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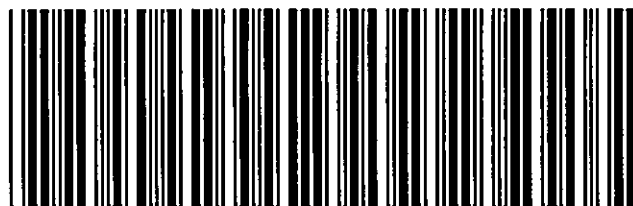
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FINANCECMTE

1 EXECUTIVE SESSION

2 TUESDAY, MAY 11, 1982

3 U.S. Senate

4 Senate Finance Committee

5 Washington, D.C.

6 The committee met at 10:05 a.m. in room 2221, Dirksen
7 Senate Office Building, Hon. Robert Dole (chairman)
8 presiding.

9 Present: Senators Dole, Heinz, Grassley, Symms, Bentsen,
10 Matsunaga and Baucus.

11 Also present: Messrs. Lighthizer, Stern, Gingrich,
12 Lang, Kassinger and De Angelus.

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1 The Chairman. I understand that Senator Matsunaga
2 would like to be able to take up the Customs area. And
3 Senator Long, when we discuss USTR. Are there Committee
4 resolutions pending that are non-controversial?

5 Wash Mr. Gingrich. Yes, sir. Mr. Chairman, there's a
6 request by Senator Bentsen to have the USITC do a section
7 332 investigation on export credit financing on general
8 aviation aircraft. It's similar to a request that the
9 Administration has also made to the ITC. It is, I think, Bentsen
10 non-controversial.

11 The Chairman. All right. Without objection, then, we
12 will include that resolution, subject, I might say, to
13 contacting absent members. There seems to be a few not here
14 this morning. Is there another non-controversial
15 resolution?

16 Mr. Kassinger. Mr. Chairman, there's a Senate
17 resolution -- 386 -- introduced by Senator Danforth and
18 Senator Bentsen, which has since been joined by a number of
19 other Committee members as co-sponsors, which arises from
20 the March 1st hearing the Committee had on the GATT
21 ministerial meeting to be held next November. It expresses
22 the sense of the Senate as to what the goals of the United
23 States should be for that meeting. We have a letter from
24 Ambassador Brock endorsing the concept expressed in the
25 resolution.

1 The Chairman. That resolution has been thoroughly
2 scrutinized by the Committee staff?

3 Mr. Gingrich. Yes, sir.

4 Mr. Kassinger. That's right.

5 The Chairman. Without objection, then we will report
6 that resolution. Again, we will contact the absent
7 members. There are a number of co-sponsors?

8 Mr. Gingrich. Yes, sir.

9 Mr. Kassinger. Yes, sir.

10 The Chairman. And what about the USITC? Is that
11 controversial -- that authorization?

12 Mr. