectives aside, the requirements of the law hinder the provisions of efficient airline service and the selling of air travel to this country.

In short, the purpose of the Tariff Act was and remains to protect the broad public interest. Its efficient enforcement is a Federal, not a private obligation. This obligation simply cannot be transferred either directly or indirectly, in whole or in part, to airline and airline customers because of the Federal budget considerations and shifting priorities.

The airlines fully agree that determined efforts are necessary to reduce the growth of Federal spending in order to spur our economic recovery and expansion.

The airlines also agree that all parts of the economy must avoid requesting special treatment. We do not seek special treatment.

We do not consider an effort to assure availability of resources adequate to administer efficiently a law enacted for the public good to be inconsistent with that essential national economic objective.

The airlines, both U.S. and foreign flag, operated over 440,000 flights to and from the United States last year, transporting over 50 million passengers.

Air travel to and from the United States by foreign visitors increased 13 percent last year and continued growth is expected.

In 1980, visitors from abroad contributed an estimated \$12 billion to the U.S. economy and generated over \$1 billion in Federal, State, and local tax revenues.

In light of the principles underlying the Tariff Act and its administration, and associated public policies, it is difficult to understand the Customs' inspector staffing deficiency we now face.

As reflected in the attachment to my statement, 230 additional Customs inspectors are needed now, today, at U.S. International and preclearance airports, to process international air commerce on a reasonable, efficient basis, under current inspection practices.

Mr. Chairman, I would like to just simply go on to the main part of my testimony. Mrs. Linda Pendegar has a chart here.

[Indicating chart.]

Mr. GORSON. We feel the adoption of the configuration in this chart would be the simplest way of dealing with the inadequacy of Customs staffing at airports.

This is a recommendation put forward by the General Accounting Office in August 1979.

[Indicating.]

Mr. GORSON. As you will note, as passengers get off the airplane they would simply go to a primary inspection line which would be manned both by Customs and Immigration inspectors. Their hand baggage would be checked and their baggage declarations would be stamped.

Most of the passengers would then proceed to the baggage claim area to pick up their baggage and leave the inspection facility.

A few would go to secondary, both immigration and customs. This would combine the resources of Customs and Immigration, pulling off a number of the Customs inspectors at the baggage counters to the front primary line.

We feel with the adoption of this GAO facility, the congestion, the long lines, and the horrible chaotic conditions that will be experienced this summer will be minimized.

Thank you, sir.

Senator DANFORTH. Mr. Eastman.

**STATEMENT OF DR. ALBERT E. EASTMAN, AIRCRAFT OWNERS
& PILOTS ASSOCIATION**

Dr. EASTMAN. Thank you, Mr. Chairman.

I am Albert E. Eastman, of the Aircraft Owners and Pilots Association. I have a corrected statement for the official reporter to reflect my appearance and a change in text.

I would like to state that we generally support the concept of the Air Transport Association for Customs inspection, whether you call it Red Door, Green Door, or by some other acronym. We think the system has great promise.

I for brevity have four summary points I would like to make:

We are opposed to any increase in Customs' overtime charges. Our statement will reflect why, and how we arrive at that conclusion.

AOPA recommends the establishment of an increased number of airports at which 24-hour free Customs inspections can be provided at general aviation airports such as at Fort Pierce, Fla.

We have selected Fort Pierce as an excellent example of a general aviation facility which operates on a 24-hour basis. We feel it provides some relief to air carrier airports in that area to help avoid congestion at those busier airports and terminals.

Third, AOPA strongly recommends implementing a combined U.S. Customs Service and U.S. Immigration Service entry form, along with a so-called two-step channel system at its busier ports of entry for Customs inspections. This is substantially the system which ATA has outlined here.

Finally, AOPA encourages the U.S. Customs Service to use the video tape training film for U.S. Customs inspectors as a daily tool for standardization and to increase efficiency. We have outlined in our statement the background and the make-up of that film and the cooperative effort that has gone into its production.

Then, on page 5 of my statement, I would like to amend the last paragraph where we indicate that we have submitted a copy of a booklet which we provide our own members who are making international flights dealing with this general area of Customs and Immigration entry and reentry.

In preparing for our statement, I discovered that we are out of those. We have a new print order in and as soon as they are available, we will do what we said we would do in our testimony.

Senator DANFORTH. You may submit that for the record.

[Material referred to is in the official Finance Committee files:]

Dr. EASTMAN. That is all, sir.

Senator DANFORTH. Senator Long.

Senator LONG. Thank you, Mr. Chairman.

I have no questions.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

About this Green Door, Red Door that we hear about, I understand some of the foreign countries have adopted this system. How does it operate?

Mr. GORSON. I think I can explain it. It is an honor system, Senator Matsunaga, where you as a traveler, determine whether or not you have duty to pay or have a problem of customs. If you don't, you go through the Green Door. If you do, you go through the Red Door.

Our Customs Service has serious problems with that, mainly, because they feel smugglers will go automatically through the Green Door.

So, what you see here is a compromise which allows inspection of passengers by Customs and by Immigration, and also satisfies the Agriculture Department, because most the interceptions they find are in the hand carried baggage and that would still be inspected here.

We do support a Red Door, Green Door system, however, apparently Customs has serious problems with it.

Senator MATSUNAGA. So, you would prefer this system to the Green Door, Red Door?

Mr. GORSON. Well, quite frankly, we would prefer no inspection.

Second, we would like the Red Door, Green Door, but being realists, we are willing to compromise and use the GAO facility shown there. It is a good facility, because very few modifications would be needed. It could be implemented at almost all airports in the United States, immediately. It would solve some of the congestion problems.

Senator MATSUNAGA. Now, would this system be effective in the detection and seizure of illegal drugs?

Mr. GORSON. Yes, indeed, it would because everybody goes through an inspection, a profile, his hand baggage is looked into. If there is any question, he is referred to the secondary Customs inspection shown at the lower section of this chart. [Indicating].

Where there is an immigration problem, he is shown or referred to the offices on each side of the primary line.

Senator MATSUNAGA. This would require additional personnel, I take it.

Mr. GORSON. This would require less personnel.

Senator MATSUNAGA. Less personnel?

Mr. GORSON. Less personnel, because you would take inspectors away from the Customs baggage counters, put them up front with the Immigration inspectors. That is the whole point of this, Senator Matsunaga. This would require less personnel. That is the only way we feel the traffic can be handled this summer, because we need additional productivity. This is the only way you can do it.

Senator MATSUNAGA. However, in your statement, you are asking for 230 additional Customs Inspectors.

Mr. GORSON. Absent this procedure, yes sir. We would need 230 additional inspectors. In view of the increased traffic, we will still need an increase in inspectors. This is our solution to the crisis we are faced with this summer.

Senator LONG. It seems to me that what you have here is nondiscrimination from the Customs Service. It makes me think about that joke the football players used to make about Vince Lombardi when he was a coach. They said, "Vince Lombardi treats all the players the same, like dogs."

[Laughter.]

Senator LONG. Of course, I was joking with the Green Bay Packers. He was rough on all of them. It seems to me that when you get off one of those airplanes coming in to this country, I don't care whether you are getting off first class or tourist class or whatever, you really get treated like dogs coming into this country.

From the time you get into that primary line, for example, and the time you leave the airplane, and you are in to the guys that you are paying with your tax money, from that time on you get horrible treatment.

From just before the time you go through that primary inspection line, when you get to that baggage carousel area, you can't even get to a telephone to scream for help. You have a whole ton of bags and a wife and some little children with you. No help. Nothing available to you until you pass that Customs secondary line. That is a disgrace to America.

It seems to me the least we could do is to say, well, you have a whole bunch of bags or something like that, that they would make somebody available to you to help move the bags around or help get all that stuff together and bow and scrape before the Customs Inspector to get past that secondary line there.

Is this plan you are talking about going to solve any of that?

Mr. GORSON. It sure will, 90 percent, hopefully, at least 80 percent of the passengers would not go to Customs at all. They would by-pass customs, just pick up their bags and leave.

Senator LONG. How do they come to by-pass it?

Mr. GORSON. Well, they go through that primary line. The man looks at them, profiles them, "You are okay," he says, and stamps the baggage declaration card, the traveler picks up his bag and hands it to the guy at the exit gate, the official there.

Senator LONG. Now is that without a baggage search?

Mr. GORSON. Without a baggage search, sure. That is the idea.

Senator LONG. Have the Customs people indicated that they are willing to go along with the situation if you go past without a baggage search?

Mr. GORSON. They are so unhappy with the Red Door, Green Door, that I think they would accept this. This at least profiles a passenger and his hand baggage is looked into, the one he carries off the airplane.

Senator LONG. The thought occurs to me, if you want to do some baggage searching, why can't you search some of those bags before the plane takes off?

Usually, when you depart a foreign country, you have to sit around and wait. If you have to sit around there and wait, Customs can do some spot checking there.

Mr. GORSON. You are absolutely right, Senator. Last year you proposed that. That is called preclearance. There is no reason why they can't do that. We have asked for it. We hope they will do that.

Senator LONG. In other words, if you get to the airport in plenty of time—most of the passengers come in from the same places. If you go to the Bahamas or Paris, France or Mexico City or some place like that, if you are there in plenty of time, if they want to look through your bag, why can't they do it there?

Mr. GORSON. You are absolutely correct. Some 20 percent of all passengers who come to this country are precleared by U.S. Customs, overseas, and not in this country.

Senator LONG. Twenty percent?

Mr. GORSON. Twenty percent.

Senator LONG. It ought to be 80 percent.

Mr. GORSON. I agree, sir.

Senator LONG. Thank you very much.

Senator DANFORTH. Thank you very much.

Mr. GORSON. Thank you.

[The prepared statements of Mr. James R. Gorson and Mr. Albert E. Eastman follow:]

STATEMENT OF JAMES R. GORSON

SUMMARY STATEMENT

The Air Transport Association, which represents most of the U.S. scheduled air carriers, is vitally interested in, and concerned about, the inspection operations of the U.S. Customs Service at international airports.

Congestion from inadequate U.S. Customs staffing at gateway airports has caused serious delays and considerable public inconvenience. Customs inspector staffing considerations need to be consistent with the responsibilities and obligations of the Customs Service under our Customs laws. They also must be consistent with our national policies to expand international airline service and to increase visitor travel to the United States.

If the budget constraints impose Customs inspector staffing reductions, then the Customs inspection process itself must be reduced on a comparable basis. The General Accounting Office "one-stop" inspection proposal represents one way this inspection process reduction can be accomplished almost immediately. If the national interest precludes large-scale changes in the inspection process then adequate staffing must be authorized. Unless one or the other—or both—choices are made, serious public inconvenience will result, our airports will become even more congested, and the international air transport system will become less efficient and more expensive.

We ask that funding be authorized for 230 additional Customs inspectors at United States and preclearance airports, and that the subcommittee request the GAO "one-stop" inspection procedure be implemented now.

STATEMENT

My name is James R. Gorson. I am Director of Facilitation of the Air Transport Association, which represents virtually all of the scheduled airlines of the United States. Among our members are 19 U.S.-flag airlines that provide regularly scheduled air service between the United States and over 70 foreign countries.

We appreciate the opportunity to appear before the Subcommittee to discuss United States Customs Service inspection requirements as they affect international air commerce. We will also comment on the level of resources necessary to meet those requirements under current inspection practices without causing intolerable delays and public confusion, as well as alternatives available to minimize resource demands and growing inspection workload.

Our primary interest is in seeking to assure that the responsibilities of the Customs Service, and the means by which they are carried out, do not nullify or erode the benefits of air transportation—benefits which are wholly dependent on the speed, efficiency and reliability of airline service. Our concern is that current and future authorizations for Customs staffing at our international airports will cause serious air service disruptions, and extensive public criticism, unless resource adjustments are made, and ways are found to reduce inspection workload through simplification.

This concern is intensified by the fact that current inspector staffing is well below the level needed today; that extensive inspection delays and public inconvenience have occurred; that long-standing inspection practices have not been changed significantly; and that pending authorization proposals hold little promise for the resource adjustments and procedural changes which are required.

CUSTOMS RESPONSIBILITIES AND THE BUDGET

The current responsibilities of the Customs Service were established by the Tariff Act of 1930. Before discussing customs staffing requirements in terms of currently applicable inspection practices, it may be well to review briefly the principles underlying that statute and related federal budget principles.

The Tariff Act of 1930 represented a comprehensive effort to develop a revised code to modernize and codify various Customs policies adopted over the history of our country, and to establish long term principles covering the importation of goods. In the process of doing this, the legislative language became quite precise in specify-

ing basic requirements applicable to the collection and protection of the revenue, the prevention of fraud and smuggling, and the processing and regulation of persons, carriers, freight and mail into and out of the United States. These basic inspection requirements affect the process followed at airports of entry today. As in the case of earlier Customs policy, the 1930 law was enacted to protect the national security and the broad public interest.

The 1930 Tariff Act provided no special direct or indirect benefits to the airlines, or to airline customers as a class. Nor was the law intended to promote or support air transportation, or to make it a better, or more salable product. As a matter of fact, putting public policy objectives aside, the requirements of the law hinder the provision of efficient airline service and the selling of air travel to this country. In short, the purpose of the Tariff Act was and apparently remains, to protect the board public interest. Its efficient enforcement is a federal, not a private, obligation. This obligation simply cannot be transferred either directly or indirectly, in whole or in part, to airlines and airline customers because of federal budget considerations or shifting priorities.

The airlines fully agree that determined efforts are necessary to reduce the growth of federal spending in order to spur economic recovery and expansion. The airlines also agree that all parts of the economy must avoid requesting special treatment. We do not seek special treatment. We do not consider an effort to assure the availability of resources adequate to administer efficiently a law enacted for the public good to be inconsistent with that essential national economic objective.

Nor is it inconsistent with other Congressionally mandated public policies designed to promote travel to this country by visitors from abroad, and to stimulate airline competition in the international marketplace. The International Travel Act of 1961 calls for extensive public and private efforts, including the expenditure of public funds, to increase U.S. destination travel in view of its social and economic values. The 1961 Act also calls for the removal of artificial travel barriers, including cumbersome customs and immigration requirements. The International Air Transportation Competition Act of 1980 calls for increased competitive air service between the United States and other countries. As a matter of national policy, more airlines are being urged to offer more service, carrying more passengers, from more points abroad, to more U.S. airports of entry.

Under these policies, the airlines, both U.S. and foreign flag, operated over 440,000 flights to and from the United States last year, transporting over 50 million passengers. Air travel to and from the United States by foreign visitors increased by 13 percent last year—and continued growth is expected. In 1980, visitors from abroad contributed an estimated \$12 billion to the U.S. economy, and generated over \$1 billion in federal, state and local tax revenues.

In the light of the objectives and achievements of these public policies, and the principles underlying the Tariff Act and its administration, it is difficult to understand the Customs inspector staffing deficiency we now face.

CUSTOMS INSPECTOR STAFFING

We have suggested a number of customs inspection simplification measures through administrative action. Some have been adopted; others have not. While further simplification by administrative action is possible, those provisions of the Tariff Act of 1930 specifying detailed entry and inspection requirements are not conducive to the type of changes which would be necessary to reduce inspection workload in a significant way. And as members of this Subcommittee know, amendments to the basic provisions of the Customs law do not come easily or swiftly. For example, we have urged for many years an easing of airline documentation requirements and changes with respect to penalties imposed on transportation companies.

In the meantime Customs inspector staffing has not kept pace with the growth of air commerce and continues to be seriously inadequate at airports where international air travelers and air freight enter the United States. There are severe bottlenecks, for example, in processing international travelers through Customs formalities at U.S. airports of entry, and at preclearance airports in Canada, Bermuda and the Bahamas. Lengthy delays have been experienced at such airports as Atlanta, Chicago, Honolulu, Houston, Los Angeles, Miami, New York and San Francisco.

This problem must not be allowed to continue. It is not a good way of conducting the business of the government. It is counterproductive to the effort to greet visitors from abroad and to welcome home returning United States citizens. It causes public inconvenience and delay, and generates widespread public indignation. It makes the business of international air transportation less productive and efficient, and increases its cost to the public.

As reflected in the attachment to this statement, 230 additional Customs inspectors are needed now—today—at U.S. international and preclearance airports to process international air commerce on a reasonably efficient basis under current inspection practices. This estimate is based on airline industry analyses of inspection workload at the various airports, and on consultations with the airport authorities. It is, in our opinion, a conservative estimate, and one that cannot be reduced significantly without substantially altering Customs inspection requirements. The increased inspector staffing needs can be provided by a direct authorization or by a mandated reallocation of resources from within the Customs Service, or by some combination of the two approaches.

The Customs inspector staffing dilemma is brought into sharp focus by current federal employment resource planning and authorization proposals. We understand that, despite increased international air travel, the already under-manned Customs inspector staff assigned to airports of entry is to be reduced. We are informed that at least 80 of today's airport inspectors will be cut immediately, and that the number of airport inspectors will be further reduced in October. Added to the disruption and delay caused by the present shortage of airport inspectors, these reductions will result in airport inspection chaos, and may well force air service interruptions. Congressional action is needed to prevent these unfortunate consequences, and to assure that the federal government's responsibility for carrying out applicable customs inspection requirements is efficiently fulfilled. The 6 April 1981 Business Week magazine editorial attached to my statement is entitled "Useless Obstruction" and amplifies upon this need.

ALTERNATIVES TO MINIMIZE GROWING RESOURCE DEMANDS

While significant Customs inspector workload reductions may not be possible in the absence of major changes in our basic Customs policy, opportunities exist for inspection simplification and modernization by administrative action. These opportunities include:

- (1) Adoption and immediate implementation at international airports around the country of the "one stop" inspection procedure as proposed by the Comptroller General of the United States in August 1979.
- (2) Implementation of the red door/green door inspection procedure—or a modification of it—whereby the traveler determines whether or not he must go through Customs formalities.
- (3) Extension of preclearance—the inspection of passengers prior to departure in the foreign country—to more locations abroad;
- (4) Consolidation of arrival and departure information required by Customs and Immigration.
- (5) Simplification of the processing of United States international air freight through the introduction of an automated control system, and
- (6) Consolidation of the several inspection functions required for the entry of travelers into this country.

These simplification measures will not eliminate the need for Customs inspector staff resource adjustments as international air traffic continues to grow. However, they could moderate such resource demands in the future, and increase inspector productivity, without compromising Customs requirements or the inspection process.

THE GENERAL ACCOUNTING OFFICE PROPOSAL

The General Accounting Office "one-stop" inspection proposal mentioned previously can be implemented almost immediately at international airports across the United States with little or no facility modifications and with minimum associated costs for cross-training of customs and immigration inspectors and relocation and wiring of Treasury Enforcement Communications (TECs) apparatus. Attached to our statement is a schematic of the GAO "one-stop" proposal and a brief explanation on how it works. The support of the subcommittee is needed to effect prompt and favorable consideration of the GAO "one-stop" configuration. In this regard, one U.S. international airport, Miami, has stated it is "prepared and able to dedicate necessary funds . . . to accomplish any changes needed" now and will put in a 24-hour, 7-day week construction effort to do so.

CONCLUSION

The basic responsibilities of the U.S. Customs Service have been established by the Congress. Resulting inspection requirements apparently are considered necessary in the broad national interest. They do not uniquely benefit airlines or airline customers. As long as the national interest continues to require the imposition of an

inspection process on international air commerce there must be a concomitant obligation to provide the necessary means for its efficient accomplishment.

Customs inspector staffing at U.S. international and preclearance airports is substantially below the level needed today for the prescribed air commerce inspection process. Unreasonable delays and public inconvenience have been the consequence. Unless prompt steps are taken to assure adequate Customs inspector resources, these problems will worsen severely. While simplification measures may reduce the growth of resource needs, they will not significantly reduce inspector staffing requirements in the absence of a major change in basic customs policy.

The Subcommittee is respectfully urged to authorize the staffing necessary to permit the efficient processing of international air commerce, and to direct the early consideration of appropriate simplification measures, specifically the GAO "one-stop" inspection procedure proposal and others outlined in this statement.

Additional customs staffing requirements needed for 1981—U.S. airports-of-entry

Airport:	Additional inspectors
Agana, Guam	1
Anchorage.....	2
Atlanta.....	11
Baltimore.....	2
Boston.....	7
Chicago.....	7
Cleveland.....	1
Dallas.....	3
Denver.....	1
Detroit.....	1
Honolulu.....	7
Houston.....	4
Los Angeles.....	41
Miami.....	59
Minneapolis.....	1
New Orleans.....	3
New York (JFK).....	16
Philadelphia.....	2
Pittsburg.....	1
Portland, OR.....	1
San Antonio.....	2
San Diego.....	1
San Francisco.....	4
San Juan.....	18
Seattle.....	3
Tampa.....	1
Tucson.....	1
Washington (Dulles).....	3
Subtotal.....	<u>204</u>
Preclearance airports:	
Bermuda.....	2
Calgary.....	7
Edmonton.....	5
Freeport.....	2
Montreal.....	2
Nassau.....	2
St. Thomas, V.I.....	2
Toronto.....	1
Vancouver.....	1
Winnipeg.....	2
Subtotal.....	<u>26</u>
Total.....	<u>230</u>

[From Business Week, Apr. 6, 1981]

A USELESS OBSTRUCTION

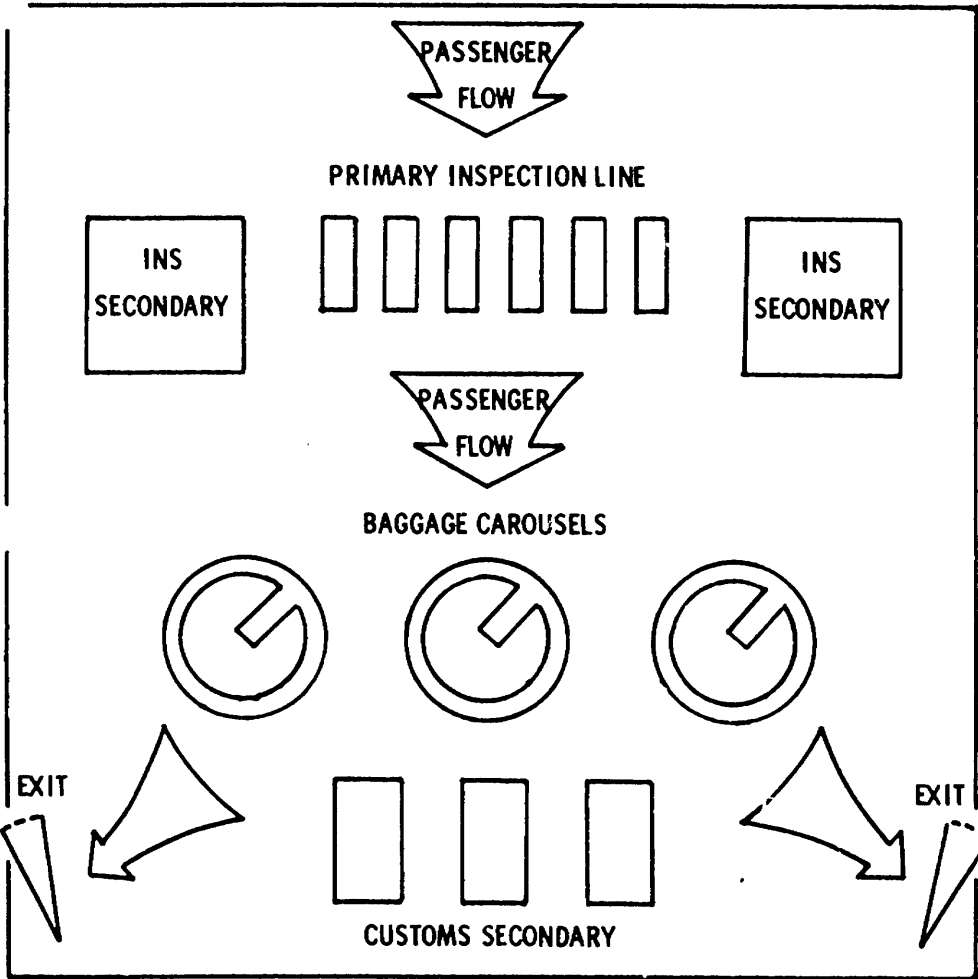
If President Reagan's budget cutters are serious about taking the waste and inefficiency out of government operations, they could do no better than to start with the U.S. Customs Service. Here is an agency that has increased its budget from \$54 million in 1960 to \$770 million this year. In the same period, it has doubled its staff, which now numbers around 14,000. And yet it is known around the world as the most picayune, quibbling, time-wasting customs system on earth. The time it cost international travelers each year is beyond calculation except by astronomers.

There can be no question of abolishing the Customs Service entirely. With \$250 billion a year in merchandise imports to process, it is understandable that all but 800 agents are involved in collecting duties and inspecting cargoes. The problem is to reorganize the activities of the 800 suitcase-churners to increase their productivity and reduce their numbers.

Most industrial nations have practically eliminated the ordeal of customs clearance by adopting the so-called "red door-green door" system. Passengers arriving at gateway points can breeze untouched through a green door if they have nothing to declare. Passengers who must pay duties get faster service because the crowds are much reduced. Spot checks keep travelers with elastic consciences from using the green door for smuggling. Large shipments of contraband, especially drugs, are picked up by special agents working on tips from informants—which is also true of the U.S. system.

A bill just introduced in Congress would provide for one-year test of the red door-green door system at five entry points. This would be a step in the right direction but there is no reason to be so cautious about it. Fast clearance for travelers with nothing to declare has proved out all around the world. The U.S. should adopt the system without delay and start saving the expense now.

GENERAL ACCOUNTING OFFICE
ONE-STOP CONFIGURATION



S C H E M A T I C
F E D E R A L I N S P E C T I O N A G E N C Y A R E A

Air Transport Association
3 April 1981

ONE-STOP INSPECTION PROCEDURE, GENERAL ACCOUNTING OFFICE PROPOSAL¹

Several facilitation proposals to simplify and otherwise expedite United States border-crossing formalities have been put forward by the Congress, the Administration, airport authorities and by the private sector. One recommendation by Congress, for example, at test of the red-door/green-door customs dual channel inspection system, has been agreed to by the Customs Service, and is to be tried later this fiscal year, continuing into fiscal year 1982. These facilitation measures are necessary in view of the cuts in the staffing complements of the inspection agencies, particularly customs and immigration at ports-of-entry.

But the problem of peak international passenger arrivals, which will commence next month and continue into the summer and fall months at an accelerated rate, still remains. It is necessary, therefore, that some facilitation action be taken now in order to avoid chaotic conditions in the federal inspection areas at U.S. international airport terminals.

THE GAO PROPOSAL

One entry procedure to facilitate inspection formalities can be implemented almost immediately at most airports-of-entry with little or no facility modifications and with minimum associated costs for cross-training of immigration and customs inspectors and relocation and wiring of Treasury Enforcement Communications (TECs) apparatus. This is the August 1979 Comptroller General proposed "one-stop" procedure, B-114898, whereby arriving international travelers undergo primary inspection prior to claiming their checked baggage. It works as follows:

As today, upon deplaning, all arriving international travelers at an airport would proceed to the immigration booths. These facilitation booths, however, would now be manned both by immigration and customs inspectors who have been cross-trained to perform each other's function. Every traveler, whether a returning United States citizen, a visitor or an immigrant would be queried or profiled and his hand-carried baggage inspected. His or hers baggage declaration would be encoded (for example, alpha-numeric, color coded or otherwise) by the inspector.

All travelers without immigration problems would then proceed directly to the airline baggage carousels or belts to claim their checked baggage. Those with the appropriate code would be permitted to depart the inspection area after handing over the baggage declaration card to an official at the exit doors.

Travelers having special immigration problems would be referred to secondary inspection at offices adjoining the immigration booths as is done today. Passengers requiring secondary customs inspection for duty payment or other matters of an agriculture or customs nature would be referred for these purposes to the present Customs counters after claiming their checked baggage from the airline baggage carousels or belts. The baggage declaration of these passengers would be encoded to indicate a secondary inspection was necessary.

ADVANTAGES OF THE GAO PROPOSAL

The advantages of this system are: (1) It can be effected immediately after a short two or three day Immigration and Customs cross-training session; (2) it results in greater inspector productivity and less overall inspection personnel by combining Customs and Immigration staffing complements at the primary facilitation line, yet makes available sufficient inspectors, both immigration and customs, for travelers requiring secondary inspection; (3) it intercepts prohibited agricultural products where they are most likely to be found, that is, in the passengers' hand-carried baggage; (4) it provides a true one-stop inspection for most passengers since only a small portion normally will require secondary processing; and (5) it provides a buffer period giving the airlines time to deliver the checked baggage to the carousels and belts during the travelers arrive in the claim area.

THE CANADIAN EXPERIMENT

Those interested in examining the GAO type of procedure in actual operation may visit Canada where the system has been in use for several years. Canada faces problems of a Customs and Immigration nature similar to those which confront the United States, and has similar concerns regarding the protection of its agriculture resources. The one-stop GAO recommended configuration works successfully in that country.

¹ See: Report by The Comptroller General of the United States, "More Can Be Done To Speed The Entry of International Travelers," B-114898, 30 August 1979.

STATEMENT OF DR. ALBERT E. EASTMAN, OF THE AIRCRAFT OWNERS & PILOTS ASSOCIATION (AOPA)

SUMMARY OF MAJOR POINTS

1. AOPA is opposed to any increase in Customs overtime charges.
2. AOPA recommends the establishment of an increased number of airports to which 24 hour free Customs inspections can be provided at general aviation airports such as Fort Pierce, Florida.
3. AOPA strongly recommends implementing a combined U.S. Customs Service and U.S. Immigration Service entry form also, implementing a so-called two channel system at its busier ports of entry for Customs inspections.
4. AOPA encourages the U.S. Customs Service to use the video tape training film for U.S. Customs inspectors as a daily tool for standardization and efficiency.

STATEMENT

Mr. Chairman, I am Albert E. Eastman of the Aircraft Owners and Pilots Association. AOPA is composed of 255,000 pilot-owners of civil aircraft. We fly about 80 percent of the total civil aviation hours flown in this country, and have a vital interest in legislation before the Subcommittee to authorize expenditures of the Customs Service of the Treasury Department for fiscal year 1982.

As you know, general aviation differs significantly from the certificated airlines in that we provide passenger service the equivalent of 22 of them but from all 14,000 airports throughout the fifty United States.

In contrast, airline service is available at only about 400 airports within the contiguous 48 continental United States. By way of further comparison, 20 percent of scheduled certificated traffic is generated by only five airports; more than half of all airline passengers at just 25 locations.

To fulfill its role in the national transportation system, general aviation operates a hundred times more aircraft than the certificated carriers, and flies more than six times the hours annually that airlines fly. In 1979 alone, the latest year for which data are available, more than 120 million persons were transported intercity by general aviation.

To give an example to our dependence on customs procedures and policies, over fourteen thousand international flights were planned by AOPA's Flight Operations Department last year. Recently, we set a new monthly record for international flight plans written.

These flights are most often the result of American business competing for international markets. It is clearly in the nation's economic interest to insure that this activity continue if we are to compete in the international marketplace.

AOPA has several suggestions which we believe can save money for the Customs Service, while at the same time providing improved and more efficient airport inspection services for U.S. citizens returning from abroad and international visitors.

General aviation pilots who enter the country after normal working hours (usually 8 a.m. to 5 p.m.) have no particular reason (other than a direct route) to select one entry airport as opposed to another. Realizing he must pay a \$25 overtime inspection fee after regular hours, he might as well pay it at one port as another. For example, in the State of Florida, a pilot may enter the United States at any of fourteen designated ports of entry.

There is a high level of traffic arriving in Florida from the Bahamas, Caribbean and Latin America. AOPA believes that if 24-hour per day customs inspection services were available at selected general aviation airports, the demand for overtime inspections of general aviation aircraft at the major hub airports served by airlines would decrease considerably. We believe the extra cost incurred by the government in staffing a few selected airports on a 24-hour basis would be more than offset by savings in reduced overtime at other airports.

Our flight planning specialists now recommended that returning general aviation aircraft pass through customs at Fort Pierce Airport whenever possible. We do this for several reasons, such as shorter taxiing distances and more efficient inspections. If Fort Pierce customs were made available around the clock without charge, it's likely that arriving general aviation aircraft coming in at other than "business" hours would select Fort Pierce for their inspection.

When H.R. 6783 was reported in the 96th Congress, one of the changes proposed was to increase the customs overtime inspection charge from \$25 to \$50, and later to whatever fee could be justified by Customs Service. AOPA is strongly opposed to increasing these fees. It is our position that customs and immigration inspections

are performed for the benefit of the general population and convey no special benefit or privileged to the individuals who must submit to them.

We have found that the \$25 fee already constitutes a considerable disincentive to entering the country after normal working hours. We can visualize circumstances under which only one aircraft might be cleared by an inspector at the \$50 per aircraft rate, whereas under the \$25 per aircraft rate, several aircraft might be inspected during one overtime shift. An increased charge could actually result in a loss of revenue to the government.

In the Northwest Region, the Customs Service has an "experimental" program underway. This program permits boat operators to enter the United States at designated ports of entry and report their arrival via telephone anytime during the following 24 hours. The Customs Service exercises discretion as to which vessels will be physically inspected at dockside.

AOPA believes the Customs Service should extend this form of clearance program to arriving general aviation aircraft in this same Northwest Region. The saving to the taxpayer is clear. The fact that entry must be accomplished at designated ports and the option of the Customs Service for an inspection seen to serve sufficiently to meet the needs of the government.

General aviation pilots are well aware of the drug traffic and smuggling of contraband that is being carried on by private boat and aircraft operators on all our borders. In fact, most often, it is their aircraft which have been stolen to engage in the illegal drug trade. In 1980, 241 aircraft were listed as stolen by the International Aviation Theft Bureau, a project of AOPA.

However, this type of illicit traffic is not going to report for customs inspection—regardless of the time of day. We want to make clear to the Committee that customs inspection is aimed at the law-abiding traveler not the smuggler. Rare indeed is the person who flies into the country with known contraband on board, taxis up to the Customs ramp and stands by for an inspection.

One of the major subjects this Committee is addressing is "simplification or elimination of regulatory paperwork burdens imposed by the agencies under the Subcommittee's jurisdiction."

To this statement, we have attached for the Committee's consideration a sample of a combined U.S. Customs Service and U.S. Immigration Service entry form which could be filled out by a pilot returning from an international flight. This single-copy form records the arrival of the flight and can be entered into the existing computer systems now being used at our ports of entry. This would eliminate some paperwork for the agencies involved.

These two agencies should have implemented this simple form by now. They have been looking at it far too long. The Committee could take a strong and effective stand for budgetary and regulatory improvement simply by advising both agencies to adopt this simple, standardized form.

While it is not strictly a general aviation issue, we offer the suggestion for a requirement that the U.S. Customs Service implement the so-called "two channel" system at its busier ports of entry. The two channel system is in use in many countries and consists simply of two lanes of customs clearance. One lane is used by those with nothing to declare and one is for those who have declarable items.

Those with nothing to declare are spot checked while those who must declare are given regular customs treatment. The result could be significant cost and staffing savings and fewer burdensome delays for the traveler.

The Aircraft Owners and Pilots Association, in conjunction with the National Business Aircraft Association, the National Air Transportation Association and the U.S. Customs Service are formulating a video tape training film for U.S. Customs inspectors. The film will provide a tool as well as a guide for inspecting private aircraft in an orderly and efficient manner. The emphasis here is standardization and efficiency which translates into saving time and money. AOPA strongly supports this project as a definite cost saving mechanism.

This kind of cooperative effort demonstrates our desire to cooperate fully with the Customs Service. We work with Customs officials on virtually a daily basis and recognize fully the problems they face. We feel our suggestions are both constructive and in the public interest. The customs process can be more efficient and we want to be a part of making it so.

In summary, Mr. Chairman, AOPA is anxious to see general aviation aircraft used to a greater extent in international air commerce. A significant segment of these general aviation aircraft is comprised of the corporately owned and operated jet aircraft who travel to countries all over the world to increase and extend American corporate financial interests and expand the productivity of our industry.

General aviation represents a growing and important element of international travel and we urge the Congress and the Customs Service to provide service that

will foster and encourage this development which means a strengthening of our national economic growth.

DEPARTMENT OF THE TREASURY UNITED STATES CUSTOMS SERVICE 	DEPARTMENT OF JUSTICE FEDERAL BUREAU OF INVESTIGATION NEW 07-170-192A 11-1817-Subseries PRIVATE AIRCRAFT INSPECTION REPORT U.S. C.A. C.R.	NATIONAL LIST OF COUNTRY CODES <table border="1"> <tr><td>AG</td><td>ANTIGUA</td><td>DR</td><td>DOMINICAN REPUBLIC</td><td>ME</td><td>MEXICO</td><td>ST</td><td>ST. LUCIA</td></tr> <tr><td>BB</td><td>BARBADOS</td><td>EL</td><td>EL SALVADOR</td><td>ML</td><td>NETHERLANDS</td><td>TD</td><td>TRINIDAD & TOBAGO</td></tr> <tr><td>BS</td><td>BAHAMAS</td><td>GF</td><td>GUATEMALA</td><td>PA</td><td>PANAMA</td><td>VE</td><td>VENEZUELA</td></tr> <tr><td>BT</td><td>BRITISH HONOLULU</td><td>HT</td><td>HAITI</td><td>VE</td><td>VENEZUELA</td><td>VI</td><td>VIRGIN ISLANDS U.S.</td></tr> <tr><td>CA</td><td>CANADA</td><td>IN</td><td>INDONESIA</td><td>WA</td><td>WEST INDIES</td><td>VG</td><td>VIRGIN ISLANDS U.K.</td></tr> <tr><td>CJ</td><td>CAYMAN IS.</td><td>JP</td><td>JAPAN</td><td>WS</td><td>WEST SAMOA</td><td></td><td></td></tr> <tr><td>CK</td><td>COCKBURN</td><td>KE</td><td>KENYA</td><td></td><td></td><td></td><td></td></tr> <tr><td>CR</td><td>COSTA RICA</td><td>LB</td><td>LEBANON</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>LC</td><td>LIBERIA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>LI</td><td>LIECHTENSTEIN</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>LU</td><td>LUXEMBOURG</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MA</td><td>MALTA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MC</td><td>MONTENEGRO</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MD</td><td>MOLDOVA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MG</td><td>MADAGASCAR</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MH</td><td>MICRONESIA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>ML</td><td>MALDIVES</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MM</td><td>MYANMAR</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MN</td><td>MONGOLIA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MP</td><td>MARSHALL ISLANDS</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MQ</td><td>MARTINIQUE</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MR</td><td>MOROCCO</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MS</td><td>MALTA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MT</td><td>MONTENEGRO</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MU</td><td>MURRAY ISLANDS</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MV</td><td>MAURITIUS</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MW</td><td>MALAWI</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MX</td><td>MEXICO</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MY</td><td>MYANMAR</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>MZ</td><td>MADAGASCAR</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NA</td><td>NAMIBIA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NC</td><td>NEW CALEDONIA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NE</td><td>NETHERLANDS</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NG</td><td>NIGERIA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NL</td><td>NETHERLANDS</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NO</td><td>NORWAY</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NP</td><td>NEPAL</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NR</td><td>NORFOLK ISLAND</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NU</td><td>NIUE</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>NZ</td><td>NEW ZEALAND</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>OM</td><td>OMAN</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PA</td><td>PANAMA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PE</td><td>PERU</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PF</td><td>FRANCE OVERSEAS</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PG</td><td>PAPUA NEW GUINEA</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PH</td><td>PHILIPPINES</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PK</td><td>PAKISTAN</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PL</td><td>POLAND</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td>PM</td><td>ST. 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JP	JAPAN	WS	WEST SAMOA			CK	COCKBURN	KE	KENYA					CR	COSTA RICA	LB	LEBANON							LC	LIBERIA							LI	LIECHTENSTEIN							LU	LUXEMBOURG							MA	MALTA							MC	MONTENEGRO							MD	MOLDOVA							MG	MADAGASCAR							MH	MICRONESIA							ML	MALDIVES							MM	MYANMAR							MN	MONGOLIA							MP	MARSHALL ISLANDS							MQ	MARTINIQUE							MR	MOROCCO							MS	MALTA							MT	MONTENEGRO							MU	MURRAY ISLANDS							MV	MAURITIUS							MW	MALAWI							MX	MEXICO							MY	MYANMAR							MZ	MADAGASCAR							NA	NAMIBIA							NC	NEW CALEDONIA							NE	NETHERLANDS							NG	NIGERIA							NL	NETHERLANDS							NO	NORWAY							NP	NEPAL							NR	NORFOLK ISLAND							NU	NIUE							NZ	NEW ZEALAND							OM	OMAN							PA	PANAMA							PE	PERU							PF	FRANCE OVERSEAS							PG	PAPUA NEW GUINEA							PH	PHILIPPINES							PK	PAKISTAN							PL	POLAND							PM	ST. PIERRE & MIQUELON							PN	PITCAIRN ISLANDS							PR	PURTO RICO							PT	PORTUGAL							PY	PYRAMID ISLANDS							QA	QATAR							RE	REUNION							RO	ROMANIA							RU	RUSSIA							SA	SAUDI ARABIA							SB	SOLomon ISLANDS							SC	SEYCHELLES							SD	SUDAN							SE	SWEDEN							SI	SLOVENIA							SG	SINGAPORE							SH	SEYCHELLES							SI	SLOVENIA							SJ	SVALBARD AND JAN MAYEN							SK	SLOVAKIA							SM	SAN MARINO							SN	SENEGAL							SO	SOMALIA							SR	SURINAM							SS	SOUTH AFRICA							ST	SAO TOME AND PRINCE							SV	EL SALVADOR							SX	SINT MAARTEN							SY	SYRIA							SZ	SWITZERLAND							TD	TUNISIA							TE	TAIWAN							TG	Togo							TH	THAILAND							TJ	TAJIKISTAN							TK	TURK MERCHANT MARINE							TL	TURKEY							TM	TIMOR							TN	TUNISIA							TO	TONGA							TR	TURKEY							TT	TRINIDAD AND TOBAGO							TU	TURK MERCHANT MARINE							TV	TUVALU							TW	TAIWAN							TZ	TANZANIA							UA	UKRAINE							UG	UGANDA							US	UNITED STATES							UY	URUGUAY							UZ	UZBEKISTAN							VA	VATICAN							VC	ST. VINCENT AND THE GRENADINES							VE	VENEZUELA							VG	VIRGIN ISLANDS U.K.							VI	VIRGIN ISLANDS U.S.							VN	Vietnam							VU	VANUATU							WF	WESTERN SAMOA							WS	WEST SAMOA							YE	YEMEN							YT	YUCCA ISLAND							ZA	SOUTH AFRICA							ZC	ZAMBIA							ZD	ZIMBABWE				
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U.S. AIRCRAFT ENTRY-Non Reciprocal Items 1, 3, 4, 5, 6, & 7; Reciprocal Items 1, 2, 3, 4, 5, & 7 if new. Customs Form 178 (11-18-78)

PRIVACY ACT NOTICE
 The information furnished pursuant to this form is for the use of the U.S. Customs Service and is not to be disclosed to any other agency or person without the express written consent of the U.S. Customs Service. The information furnished pursuant to this form is for the use of the U.S. Customs Service and is not to be disclosed to any other agency or person without the express written consent of the U.S. Customs Service. The information furnished pursuant to this form is for the use of the U.S. Customs Service and is not to be disclosed to any other agency or person without the express written consent of the U.S. Customs Service.

Senator DANFORTH. The next witness is William Samuel and Paul Suplizio, National Treasury Employees Union.

**STATEMENT OF WILLIAM SUPLIZIO AND WILLIAM SAMUEL,
LEGISLATIVE LIAISON, ROBERT ROBINSON, ASSISTANT
COUNSEL, NATIONAL TREASURY EMPLOYEES UNION**

Mr. SUPLIZIO. Mr. Chairman, and distinguished members of the subcommittee, I am Paul Suplizio, legislative liaison for the National Treasury Employees Union.

With me today are William Samuel, NTEU legislative liaison, on my right, and Richard Robinson, NTEU assistant counsel, on my left.

Our union is the exclusive representative of over 120,000 Federal workers, including all employees of the U.S. Customs Service. We have prepared a detailed statement on the budget authorization for the Customs Service for fiscal year 1982. We urge the subcommittee to devote careful attention to this information and ask that it be included in the record of these hearings.

As the subcommittee is undoubtedly aware, Customs is responsible for enforcing a myriad of laws and regulations that affect every segment of our society.

So much of our economy is dependent upon effective enforcement of the Customs laws that any reduction in these efforts would have a widespread and deeply felt impact on countless American citizens and businesses throughout our Nation.

Oil, footwear, textiles, electronics, steel, and perhaps in the near future, automobiles are but a few of the imported goods monitored by Customs to protect American industry.

We believe it is imperative that this subcommittee consider carefully the consequences of any actions that could dismantle or severely curtail the resources that are available to the Customs Service to engage in these important activities.

We are greatly concerned that both the Carter and Reagan budget submissions for the Customs Service have been woefully inadequate and will result in further deterioration in the ability of the Customs Service to perform its varied and important mission.

In his final message, the former President requested a little more than \$510 million for the Customs Service for fiscal year 1982, with a decrease of 393 in the total number of authorized positions.

President Reagan has reduced this request to \$480 million and cut an additional 764 positions for a total reduction in Customs of 1,157 positions below the level funded by Congress in the fiscal year 1981 continuing resolution.

We have been formally notified by the Customs Service that it estimates that a reduction in force on the order of 300 to 400 personnel will be required in fiscal year 1981, and a further reduction of 400 to 600 positions in fiscal year 1982.

Our preliminary review of Customs staffing ceilings leaves us unconvinced of the necessity of the reduction in force, particularly since such forecasts are sensitive to assumptions about the rate of attrition and the possibility of relief from the reimbursable program.

We are particularly aware the intense pressure on this subcommittee to reduce Federal expenditures. Nevertheless, we believe it

is essential that this subcommittee keep three salient facts in mind.

First, Customs is a key revenue producing agency of the Federal Government. Every dollar spent for enforcement of our Customs laws returns \$18 to the U.S. Treasury.

Second, Customs has essentially an uncontrollable workload. No matter what actions are taken with respect to the budget, international trade and travel continue to grow, travel in recent years at 12 percent, and the Customs must cope with this rising workload.

Even assuming that the productivity of the Customs Service work force increases to offset part of this rise, there is no reason to expect that productivity improvements alone can compensate for an annual seven to twelve percent growth in work load.

Third, we must recognize that while it may be tempting to make immediate budgetary savings at the expense of the Customs Service, many of these short-term savings quickly bound back as long-term costs in other parts of Federal, State, or local government budgets.

In determining appropriations for the Customs Service, Congress must remember that there is invariably a social cost for reduced enforcement, especially in a reduction in Customs efforts to stem the tide of drugs being smuggled into our country.

The key example of how the cutback in the number of inspectors will injure the mission of the Customs Service is the processing of international air travelers. While the number of arriving overseas passengers has increased by as much as sixfold in some major airports, the size of the inspectional work force has failed to keep pace.

Reductions now proposed by the Reagan administration will only exacerbate this problem.

As a result, the Trade Subcommittee of the House Ways and Means Committee adopted a recommendation that the Customs Service conduct during fiscal year 1982, a test of two locations of the so-called red door, green door system in effect in many countries in Europe.

Under this system, travellers first clear through Immigration and then claim their baggage. If they have items to declare they then choose the red exit where they must clear Customs. If they have nothing to declare they must—they choose the green exit. In effect, passengers are on an honor system, subject only to being halted at random by roving inspectors for a more thorough inspection.

This system should be contrasted to the one-stop system now being implemented by Customs, INS and the Department of Agriculture in this country.

Mr. Chairman, my colleagues and I will be happy to answer any questions.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman. What is the total budget for the Customs Service now? Do you have that?

Mr. SUPLIZIO. Yes, \$480 million is requested by the administration for fiscal year 1982. That is essentially a cut of close to 30 percent in real resources, Senator.

Senator MATSUNAGA. Were you consulted by the Commissioner or those responsible for preparing the budget at all before the budget was submitted by the administration?

Mr. SUPLIZIO. No, sir. We are not consulted on such matters. It is essentially a matter between OMB and the Customs Service.

Senator MATSUNAGA. Did you say for every dollar spent on an inspector that you get a gain of \$18?

Mr. SUPLIZIO. Every dollar spent on the Customs Service in its total budget, both the direct——

Senator MATSUNAGA. On the total budget?

Mr. SUPLIZIO. On its total budget, direct and reimbursable program. The Customs Service collects some \$8.2 billion in duties and other revenues for the Government at a cost of roughly somewhat over \$500 million.

Senator MATSUNAGA. If we should double the personnel the additional workers would certainly ease the burden on present workers?

Mr. SUPLIZIO. Yes, sir. We detail in our statement——

Senator MATSUNAGA. Right now, what is the total personnel involved?

Mr. SUPLIZIO. Some 13,000 staff years are authorized in the budget requested.

Senator MATSUNAGA. If we increased the staff, we would draw in additional revenues which Customs is not now collecting, and which might help us to balance the budget. That is a thought.

Senator DANFORTH. It might triple.

Senator MATSUNAGA. It might triple?

Mr. SUPLIZIO. I wish to qualify that. The logic involved, most of the studies do point to the fact that if you increase inspections or cargo, if you provide the import specialists, need to provide a more careful appraisalment and classification of the merchandise imports coming in to this country, rather than accepting the declarations outright of the importers, that additional revenues can be of significant magnitude can be achieved. This has been the experience of the Customs Service.

Senator MATSUNAGA. On another matter, what disturbs me very much about the reduction of Customs Service personnel is the rising crime rate in illegal drugs smuggled in from foreign countries.

Can you tell us what would result if the personnel were reduced as proposed by the administration?

Mr. SUPLIZIO. We have no doubt that the reductions in the resources that are proposed in this budget would greatly enhance the ability of sophisticated smugglers to continue to smuggle drugs into this country.

In our detailed statement, we outlined some of the indicators of that fact. For example, we are now inspecting but 0.3 percent of all the containerized cargo shipments entering this country.

Now, 70 percent of the seaborne tonnage is in containerized shipments. There are 100,000 vessels a year entering this country. With 0.3 percent being investigated, Customs last year decided to run a test to see how much, to what extent these are being used for drug smuggling.

In 2 months of last year, September and October, the Customs Service special cargo enforcement teams descended on some of these cargo containers and made seizures to the extent of 27 percent of the total amount of heroine seized throughout the whole year, and 7 percent of the cocaine was picked up in those cargo containers.

We know those containers are being used for smuggling. We know also that the—coming through the gulf coast and Miami, via air and sea and through the minimal force that our Customs patrol officers represent, that people, that those drugs are getting through.

Senator MATSUNAGA. Was the OMB cognizant of these matters in proposing the personnel reductions, do you know?

Mr. SUPLIZIO. We do not, under—we believe that the problem may very well be one of compartmentalization. We understand the significance of this request for the Reagan economic program.

But we do point out that the national security budget will increase under the economic program and would like to raise the consideration of whether or not defense of our Nation's frontiers and defense of the interests that Congress has passed the Customs laws to protect. American industry and agriculture are also part of national security.

Senator MATSUNAGA. I would tend very much to agree with you. Detection and seizure of illegal drugs ought to be considered a part of our national security to protect the health and safety of our citizens who may become victims of drug pushers and drug abusers, who must resort to crime in order to maintain their habits.

Mr. SUPLIZIO. Exactly, Senator.

Senator MATSUNAGA. These figures that you quote are provided in your detailed statement?

Mr. SUPLIZIO. Yes, sir.

An additional figure such as 200,000 high school students, age 12 to 17, using cocaine and 1.1 million age 18 to 25 on cocaine.

Senator MATSUNAGA. Where do you get these figures?

Mr. SUPLIZIO. From the National Institute for Drug Abuse. They are contained in our statement.

Senator MATSUNAGA. Thank you very much.

Senator DANFORTH. Thank you, Senator Matsunaga.

Gentlemen, thank you very much.

Mr. SUPLIZIO. Thank you.

[The statement of Mr. Suplizio for the National Treasury Employees Union follows:]

Senator DANFORTH. The hearing is adjourned.

[Whereupon, at 12:10 p.m., the hearing adjourned, subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, AND JERRY D. KLEPNER, DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and distinguished Subcommittee members, as the National President and Director of Legislation of the National Treasury Employees Union, we are pleased to appear before you today to discuss the budget authorization of the U.S. Customs Service for Fiscal Year 1982. So much of our economy is dependent upon effective enforcement of the Customs laws that any reduction in these efforts would have a widespread and deeply felt impact on countless American citizens and

businesses throughout our nation. We believe it is imperative that this Subcommittee consider carefully the consequences of any actions that could dismantle or severely curtail the resources available to the Customs Service.

The issue before the Subcommittee today is simply this: is this nation going to commit itself to a strong enforcement effort by the Customs Service? You have undoubtedly heard it said on numerous occasions that the Customs Service enforces approximately 400 laws on behalf of over 40 other Federal agencies. In considering the Customs budget authorization, it is important to remember that the activities of the Customs Service affect numerous other agencies that rely upon the Service to ensure that laws enacted by Congress are adequately enforced.

We are greatly concerned, however, because both the Carter and Reagan budget submissions for the Customs Service have been woefully inadequate and will result in a further deterioration in the ability of the Customs Service to perform its varied and important mission. In his final message, the former President requested a little more than \$510 million for the Customs Service for fiscal year 1982 with a decrease of 393 in the total number of authorized positions. President Reagan has reduced this request to \$480 million and cut an additional 764 positions, for a total reduction of 1157 positions below the level funded by Congress in the fiscal year 1981 continuing resolution.

We have been formally notified by the Customs Service that its preliminary estimates are that a reduction in force on the order of 300-400 personnel will be required in fiscal year 1981, and a further reduction of 400-600 positions in fiscal year 1982. Our preliminary review of Customs staffing ceilings leaves us unconvinced of the necessity of a reduction in force, particularly since such forecasts are sensitive to assumptions about the rate of attrition and the possibility of relief from the reimbursable program. We intend to stay in close touch with Customs officials as their planning progresses to minimize any adverse impact that may result from a layoff of vital personnel.

We would like to take note, in this regard, of two organizational solutions that have been proposed to save manpower. The first is the recently-adopted position of the Trade Subcommittee of the House Ways and Means Committee that Customs shall be administered through not more than 6 regional offices and 35 district offices. We are presently studying the personnel impacts of such a consolidation prior to taking a formal position on this measure.

Secondly, there has been recent discussion in the Congress of the possibility of consolidating the Customs Service and the Immigration and Naturalization Service into a single border management agency. When this proposal was first studied in the Carter Administration, we took the position, which we reiterate today, that such a consolidation would be feasible provided that adequate safeguards are provided to prevent adverse impacts on salaries, compensation practices, and job security. Even if these proposals are ultimately adopted, we are certain that substantially more funding than proposal by the Reagan Administration will be absolutely necessary if Customs is to protect our nation from the influx of illegal and dangerous commodities and to collect vitally needed revenue to assist in balancing the Federal budget.

We are particularly aware of the intense pressure on this Subcommittee to reduce Federal expenditures. Nevertheless, we believe it essential that the Subcommittee keep three salient facts in mind:

First, Customs is a key revenue-producing agency of the Federal government. Ever dollar spent for enforcement of our Customs laws returns \$18 to the U.S. Treasury.

Second, Customs has an essentially uncontrollable workload. No matter what actions are taken with respect to the budget, international trade and travel continue to grow, and the Customs Service must cope with this rising workload. Even assuming that the productivity of the Customs Service work force increases to offset part of this rise, there is no reason to expect that productivity improvements alone can compensate for an annual 7 to 12 percent growth in workload. If the extra margin of resources is not provided by the President and the Congress through appropriated funds, or financed through reimbursements from those who are the recipients of Customs services, then the logical result will be a continuation of the decline in enforcement and revenue collection which we witnessed in the last fiscal year.

Third, we must recognize that while it may be tempting to make immediate budgetary savings at the expense of the Customs Service, many of these short-term savings quickly bound back as long-term costs in other parts of Federal, State, or local government budgets. In determining appropriations for the Customs Service, Congress must remember that there is invariably a social cost for reduced enforcement. For example, increased drug traffic that results from a weakened Customs force requires larger government expenditures for police protection as well as reha-

bilitation and treatment of users. In reviewing the programmatic responsibilities of the Customs Service, we must be prepared to examine the long-term costs of dropping our guard at the nation's frontiers and ports of entry for the sake of short term budgetary savings.

THE ROLE OF CUSTOMS

We believe that the price our country would have to pay for a crippled U.S. Customs Service that is inadequately funded is far too high. Reducing the budget of the law enforcement agency that is charged with protecting our nation's borders and ports of entry would have a rippling effect across our entire economy that would more than negate any minor savings to the taxpayers realized by cutting funds for this agency.

While examples of the importance of the Customs Service to our nation's economic well being are too numerous to fully document at this time, we believe that several key illustrations underscore our contention.

As this Subcommittee is acutely aware, the question of restricting foreign automobile imports is very high on the national agenda. Present news reports indicate that the Japanese have been requested to voluntarily limit their exports to 1.6 million cars a year. Without attempting to debate the merits of this question, let me simply point out that the aim of this policy is to provide jobs and alleviate the distress of thousands of workers, as well as rejuvenate an ailing industry. Whether the restriction is mandatory or voluntary its implementation will depend upon the ability of the Customs Service to monitor automobile imports. Failure to provide Customs with the necessary resources would ensure that our nation's effort to protect a critically weakened industry would fail even before it begins.

There are, of course, other examples of industries and workers dependent upon the protections afforded by the Customs Service. Footwear and color television sets imported from Korea and Taiwan are now covered by Orderly Marketing Agreements with those countries. Imports of textiles and apparel are restricted under the Multi-Fiber Agreement. Steel imports are regulated under a Trigger-Price Mechanism, and, in particular, specialty steels are carefully watched by Customs personnel to detect any surge in imports. The International Trade Commission has proposed monitoring auto parts and fabricated steel. Customs also gathers volume and price information to facilitate enforcement of our anti-dumping and countervailing duty legislation. In all these instances, which illustrate the expansion of the Service's mission in recent years, the failure to provide adequate enforcement capability would lead to detrimental long-term economic consequences for the affected industries and their workers, with a consequent drain on the Federal budget.

The controls implemented by Customs on petroleum imports are a crucial part of our nation's energy policy. When the gasoline shortages of the 1970's focused public attention on the necessity to limit our country's dependence on foreign oil, the role of the Customs Service in this area became even more crucial. For the first time, many public officials realized that Customs records on oil imports—obtained through the activities of Customs Inspectors—provided the only reliable data on the volume of oil imports. Nevertheless, during the 96th Congress, efforts were made by the previous Commissioner of Customs to restrict the role of the Customs Service in this vital activity. Under the Commissioner's proposal, imports would have been monitored not by trained Customs Inspectors responsible to the public, but by licensed public gaugers hired by the oil companies. Realizing the inherent danger of this policy, Congress wisely acted to ensure that Customs improve, rather than curtail, its oil gauging functions. Despite these efforts, however, the lack of adequate resources and personnel, combined with legislated caps on inspectional overtime, have forced a de facto limitation on Customs' role in oil gauging. In some ports, Inspectors have no choice but to rely on the reports of public gaugers. We believe that these circumstances are undermining the will of Congress and the national interest by weakening the Service's ability to monitor oil imports. We urge the subcommittee to correct this by providing sufficient funding to maintain a strong Customs presence in gauging imported petroleum products.

The Customs Service also provides our nation's first line of defense against foreign narcotics traffic. As the Subcommittee is well aware, the costs to society and to the Federal government of inadequate interdiction efforts against these drugs are enormous. It is estimated that Americans spend \$44 billion to \$63 billion on illegal drugs each year. There are approximately 450,000 Americans who are heroin addicts, nearly 10 million who have used cocaine, and over 43 million who have used marijuana. The burden of drug use has a significant impact on the health care system, the judiciary, the employment market, and the social services system. The Strategy Council on Drug Abuse has estimated the social cost of drug abuse at \$10 billion annually.

In 1977, more than 200,000 persons were in federally funded programs for treatment of drug abuse. Of special concern is the impact that drugs smuggled into this country have on our youth. The number of teenagers, age 12-17, using cocaine is estimated at 200,000 by the National Institute for Drug Abuse. The number of young adults, age 18-25, using cocaine is put at 1,100,000.

Today, 11 percent of our high school students smoke marijuana daily, and the age of first use continues to fall. Last year, the Manhattan District Attorney, Robert M. Morgenthau, pointed to statistics showing sharp increases in heroin arrests and heroin-caused deaths in New York City, and stated that cities on the eastern seaboard were "in the early stages of a massive crisis" of heroin addiction.

Customs Inspectors, Customs Patrol Officers and Special Agents play a vital role in the war against drug traffic. Sufficient resources to maintain and improve the Customs Service tactical interdiction capability are absolutely crucial. Despite some notable successes in the past, large quantities of drugs continue to flow into this country. We urge this Subcommittee to immediately increase the tactical interdiction resources of the Customs Service on land, sea and air in order to make greater progress against cocaine and marijuana flooding into Florida and other Southeastern and Gulf Coast States from Latin America.

In support of this view, the Strategy Council on Drug Abuse has recommended an increased role for the Customs Service in intelligence gathering for drug interdiction purposes. We believe that a determined commitment to confront our nation's long standing drug problem must be a key factor in this Subcommittee's deliberations on funding for the Customs Service.

The Customs Service is also on the front line in safeguarding American agriculture against an influx of foreign plant and animal disease. With the number of Customs Inspectors spread thinner and thinner every day, the likelihood of a national calamity or epidemic is being predicted with increasing frequency by both government and industry experts. The expenses involved in the eradication of these diseases are so enormous that they far exceed the cost of prevention.

Research indicates that eradicating even the smallest outbreak of African Swine Fever—presently a threat from Cuba and the Dominican Republic—is conservatively estimated at \$7.3 million. Last month, the Wall Street Journal reported the discovery of the khapra beetle in grain and spice warehouses in five eastern states. However, when called upon for assistance in funding defumigation of the warehouses (at \$20,000-50,000 per warehouse), the U.S. Department of Agriculture was unable to respond because it had committed its fiscal year 1981 allocation of \$2.1 million for such contingencies to battle the spread of Mediterranean fruit flies on the West Coast. It costs far less to provide Customs with adequate inspectional resources to guard against these pests than to eradicate them once they have infested our nation's fields and orchards.

WORKLOAD

The ever-expanding workload of the Customs Service has definite implications on the agency's budget for fiscal year 1982. Among the indicators reflecting this growth are:

Between 1970 and 1979, the number of international air passenger arrivals grew at the rate of 11 percent a year, and are projected to grow at the same rate between 1979 and 1985. In the most recent year, 1980, air passenger arrivals grew 12 percent.

Between 1970 and 1978, the volume of U.S. imports grew at a rate of 7.5 percent annually. Imports are projected to grow at a rate of 8.7 percent each year between 1980 and 1985.

Formal entries of merchandise are anticipated to rise 7.3 percent in fiscal year 1981 and are projected by the Customs Service to increase 9.7 percent in fiscal year 1982.

The number of carriers projected to arrive from foreign countries in fiscal year 1981 is 99 million—up 9.5 percent from 1980.

What is particularly striking about this data is the large growth rates in each category either measured or projected. Workload increases of this magnitude simply cannot be accommodated by increased productivity or by the stretching of already thin resources. If Customs is to continue to provide necessary services to the traveling public and international business community, preserve the collection of revenue, safeguard against the entry of illicit drugs, and enforce the trade regulations which protect the American economy and worker, funding must be provided to meet this growth in workload.

RESOURCES

Despite the clearly documented increase in the workload of the Customs Service, the resources with which the agency has been provided have been woefully inadequate. We call your attention to Exhibit I at the end of this statement. Exhibit I charts actual and projected workload to 1985, and compares this to Customs outlays in constant dollars. The result is striking. All the workload trend lines are rising; however, Customs resources, in terms of real outlays, stay at about the 1975 level. These trends are further documented in Table 1.

Table 2 shows the Customs budget in recent years in relation to the rate of inflation. Note the 2 percent decrease in total obligations proposed in the Reagan Administration's budget for fiscal year 1982. Estimating the rate of inflation conservatively at 9 percent, we find that the Reagan budget submission represents a real decrease in the resources available to Customs of \$65 million. While projecting a workload growth on the order of 9-12 percent, this budget proposes a cut in real resources of 12 percent from the level required to sustain current programs in pace with the rate of inflation.

Simply stated, the resources available to the Customs Service have been decreasing due to inflation and the Administration's severe cutbacks in personnel. Combining these factors with the rapidly growing workload, one of two things must happen: either productivity must rise beyond any reasonable expectation or the Customs Service will be stretched to a point where enforcement will literally collapse.

In the past, Customs management has assured this Subcommittee and other panels that productivity gains, needed to offset increased workload, would be forthcoming through the adoption of new technology and emphasis on a more selective approach in clearing passengers and cargo. Principal examples cited in connection with the fiscal year 1982 budget are:

The One Stop system, under which arriving air passengers by-pass Immigration and proceed directly to Customs after receiving their baggage. This procedure is limited by the availability of physical facilities, but has been instituted at Philadelphia, Los Angeles, Atlanta, Houston, Denver, Albuquerque, and the preclearance station at Edmonton, Canada. It will be introduced at three new sites in fiscal year 1982.

The ACCEPT system for accelerated cargo clearance and entry processing. Customs evaluated this system in fiscal year 1980 and because the results were unsatisfactory it will be re-testing a revised version in fiscal year 1981. A problem encountered with the system, which is intended to focus Customs efforts on selected cargo shipments, is the identification of low-risk and high-risk importers, and the potential for smuggling once physical inspection is dropped and the so-called low-risk importers become known.

The Automated Air Cargo Manifest Clearing System, which is being tested at one location, and will continue in the test phase in fiscal year 1982.

The Automated Broker Interface System, which is being tested in Baltimore and Philadelphia. The concept is to permit Customs computers to accept entry data from broker computers, saving on paperwork and data input. We believe the physical security of such a system, and the potential for fraud and abuse, must be carefully evaluated before full implementation is authorized.

With regard to these programs, we must point out that each of them is either limited in application or still in the testing stage. The One-Stop system will be employed in no more than 10 locations in fiscal year 1982, and the other systems are still far from ready for implementation on a service-wide basis.

While we have always supported reasonable efforts to increase the efficiency of the Customs Service, we urge the Subcommittee to exercise extreme caution over any claim that these systems will increase productivity sufficiently enough to accommodate Customs' projected workload growth. We submit that until these new systems have been implemented service-wide, it is especially important to ensure that existing enforcement mechanisms remain in place and are adequately supported.

PERFORMANCE

In light of the evidence we have presented, it is useful to examine what is happening to the performance of the Customs Service under the present difficult circumstances.

First, Customs is presently inspecting fully only one percent of all containerized shipments despite tests showing that increased inspections would result in significant increases in revenue. Containerized shipments now account for 70 percent of all seaborne cargo, and the number of ocean vessel arrivals now stands at approximately 100,000 per year. In the future, the Customs Service will inspect even less than 1 percent, unless additional Inspectors are provided as workload grows.

Second, the congestion and delays at our airports were amply documented before this Committee last year. Passengers arriving at JFK Airport, Los Angeles International Airport, Miami International Airport, and Honolulu International Airport frequently experience delays of more than two hours and sometimes they were forced to wait much longer before they could clear Customs. Today the situation, if anything, has worsened. As increased delays occur and public pressure mounts, enforcement may soon be completely abandoned to clear the backlog of passengers.

Third, except for cocaine, the number of narcotics seizures is declining, as shown in Table 3 at the end of this statement.

Fourth, during the past year revenue collected by Customs declined by some \$230,000,000.

Fifth, one of the key indicators of Customs efficiency—the cost to collect \$100 of revenue—has also taken a sharp turn for the worse. This cost, which includes both appropriated and reimbursable funds, was \$5.25 in 1979. In 1980 it rose to \$6.55—an increase of 25 percent.

As the exclusive representatives of Customs workers, we do not intend that these figures be used as an indictment of the Customs Service. We submit this information as tangible evidence of the consequences of the failure to adequately staff the Customs Service and the irresponsible policy toward the funding of this agency that has been adopted by past Administrations.

CUSTOMS INSPECTORS AND THE ISSUE OF INSPECTIONAL OVERTIME

Mr. Chairman, Table 4 at the end of our statement shows the Customs personnel picture since 1972, with respect to both total employment and the number of Inspectors. You will note that the Reagan Administration proposes to cut 92 Inspector positions in fiscal year 1982, or 161 positions below the level proposed in the January budget request. This would reduce the total number of Inspectors to approximately the same level as 1974, despite a 65 percent increase in workload since that time.

In addition, this lack of adequate personnel has been exacerbated by the actions of the previous Administration. Not once, but twice in recent years, Customs management failed to hire and train 200 additional Inspectors even though Congress specifically authorized and directed the Service to do so. Besides frustrating Congressional intent, this policy has even further hindered the ability of the Customs Service to fulfill its mission.

A particularly sensitive area where Customs is critically short on Inspectors is in processing international air travelers. As an example, the Trade Subcommittee of the House Ways and Means Committee recently heard testimony that the number of international arrivals at the Atlanta airport has grown from 67,000 in 1977 to 418,000 in 1980, a sixfold increase. Yet, Atlanta has only 18 inspectors, even though a minimum of 40 are required. This has led to lengthy processing delays which make a bad impression on foreign visitors and are particularly injurious to the tourism industry.

Because of this situation, the Trade Subcommittee of the House Ways and Means Committee adopted a recommendation that the Customs Service conduct during fiscal year 1982 a test at two locations of the so-called "red-door, green-door" system in effect in many countries in Europe. Under this system, travelers first clear through Immigration, then claim their baggage. If they have items to declare they then choose the red exit where they must clear Customs, if they have nothing to declare they choose the green exit. In effect, passengers are on an honor system, subject only to being halted at random by roving Inspectors for a more thorough inspection.

This system should be contrasted to the one-stop system now being implemented by Customs, INS and the Department of Agriculture in this country. Under one-stop, the traveler undergoes a single "primary" inspection by an officer who represents the three services. Certain passengers are also selected for a more thorough spot-check or "secondary" inspection. The General Accounting Office has reviewed the operation of the one-stop system and has recommended to the Congress that one-stop could be implemented at more locations and passengers cleared more rapidly if they were permitted to undergo primary inspection before collecting their checked baggage, and if the Agriculture Department could be content with only spot-checking hand-carried items rather than inspecting all such baggage and parcels.

We believe that both these concepts of passenger facilitation are an inversion of priorities—they put passenger clearance above enforcement of the nation's customs laws. What is needed, if the laws are to be enforced, is to provide Customs with sufficient inspectional resources so that passengers can be cleared expeditiously

while still enabling the Customs Service to fulfill its varied responsibilities that are vital to our citizens and economy.

On balance, we believe a test of the GAO-recommended version of one-stop would strike a better balance between enforcement and passenger facilitation than the red-door, green-door system. Based upon the experience of European countries with this system it is proven to be ineffective, at best, in preventing the entry of contraband and dangerous drugs. Even the one-stop system, where hand baggage and other luggage are only spot-checked, will, in our opinion, be found to be seriously adverse to the safe-guarding of our country from the entry of contraband, drugs, and foreign plant and animal disease.

The deleterious effect that the reduction of the work force during periods of rapidly increasing workload has on enforcement is obvious. Unfortunately, some Members of Congress have ignored the critical shortage of Inspectors and instead become, in our opinion, unduly concerned with the issue of inspectional overtime. We felt that it is useful to look beyond the myths surrounding Customs Inspectors' overtime and examine the facts.

We cannot overemphasize the fact that the vast majority of the overtime earned by Customs Inspectors is not paid by the taxpayers but by the carriers who demand immediate inspectional service upon arrival. Nearly 50 percent of the airline passengers arriving in our country fly on foreign flag carriers and approximately 95 percent of the seaborne cargo shipments are carried in vessels registered under foreign flags.

In 1911, Congress mandated that the taxpaying public should not bear the cost of providing round-the-clock clearance to carriers but that Customs should be reimbursed for this service by the parties-in-interest. In addition, Congress provided that Inspectors subject to callback at any hour of the day or night should be compensated at a fair rate for this hardship—a rate equivalent to double time.

For nearly 70 years, the law has stood and proved to be an equitable and workable system. Carriers have been able to obtain prompt clearance, and the American public has not been forced to pay the bill through appropriated funds. Nor does the law burden the business community with excessive charges. Rather, it requires that segment of the community which demands special service from the government to pay for that service. We might add that the carriers obtain overtime service from Customs Inspectors at a rate of pay equal to or less than that received by the majority of private sector workers at our nation's ports.

With regard to the increasing amount of inspectional overtime which has been the subject of much emotion-laden misinformation, we quote from a Customs Service study:

"Two factors, therefore, appear to be contributing to the rise in inspectional overtime payment: (1) the rapid increase in the value of U.S. imports in the last decade; and (2) the proportionally smaller growth in the number of Customs Inspectors."

We agree with this statement as should any fair-minded person. In examining the fiscal year 1982 budget submission, we hope that the members of this Subcommittee will not overlook the fact that overtime payments are a resource just like Inspectors are a resource to the Customs Service. As long as the agency is not provided adequate inspectional personnel it is futile to rail against overtime, which is simply an important resource needed to get the job done. This is why our union has always considered the attack on Customs overtime in the face of a critical shortage of Inspectors to be fundamentally misguided.

In viewing overtime as a resource, it is easier to appreciate the significance of the fact that 73 percent of inspectional overtime is compensated by the carriers that require services of the Inspector. Fully 73 percent of the payment for this valuable resource—the overtime services needed to enforce the law, protect the revenue, and otherwise discharge the Customs mission—is not borne by the taxpayer, but by the parties in interest.

Despite our arguments, however, Congress has failed to view Customs overtime as a valuable resource to accomplish the agency's mission. In fiscal year 1980, Congress imposed a \$20,000 cap on the amount of overtime that could be earned by an individual Inspector. Though this device was intended to distribute overtime earnings more evenly among the work force and eliminate abuses, it soon became clear that the overtime limitation created a new set of problems.

Due to the rapidly expanding workload of the Customs Service in fiscal year 1980, Inspectors were required to work a great deal of overtime simply to keep up with the demand for service. It soon became clear that at several of the nation's busier ports, numerous Inspectors would reach the statutory limit before the end of the fiscal year. Customs was faced with the prospect of having no qualified Inspectors available to handle the workload at several key ports of entry.

Unable to find an equitable solution to the problems imposed by the overtime cap, some ports used part-time Inspectors to help alleviate the workload. However, these employees do not receive the same training or possess the same expertise as full-time Inspectors, nor are they required to work an overtime assignment as are the permanent employees. Other areas brought in Inspectors from other ports to supplement their work force. But because the government is required to pay employees on detail to another city travel and per diem expenses, this practice required a substantial outlay of additional budget funds. Other ports were simply forced to reduce their enforcement efforts in order to stay within the overtime limitations.

We do not believe that the overtime cap in any way serves the cause of effective law enforcement or fiscal responsibility. The cap was never intended by Congress to be a method of reducing Customs' presence at our nation's borders, yet that is precisely the effect this policy is having. In addition, by requiring the expenditure of appropriated funds in place of reimbursable overtime, the cap is actually costing the taxpayer more money, in total contradiction to the intent of Congress. Last year, the Customs Service devoted close to 20 staff-years and over a million dollars just to administer this overtime cap.

As fiscal year 1981 progresses, it is clear that the overtime cap is continuing to cause severe problems. To be specific, we refer you to table 5 at the end of this statement. The data in this table covers 3,462 of the some 4,300 Customs Inspectors. It shows that, at the current rate of overtime earnings, fully 27 percent of the inspectional force will exceed the cap and be unavailable for duty during the last quarter of the fiscal year to inspect and clear vessels arriving outside regular hours.

For example, under current staffing, there will be no Inspectors available for overtime services during the summer months at Tampa, Florida; Charleston, South Carolina; Portsmouth, New Hampshire; Baton Rouge, Louisiana; and Denver, Colorado. Fewer than 50 percent of the work force will be available at Montreal, Canada; Dulles Airport; Pittsburgh, Pennsylvania; Jacksonville, Florida; New Orleans, Louisiana; Houston, Texas; San Antonio, Texas; San Diego, California; Los Angeles International Airport; Spokane, Washington; and Columbus, Ohio.

Customs simply cannot afford such a drastic loss of resources. Equally noteworthy is the disparate situation in different ports. Because the cap is on the individual Inspector's earnings, and not on overtime as a whole, Customs cannot reallocate overtime funds among ports without actually incurring the cost of shipping the people there.

In conclusion, Mr. Chairman, we suggest that in a period of fiscal austerity it should be the policy of the Federal Government to maximize reimbursable services performed by Customs. This does not require any change of policy; it is the present policy. What is needed is to eliminate the present overtime cap so that the Customs Service may freely use Inspectors as they are required to deal with the growing workload.

Furthermore, in its report on the fiscal year 1982 authorization for the Customs Service, the Trade Subcommittee of the House Ways and Means Committee noted that the overtime expenses of providing Customs Inspection on Sundays and holidays to commercial aviation are not reimbursed to Customs, and that this exemption to the user fee system for reimbursing overtime charges costs Customs \$7 million annually. The Subcommittee stated its intention of raising before the full Committee the possibility of terminating this exemption, as well as applying various aviation user charges to provide reimbursement for the cost of Customs operations connected with international aviation processing. In addition, the Subcommittee also adopted an increase in the user charge for noncommercial boats and aircraft entering the U.S. after regular working hours and on Sundays from the current \$25 to \$50, effective October 1, 1982, for an estimated revenue gain of \$400,000. We believe that these are sound proposals and we recommend them for your consideration.

CUSTOMS PATROL OFFICERS

Customs Patrol Officers (CPO's) constitute a major part of the agency's border enforcement function. As law enforcement officers, these employees patrol the nation's borders on land, sea and air.

Though primarily charged with the interdiction of smugglers, the nature of CPO's duties demands that they become involved in virtually every aspect of Customs field enforcement as well as the apprehension of persons entering the United States illegally.

The increased workload of the Customs Service in recent years has affected the CPO function as much as others in the agency. Like other divisions within the Service, CPO's have had to struggle simply to maintain a minimal enforcement effort in the face of the tide of drugs, contraband and illegal aliens flowing across our nation's borders.

In light of the problems confronting the Customs Service, it is incredible that the Reagan Administration's fiscal year 1982 budget actually calls for a reduction of 178 CPO positions allocated to the land border component of the tactical interdiction function. This proposed reduction flies in the face of sound enforcement policy and common sense. It also contradicts President Reagan's recent statement that drug abuse is "One of the gravest problems facing us internally in the United States . . . I think we are running a risk of losing a great part of a whole generation."

The Administration defends its proposed cutback of CPO's on the basis that the land border component was one area where personnel could be spared. Yet, statistics released by the Customs Service indicate that more—not less—staffing is needed in this area.

The Customs Regions with the largest number of land entry points are Regions I (Boston) and IX (Chicago) along the Canadian border, and Regions VI (Houston) and VII (Los Angeles) along the Mexican border. According to figures released by the Commissioner of Customs, the number of persons processed in each of these Regions jumped dramatically in 1980.

Persons processed	1979	1980
Region I (Boston)	41,810,283	47,152,926
Region VI (Houston)	93,507,582	103,617,552
Region VII (Los Angeles)	78,196,113	83,422,117
Region IX (Chicago)	23,713,178	26,483,861

Other figures disclosed by the Customs Service show that 264,420,713 persons, or 90 percent of the total, entered the United States by ground vehicle or on foot. It stands to reason, therefore, that the land border enforcement component of the tactical interdiction force is experiencing a very substantial increase in workload, not a decrease.

The duties of the land border enforcement function are compounded by the growing illegal alien problem. While the Justice Department has primary jurisdiction over immigration, the nature of the CPO's job brings them in almost daily contact with persons seeking to enter the U.S. unlawfully. Therefore, an increase in the number of illegal aliens represents a corresponding increase in the demands placed upon CPO's.

Statistics demonstrate that the number of illegal aliens has dramatically increased. The Justice Department estimates that as many as 8 million illegal aliens are now within the United States, 1,058,000 of whom had been identified as deportable aliens in 1978. Of this number, the Justice Department estimates that 971,000 entered without inspection, i.e. outside of border stations through areas patrolled by the Border Patrol and CPO's.

It goes without saying that the need to restrict illegal immigration is a major national priority. At a time of high domestic unemployment and cutbacks in social programs at all levels of governments, we simply cannot support millions of undocumented, non-taxpaying persons who take valuable jobs from American citizens. We believe that a strong and adequately staffed Customs Patrol Operation is essential to combating this growing problem.

IMPORT SPECIALISTS

The present personnel shortage with respect to Import Specialists should be of particular concern to this Subcommittee because the classification and valuation functions of the Customs Service are a vital component of our nation's trade laws and collection activities.

Customs Import Specialists are primarily responsible for verifying the classification of import commodities to ensure that the proper duty is collected by the U.S. Government. As individual Import Specialists are called upon to verify increasing numbers of entries, the time spent on each commodity is necessarily reduced, and the accuracy of the final classification and valuation is hampered. The potential for lost revenue resulting from improper classification and valuation is considerable.

Between 1974 and 1980, the number of entries per Import Specialist jumped from 2,650 to 3,588, an increase of approximately 43 percent. As the number of Import Specialists available to meet this growing workload declined the revenue collected by the Customs Service decreased. In 1979, the Customs Service collected \$8,460,000,000; in 1980 this figure fell to \$8,230,000,000—a very substantial and needless reduction in vital revenue during a period of double digit inflation. In fact, the GNP Price Deflator, which measures price changes for imported merchandise,

rose 16 percent between 1979 and 1980, an increase which should have generated additional revenue for the U.S. Treasury. One of the primary reasons that there was a reduction in revenue, in our opinion, was the declining number of Import Specialists.

Despite this, the Reagan administration's budget request for fiscal year 1981 called for a reduction of 63 Import Specialist positions and their fiscal year 1982 request cuts an additional 31 positions for a total reduction of 94 positions. Given the problems facing the Classification and Valuation Division, we feel this reduction is wholly unjustified.

To illustrate this point, we have compiled in Table 6 information which shows both the declining number of Import Specialists and the rising number of formal entries per Import Specialist. This data enables us to compute the number of positions required to process the expected increase in entry workload, assuming the historical 4.3 percent rate of productivity growth. Our table shows that 1,445 Import Specialists will be needed to meet the projected workload for fiscal year 1982. In recognition of the critical role these employees play in protecting domestic industry and generating necessary revenue to assist in balancing our budget, we strongly urge the Subcommittee to authorize this increase in number of Import Specialist positions.

We would also like to call the Subcommittee's attention to a particularly ill-advised action by Customs management: the issuance of June 11, 1980 of Manual Supplement 3600-04. This Manual Supplement, which removes the Import Specialist from determinations of admissibility for all but quota merchandise, would severely erode enforcement of the trade protections established by Congress.

Ostensibly, this directive would expand the categories of merchandise eligible for immediate delivery to importers and brokers at our ports of entry, thereby speeding the entry process. The practical effect, however, will be the dismantling of the controls which have long existed at the Customs House whereby entry documents for certain specialized or hazardous commodities must have the prior clearance of an Import Specialist before formal entry is approved.

Commodities which were formerly subject to the scrutiny of an experienced Import Specialist would now be released by an Inspector on the docks. The individuals who man the inspectional force are dedicated and highly competent, but they do not, and are not expected to acquire the specialized knowledge of the Import Specialist. Adding this responsibility to already overworked Customs Inspectors not only places an insuperable burden on the Inspectional force, but is a poor use of the resources currently available within the Customs Service. Such mismanagement deliberately forecloses the trade protections provided by Federal law.

CONCLUSIONS AND RECOMMENDATIONS

Mr. Chairman, in our statement we have listed numerous problems faced by the U.S. Customs Service today. Though serious in nature, these difficulties are by no means unsolvable as long as a serious commitment is made to maintain the capability of the Customs Service as an effective enforcement agency. This goal will never be reached, however, as long as the agency is granted only a minimal increase in resources which translates into a decrease in real dollars.

Earlier we noted that the number of Customs Inspectors in the Reagan budget submission for fiscal year 1982 equals the same level as fiscal year 1974, despite a 65 percent increase in the amount of cargo and a 100 percent rise in international air passenger arrivals since that time. In recognition of these facts, and to compensate for the imposition of the overtime cap, both houses of Congress last year authorized funds for the hiring of 200 additional Inspectors. However, as the Subcommittee is aware, the Administration has never used the funds available for this purpose.

Clearly, Congress realizes the need for additional Inspectional personnel. Since the former Administration failed to act accordingly over the past two years while the workload for the Customs Service has continued to grow, the figure of 200 Inspectors is not sufficient to meet the increased workload since fiscal year 1974 nor the anticipated growth in fiscal year 1982.

In Table 7 attached to this statement, we summarize what we believe to be the minimum level of funding needed to maintain an adequate Customs Service presence at our nation's borders. We believe it is first of all necessary to restore this budget to the level of the January budget request, which was 764 positions higher. In addition, Table 7 includes \$15.6 million for 300 Customs Inspectors; \$13.0 million for 259 additional Import Specialists; and \$4.7 million for restoration of 73 Customs Patrol Officer positions cut in the January budget request. The total additional funding needed for the Customs Service in fiscal year 1982 would be \$63.6 million above the Reagan proposal. This, we submit, is a minimum budget for an effective Customs Service.

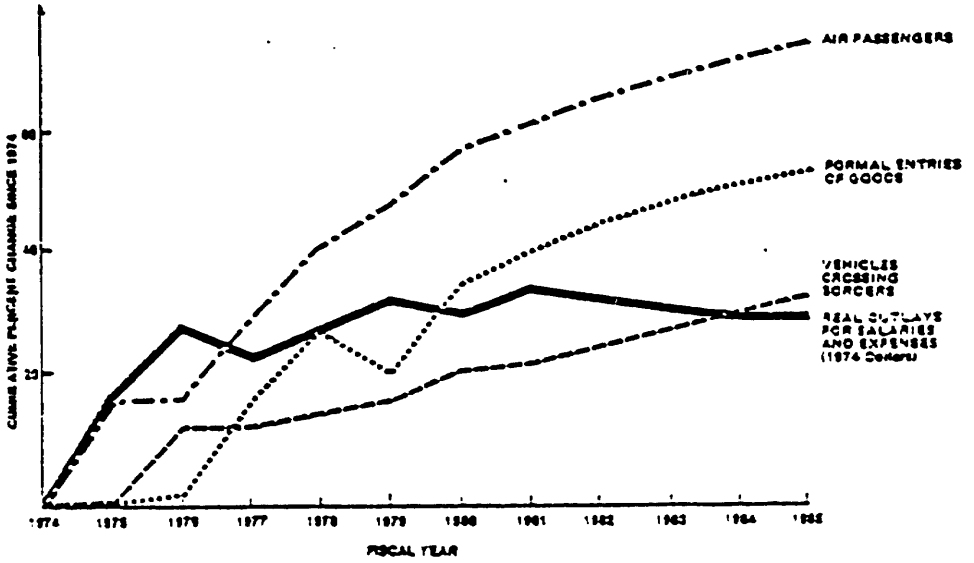
While we are mindful of the current desire to hold down Federal spending and maintain a balanced budget, we submit that slashing the budget of the Customs service constitutes false economy. Given the status of the Customs Service as a revenue producing agency and the importance of the agency's mission to the nation's economy, providing adequate resources to the Service is not a waste of Federal funds; it is an investment in the nation's future.

In conclusion, we would like to emphasize our deep appreciation for the interest this Subcommittee has shown in the U.S. Customs Service and its employees. We are confident that in the weeks ahead the Subcommittee will take all steps necessary to ensure that the Customs Service remains an effective law enforcement agency.

Mr. Chairman, this completes my prepared statement. If there are any questions, my colleagues and I will be happy to answer them at this time.

EXHIBIT I

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



* Trend projection

TABLE 1

Growth in Customs Service Salary and Overtime,
Imports, and Air Passenger Arrivals, 1970-78
and Projections to 1985

	1970	1978	Compound Annual Growth Rate Between 1970-78	Projection 1985
Base salary obligations:				
In current dollars (mil.).....	102.1	257.8	12.3	578.9
Total overtime obligations:				
In current dollars (mil.).....	23.2	59.8	12.6	138.9
Total inspectional overtime obligations:				
In current dollars (mil.).....	20.3	49.1	11.7	106.3
Total 1911 overtime obligations:				
In current dollars (mil.).....	17.2	35.9	9.6	68.2
Measures of Customs Service Workload:				
Volume of Imports based on a quantity index with 1967 = 100.....	133.1	212.6	6.5	341.3
Number of overseas air passenger arrivals (millions).....	9.2	17.0	8.0	29.1
Value of Imports In current dollars (billions)....	40.0	172.3	20.0	618.3
Number of Customs Inspectors.....	(1972) 3,754	4,399	(72-78) 2.7	

Table 2. Annual Change in Customs Resources and Inflation

FY 1978 - 1982

Appropriated Funds Only -- Does Not Include Reimbursable Program

(Dollars in thousands)

	Total Appropriations	% Change	Total Obligations	% Change	GNP Implicit Price Deflator*1972-100	% Change
1978	405,474		400,591		150.05	
		+9.5		+7.8		+8.5%
1979	444,059		431,836		169.77	
		+3.2		+5.4		+9.0%
1980	458,422		455,126		177.45	
		+6.6		+7.3		+9.0 (Est)
1981 (1-1)	488,468		488,468			
		-1.7		-1.7		+9.0 (EST)
1982 (1-1)	480,001		480,001			
Resources Required in FY 82 to keep pace with 9% Inflation	544,650		544,650			

Source: (1) U.S. Treasury Department Congressional Budget Submission for FY 1982, p. 21

(2) 1981 Economic Report of the President for Price Data

*Other indexes of inflation performed as follows in 1980: The Consumer Price Index rose 12.6 percent and Producer Prices rose 13.2 percent.

TABLE 3

Seizures of
Narcotics and
Dangerous
Drugs

Fiscal Year	1977	1978	1979	1980
Heroin				
Number of seizures	345	179	173	149
Quantity (in lbs.)	277.7	188.6	122.3	268.7
Value	\$124,703,072	\$ 86,823,141	\$ 75,080,250	\$ 166,150,108
Cocaine				
Number of seizures	1,023	846	1,299	1,307
Quantity (in lbs.)	952.1	1,418.7	1,438.1	4,742.9
Value	\$246,167,359	\$ 380,012,982	\$ 424,383,310	\$1,528,826,386
Ecstasy				
Number of seizures	6,323	4,919	4,379	3,979
Quantity (in lbs.)	15,923.0	22,638.5	50,848.9	14,675.4
Value	\$ 75,331,713	\$ 95,664,187	\$ 198,056,466	\$ 26,717,153
Marijuana				
Number of seizures	14,902	12,826	12,323	12,620
Quantity (in lbs.)	1,452,772.7	4,416,883.7	3,583,355.3	2,361,141.5
Value	\$309,033,991	\$1,428,617,063	\$2,164,467,522	\$1,661,335,274
Opium				
Number of seizures	50	51	41	33
Quantity (in lbs.)	20.2	20.3	26.1	49.9
Value	n/a	n/a	n/a	n/a
Morphine				
Number of seizures	15	6	21	15
Quantity (in lbs.)	1.4	1.8	8.8	50.7
Value	n/a	n/a	n/a	n/a
Other Drugs, Barbiturates, and LSD				
Number of seizures	2,105	2,911	3,130	3,495
Quantity (in units)	7,813,721	7,683,298	15,912,218	43,000,416
Value	\$ 4,375,683	\$ 7,836,964	\$ 44,235,966	\$ 148,351,415
Total Seizures	24,665	21,738	21,326	21,594
Total Value	\$999,633,818	\$1,996,954,337	\$2,906,223,514	\$3,531,590,354

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Table 4. Number of Customs Inspectors and Total Employment

	FY 1972-1982		Indexes:	
	Total Employment (Average Positions)	Number of Customs Inspectors	1972=100 Total Employment	Customs Inspectors
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(Est)	13,328	4,179		
1982(Est)	12,703	4,087		

Sources: (1) U.S. Treasury Department Congressional Budget Submission for FY 1982, p. 21, and Customs Tables, p. 11.

(2) U.S. Customs Service, The Issue of Customs Inspectional Overtime, p. 7 and Figure 2.

Table 5.

Number of U.S. Customs Inspectors who will exceed the \$20,000 overtime earnings cap in selected ports during FY 81, as of February 4, 1981.

<u>Location</u>	<u>Assigned Number of Inspectors</u>	<u>Number who will exceed cap at current rate of earnings</u>	<u>% who will exceed cap</u>
<u>Region I</u>			
Montreal	32	27	84%
Toronto	56	54	96%
Jackman, ME	9	2	22%
Bangor, ME	15	4	27%
Portsmouth, NH	1	1	100%
Burlington, VT	4	1	25%
Hartford, CT	13	3	23%
Buffalo, NY	58	1	2%
<u>Region II</u>			
New York Seaport	170	8	5%
Newark, NJ	210	1	0.5%
JFK Airport	381	179	47%
Bermuda	19	1	5%
<u>Region III</u>			
Philadelphia	86	30	35%
Dulles Airport	27	17	63%
Norfolk	42	2	5%
Richmond	4	1	25%
Chester, PA	4	4	100%
Wilmington, DE	10	6	60%
Pittsburgh	12	8	67%
Baltimore	70	1	1%
<u>Region IV</u>			
Charleston, SC	20	20	100%
Greenville, SC	2	2	100%
Atlanta, GA	37	2	5%
Tampa, FL	16	16	100%
Jacksonville, FL	12	7	58%
Orlando, FL	24	1	4%
San Juan, PR	134	5	4%
Fauardo, PR	14	1	7%
Miami Seaport	104	9	9%
Miami Airport	139	27	19%
Nassau	15	15	100%
Everglades, FL	56	15	27%
West Palm Beach, FL	14	9	64%
Key West, FL	5	1	20%
Beaufort/Morehead City, NC	2	2	100%
<u>Region V</u>			
Pascagoula, MS	3	2	67%
New Orleans, LA	31	68	34%
Baton Rouge, LA	6	6	100%

Table 5 (Continued)

<u>Location</u>	<u>Assigned Number of Inspectors</u>	<u>Number who will exceed cap at current rate of earnings</u>	<u>% who will exceed cap</u>
<u>Region VI</u>			
Corpus Christi, TX	4	2	50%
Eagle Pass, TX	16	2	13%
Hidalgo, TX	33	4	12%
San Antonio, TX	15	12	80%
Denver, CO	9	9	100%
Houston, TX	87	67	77%
Dallas, Ft. Worth	39	3	8%
Beaumont, TX	7	2	29%
<u>Region VII</u>			
Calexico, CA	28	7	25%
San Diego	8	4	50%
San Ysidro, CA	169	3	2%
Nogales, AZ	57	4	7%
Los Angeles Seaport	103	5	5%
Lax	107	73	68%
<u>Region VIII</u>			
San Francisco	156	53	34%
Reno, NV	13	2	15%
Astoria, OR	2	1	50%
Longview, WA	2	2	100%
Seattle, WA	72	37	51%
Sumas, WA	11	4	36%
Tacoma, WA	10	9	90%
Spokane, WA	3	1	33%
Port Angeles, WA	18	1	6%
Friday Harbor, WA	2	1	50%
Anchorage, AK	26	8	31%
Fairbanks, AK	5	2	40%
Honolulu, HA	157	13	8%
Calgary, CAN	14	6	42%
Edmonton, CAN	8	8	100%
<u>Region IX</u>			
Pembina, ND	38	2	5%
Winnipeg, CAN	5	5	100%
Minneapolis, MN	29	1	3%
Duluth, MN	8	1	13%
Detroit, MI	136	2	1%
Port Huron, MI	45	2	4%
Saginaw/Bay City, MI	5	2	40%
O'Hare Airport	83	1	1%
Columbus, OH	6	5	83%
Dayton, OH	4	1	25%
Toledo, OH	1	1	100%
Sandusky, OH	3	2	67%
St. Louis, MO	9	6	67%
Total, Selected Ports listed above	3,462	935	27%

Table 6.

U.S. Customs Service

Formal Entries of Merchandise and Number of Import Specialists

Fiscal Years 1972-1982

<u>Fiscal</u> <u>Fiscal</u>	<u>Number of</u> <u>Import Specialists</u>	<u>Number of</u> <u>Formal Entries</u> <u>of Merchandise</u>	<u>Entries Per</u> <u>Import</u> <u>Specialist</u>	<u>Average Annual</u> ² <u>Workload* Growth</u>	<u>Required Number of Import</u> <u>Specialists Assuming Productivity</u> <u>Growth of 4.3% Per Year</u> ³
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		1974-1981 7.1%	
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 (EST)1	1156	4,693,000	4,060		1363
1982 (EST)1	1125	5,146,000	4,574		1445

*Workload is measured in number of entries per Import Specialist.

Notes:

1. Department of the Treasury, Justification for Appropriations (Congressional Submission), Fiscal Year 1982, Departmental Summary Tables p. 26, and Customs Tables p.11.
2. 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.
3. Assuming 4.3% productivity growth per annum since 1974, the number of entries each Import Specialist would be capable of handling in 1982 would be $2650 + (2650 \times .043 \times 8) = 3562$. Dividing this into 5,146,000 entries yields 1445 as the required number of Import Specialists.

Table 7.

Customs Budget Requirement
 FY 1982
 For
 Sustained Level of Enforcement Taking Into
 Account Growth of Workload and Productivity

	<u>\$ Millions</u>
A. Baseline Amount (Reagan Administration Request)	480.0
B. <u>Additions:</u>	
1. <u>Restoration to Level of Jan Request</u>	
Requirement for 764 average positions.....	30.3
2. <u>Inspection and Control Function</u>	
Requirement for 300 Additional Customs Inspectors.....	15.6
3. <u>Tariff and Trade Function</u>	
Requirement for 259 additional Import Specialists.....	13.0
4. <u>Tactical Interdiction Function</u>	
Restoration of Cut of 73 Customs Patrol Officers.....	4.7
5. <u>Total Required Additions</u>	63.6
C. Customs Budget Requirement for FY 82	543.6

STATEMENT ON BEHALF OF LOS ANGELES AREA CHAMBER OF COMMERCE, FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA, LOS ANGELES CUSTOMS & FREIGHT BROKERS ASSOCIATION

This statement is respectfully submitted on behalf of the Los Angeles Area Chamber of Commerce, The Foreign Trade Association of Southern California, and the Los Angeles Customs and Freight Brokers Association.

The Los Angeles Area Chamber of Commerce is a five-county Chamber with 3700 member firms. The Chamber is the spokesman for business in the State's largest manufacturing area, with over 62 percent of the State's manufacturing establishments, 50 percent of the State's total businesses, and over 50 percent of the State's total employment located in the five-county area.

The Foreign Trade Association of Southern California is a non-profit association of over 462 firms engaged in international trade or in occupations serving or directly related to international trade.

The Los Angeles Customs and Freight Brokers Association is a trade association of 80 firms engaged in custom house brokerage or freight forwarding businesses, many with branch offices at numerous other ports.

We in the international trade business community in Southern California are fully in accord with the President's policy of reducing federal expenditures. However, our associations are particularly concerned about the effect of the mandatory freeze on the hiring of Federal personnel upon the U.S. Customs Service because of its impact upon essential services to the international trade community.

The application of a mandatory personnel freeze to the United States Customs Service would be counter-productive for the following reasons:

1. The Customs Service is a cost-effective, revenue producing agency. In fiscal year 1980, service-wide, its cost for collecting \$100 in revenue was only \$6.55. High trade areas such as Los Angeles and New York are even more cost-efficient. See statistical data attached, prepared by Customs Headquarters.

2. The Customs Service is already inadequately staffed, as a result of its traditional conservative hiring policies, attrition, and the effect of prior hiring freezes. An additional hiring freeze will overburden an already lean agency.

3. Personnel reductions resulting from a mandatory freeze would almost certainly result in revenue losses considerably in excess of any savings realized, as it would be increasingly difficult for already inadequately staffed Customs offices to insure the accurate payment of duties.

4. Serious shortages of personnel already exist in many customs offices dealing directly with the trading and traveling public. The hiring freeze would greatly aggravate this situation, seriously impeding the normal flow of trade. Delays in release of cargo result in prohibitive costs arising from storage and demurrage, congestion at ports of arrival, and loss of business due to cancellation of orders because of failure to meet contract deadlines. The international trade community needs the full cooperation of every government agency to compete effectively in world markets. The expansion of employment in the shipping, service and manufacturing industries will best be served, consistent with the policy of the Administration to encourage business recovery, through a reasonably staffed Customs Service.

5. A personnel hiring freeze results in serious delay and backlog of work in the operations and technical sections of Customs, leaving reductions in personnel in vital areas which control such functions as acceptance of Customs entry summaries and entry of quota merchandise. Shortage of personnel or the continued shifting to better-paying positions within the Customs Service is already producing significant delays in the approval of entries. This is particularly critical in the case of quota merchandise. Lack of knowledgeable personnel and delays in handling of entries at quota desk can result in loss of the right to enter goods. Those ports at which personnel levels allow even coverage of workloads gain a tremendous advantage over ports where personnel shortages prevent timely handling of imports. It is feared that the hiring freeze will bring vital Customs entry procedures to a critical point.

6. Because vacancies in higher grade positions are filled by promotion from within, a freeze on hiring almost immediately results in loss of clerical help and support staff. Personnel in lower paid positions, such as typists and clerks remain in these sections only a short period of time before being promoted to higher grade positions which develop through attrition even in hiring freeze conditions. Depletion of the ranks of those responsible for numbering, filing, messengering, and moving the tremendous volume of paper work required to effect clearance of goods and duty payment on commercial importations translates into delays of several days in releasing and moving cargo. Since beginning employees generally start at Grades 3, 4, and 5, and are essential to carry out the work of the agency, at least these positions should be excepted from the hiring freeze.

7. Commercial shipments must be moved. Freezing the hiring of Customs personnel will result increasingly in shipments not being released during normal business hours, but only on an overtime basis. Normally, when there are delays in clearance, an importer can arrange to pay the overtime cost for an inspector to clear a critical shipment, if personnel are available, even though this adds to the cost of the merchandise. With the implementation of the freeze and the imposition of an overtime pay cap by Congress, inspectors will not be available to work any overtime, particularly toward the end of the fiscal year. It would be considerably cheaper to pay beginning level salaries to additional inspectors than to pay double-time for overtime, to higher salaried inspectors presently employed, if they are available at all for overtime work.

8. Reimbursable overtime should not be included in the budget allocation, as it is not a cost to the government. Reimbursable services should be expected from the hiring freeze. This includes, for example, Customs warehouse officers stationed at bonded warehouses as employees of the Customs Service, but whose salaries are paid by the private sector. At many locations, bonded warehouses cannot be authorized or established because warehouse officers fall within the hiring freeze and are already not available for assignment to these business operations. Personnel in this category should not be included in the body count, and should be excepted from the hiring freeze as their salaries are not paid by the Customs Service or the taxpayers, but by the business user of their services.

9. Customs inspectors stationed at the various ports have the responsibility for handling clearance of passengers and cargo. If Customs is unable, because of the hiring freeze, to replace an inspector who leaves or is promoted, then the predictable result will be delays in examination of passengers and cargo. As passenger clearance takes precedence over cargo, inspectors will be transferred from the cargo facilities to handle the passengers, and clearance of cargo will suffer, impeding the international trade flow.

The significance of these problems to the Los Angeles area is evident upon consideration of the fact that Los Angeles is second only to New York Seaport in Customs collections, with collections only slightly less than New York Seaport (see statistical data attached).

In response to the Subcommittee's request for ideas for increased efficiency in essential operations, we suggest that substantial savings can be made by transferring operational personnel from the Regional Customs offices to the District Offices. We do not recommend the abolition of the Regional Offices or their reduction from 9 to 6, as has been suggested.

The establishment of nine Customs Regions in 1965 was originally intended to provide administrative and operational support to the Customs Districts. Since that date, the administrative offices of the Regions have provided the needed support in accounting functions, legal guidance, personnel management, facilities management, liquidation of entries, and regulatory audit functions. These functions are carried out more efficiently and economically at the Regional level than would be the case if these functions were assigned to the individual Districts.

On the other hand, the operational offices of the Regions, which it is estimated represent as much as 30 percent of the Regional personnel and budget, have become less and less a viable part of the Regional offices. There are many reasons for this. Several are:

(1) The operational functions of the Regions are a duplication of the operational functions of both Customs headquarters and the Customs Districts.

(2) It has become standard procedure for all significant operational questions to be referred to Customs Headquarters, with the Regional offices serving only as a relay station between the District office and Customs Headquarters.

(3) Questions involving lack of uniformity between Regions, or between Districts in different Regions, must be resolved by Customs Headquarters.

(4) The personnel necessary to process questions requiring legal determinations on classification and value and the supervisory personnel authorized to issue such determinations are located at Customs Headquarters, and it would involve unnecessary duplication to similarly staff the Regional offices.

There is little doubt that the Regional offices should continue to be maintained for the administrative functions they perform, but the operational function has little effect on the District offices, the general public, importers, and the brokers.

We therefore believe that at this time of economy, the operational personnel in the Regional offices (with the possible exception of the New York Region) and their support staffs should be transferred to the Districts, where they are sorely needed. These are highly skilled personnel with considerable Customs knowledge which should be used to the fullest. Also, transfer of Regional operational personnel to the

Districts within the same Regions would cause a minimum of expense to the government for the transfer of those involved.

Personnel within the Customs Service should, however, be assigned to the Districts and to Customs Headquarters on the basis of the workload at the various locations. For example, import specialists in some Districts process as many as 1,000 or 1,500 invoices per month, while in other locations, the average work load is only 400 invoices per month, per import specialist. Similarly, staffing at some passenger processing locations, such as Los Angeles International Airport, is very low in comparison with the number of passengers arriving (see statistical data attached), while other locations process considerably fewer passengers with considerably more personnel. Deployment of personnel throughout the nation should be based upon need and work load.

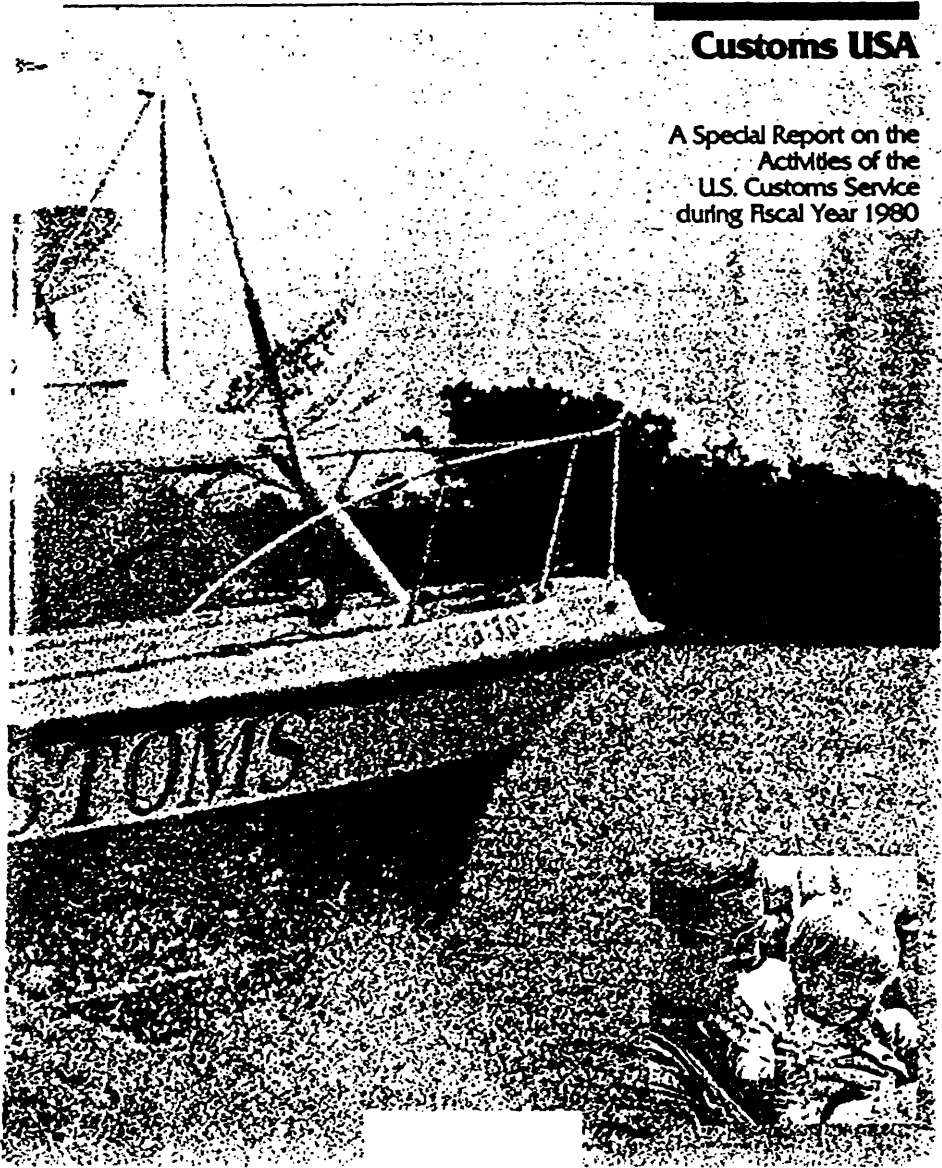
The critical shortage of support personnel of the lower grades at Customs Headquarters as well as in the field offices should also be recognized. Responses of Customs Headquarters to its field offices and to the public are substantially delayed due to a severe shortage of typing personnel, notwithstanding use of typing pools and word processing equipment. At the very least, the hiring freeze should be modified to permit the hiring of support personnel to carry on the business of the agency and to permit its timely communication with the trade and between Headquarters and the field offices.

We believe the adoption of the foregoing recommendations will meet Administration policy by significantly reducing overall costs, while continuing to protect the revenue and to preserve essential services to the international trade community.

We greatly appreciate the opportunity to comment on these matters, and hope the views expressed will assist the Subcommittee in its consideration of Budget requirements for the Fiscal Year 1982

Customs USA

A Special Report on the
Activities of the
U.S. Customs Service
during Fiscal Year 1980



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Opposite: <i>Cranes in the Port of Houston. They help move some of the millions of tons of imported merchandise and raw materials which Customs officers inspect annually. In fiscal 1990 Customs processed imports valued at \$2.8 billion and collected \$8.2 billion in duties and taxes for the U.S. Treasury.</i>		Cover: <i>A U.S. Customs cutter plows through tidewaters near Morgan, La. Smugglers increasingly use the countless inlets and coves along the thousands of miles of U.S. coasts. Inset: Supervisory Customs Inspector Van Capps helps a Cuban child off a boat in Key West, Fla. During 1990 Customs had to deal with the special challenge of the Cuban "Freedom Flotilla." The Service processed 125,612 persons and 2,156 boats carrying the refugees. It had to seize nearly 1,300 boats for violations of various laws.</i>	

Customs U.S.A.

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Merchandise Entries

(Excluding Puerto Rico and U.S. Virgin Islands)

Fiscal Year	1977	1978	1979	1980
Formal Entries:				
Consumption free	1,091,336	1,201,202	1,342,206	1,369,259
Consumption dutiable	2,487,175	2,704,393	2,926,552	2,883,459
Vessel repair	1,043	2,479	2,142	1,995
Appraisalment	447	366	440	525
Drawback	21,883	20,162	20,994	24,089
Warehouse & rewarehouse	88,655	88,808	91,331	94,736
Total formal entries	3,690,469	4,017,410	4,383,765	4,374,063
Other Entries:				
Warehouse withdrawals	255,905	258,255	265,107	275,229
Nail	2,365,339	2,303,012	1,983,657	1,521,067
Informal	393,257	2,029,742	2,055,191	2,190,207
Declarations				
Free	—	15,028,450	15,876,192	16,081,073
Dutiable	—	1,585,037	1,123,652	1,058,593
Total other entries	18,854,431	21,210,532	21,283,799	21,126,169
Total Entries of Merchandise	22,544,900	25,227,932	25,667,564	25,500,232

Sources of Customs Operating Funds

Fiscal Year	1977	1978	1979	1980
Appropriated	\$359,190,000	\$405,474,000	\$444,059,000	\$457,656,000
Other sources*	\$ 48,470,973	\$ 56,058,966	\$ 63,573,000	\$ 64,589,822
Cost to Collect \$100	\$6.00	\$5.38	\$5.25	\$6.55

* Reimbursements for services and for in-kind rendered to other Federal agencies, private organizations and individuals.

Customs Collections by Region and District Fiscal Years 1979 and 1980

Region and District	1978	1979	1980
Boston			
Boston	\$ 286,355,885	\$ 335,849,499	\$ 282,760,692
Bridgeport	51,994,023	55,657,891	51,572,354
Buffalo	124,896,221	153,567,642	156,873,778
Opdensberg	93,319,624	112,276,757	110,688,300
Portland, Maine	11,802,334	16,520,098	30,124,904
Providence	21,383,333	20,673,058	23,276,795
St. Albans	17,281,917	23,791,728	24,785,769
Total Region	687,833,337	718,336,673	688,882,592
New York			
New York	1,356,927,909	1,480,709,039	1,411,899,181
Newark	170,512,327	176,020,513	159,472,425
JFK Airport	643,655,493	727,473,537	781,075,058
Total Region	2,171,095,729	2,384,203,089	2,352,446,664
Baltimore			
Baltimore	224,519,041	313,387,250	255,358,735
Norfolk	127,914,740	133,383,863	141,019,507
Philadelphia	339,600,956	378,809,022	298,848,215
Washington, D.C.	19,497,932	21,908,286	17,298,582
Total Region	711,532,669	847,490,421	712,525,039

Customs
Collections
by Region
and District
Fiscal Years
1979 and
1980

continued

Region and District	1978	1979	1980
Miami			
Charleston	105,721,169	119,881,399	123,060,078
Miami	111,041,699	131,992,669	124,489,786
San Juan	876,667	934,765	1,169,552
St. Thomas	—	1,395	442
Savannah	128,824,960	139,739,427	156,993,738
Tampa	118,040,447	162,560,021	149,985,140
Wilmington	62,875,120	75,237,745	77,165,846
Total Region	527,380,062	630,347,621	632,864,582
New Orleans			
Mobile	29,459,463	30,094,549	33,505,175
New Orleans	339,352,147	406,208,627	245,290,497
Total Region	368,811,610	436,303,176	278,795,672
Houston			
Dallas/Fort Worth	—	1,239,504	37,660,914
El Paso	52,269,056	67,017,529	72,026,308
Galveston	73,129,352	72,396,010	24,012,121
Houston	261,239,547	274,749,117	265,980,256
Laredo	72,388,854	89,061,348	84,056,254
Port Arthur	37,755,693	23,015,093	7,054,616
Total Region	496,882,502	527,478,601	510,790,469
Los Angeles			
Los Angeles	979,981,198	1,062,918,569	1,149,716,923
Nogales	51,063,051	54,426,273	57,807,774
San Diego	32,308,281	37,619,705	42,433,331
Total Region	1,063,352,530	1,154,964,547	1,249,958,028
San Francisco			
Anchorage	5,532,300	4,690,740	3,693,190
Great Falls	8,306,641	7,602,185	9,065,299
Honolulu	37,171,212	40,886,431	38,001,525
Portland, Oregon	89,834,603	97,346,737	119,911,495
San Francisco	344,706,414	375,392,200	403,683,390
Seattle	238,336,475	285,895,762	314,385,993
Total Region	723,887,645	811,814,055	888,740,892
Chicago			
Chicago	275,666,869	290,818,798	283,099,443
Cleveland	123,747,587	123,803,685	112,515,224
Detroit	344,662,323	413,529,141	413,979,633
Duluth	11,607,978	10,686,444	6,638,582
Milwaukee	21,009,238	23,630,212	22,255,156
Minneapolis	21,376,232	23,421,673	25,823,337
Pembina	12,471,526	12,791,705	11,387,882
St. Louis	44,491,658	50,857,542	48,197,046
Total Region	855,033,411	949,541,200	923,896,305
TOTAL ALL REGIONS	\$7,525,009,495	\$8,460,479,383	\$8,230,100,243

* U.S. Customs Service collected \$76,065,466 for the Puerto Rico special fund for fiscal 1980, and \$255,627,635 for the Virgin Islands deposit fund.

Carriers and Persons Entering the United States

continued
(Excluding Puerto Rico and U.S. Virgin Islands)

BY TYPE OF CARRIER	1977	1978	1979	1980
Buses	—	218,153	182,437	245,308
All other ground vehicles (incl. tractors and freight trains)	—	76,015,848	75,587,420	89,140,004
Passenger trains	—	3,324	2,850	237,167
Total	73,778,148	82,566,939	82,004,844	89,722,479

Persons

BY REGION

1/Boston	48,343,681	43,938,674	41,810,283	47,152,926
2/New York	7,304,477	7,149,582	7,654,512	7,689,527
3/Baltimore	862,450	1,004,246	977,318	1,000,197
4/Miami	3,414,893	4,415,972	5,511,534	6,538,445
5/New Orleans	177,539	205,420	249,494	317,092
6/Houston <includes Mex. border ports>	82,700,439	93,948,109	93,507,382	103,617,552
7/Los Angeles	77,701,819	77,694,310	78,196,113	83,422,117
8/San Francisco	18,523,947	19,218,834	18,099,362	20,803,949
9/Chicago	24,333,380	24,069,569	23,713,178	26,483,861
Total	263,362,625	273,644,716	269,719,376	297,025,666

BY MODE OF TRAVEL

Vessels	900,000	1,226,468	1,269,463	1,374,742
Ferries	1,699,506	1,292,270	1,164,374	1,132,394
Commercial planes	14,211,299	15,722,081	17,625,508	18,699,937
Pre-cleared planes	4,457,119	4,919,253	5,612,394	6,092,073
Military planes	545,813	506,500	574,118	602,501
Private planes	293,999	346,223	354,560	367,792
Ground vehicles & on foot	237,936,904	246,387,848	239,437,514	264,420,713
Crewmembers	3,317,985	3,206,264	3,656,233	4,313,913
Other	—	37,809	45,012	21,601

* A vessel or aircraft arriving from a foreign port often proceeds to another U.S. port to unload cargo. This requires the same carrier to enter at subsequent ports.

Seizures for Violations of Laws Enforced by Customs

Fiscal Year	1977	1978	1979	1980
Prohibited non-narcotic articles				
Number of seizures	27,156	28,085	20,959	18,464
Vehicles				
Number of seizures	13,196	6,198	2,829	3,039
Domestic value	\$ 29,940,322	\$ 19,350,813	\$ 9,060,182	\$ 12,268,657
Aircraft				
Number of seizures	124	94	135	195
Domestic value	\$ 5,640,150	\$ 16,354,233	\$ 19,978,729	\$ 11,583,786
Vessels				
Number of seizures	291	334	272	1,319
Domestic value	\$ 90,656,301	\$ 32,420,821	\$ 74,529,400	\$ 91,268,599
Monetary instruments				
Number of seizures	538	721	1,328	1,257
Domestic value	\$ 7,429,666	\$ 13,075,329	\$ 22,472,406	\$ 31,381,653
General merchandise				
Number of seizures	28,750	26,151	24,318	19,789
Domestic value	\$ 80,732,283	\$ 46,781,702	\$ 41,639,416	\$ 39,606,053
Total Seizures	68,865	61,583	49,841	44,863
Total Domestic Value	\$214,398,722	\$128,183,498	\$167,680,133	\$186,108,748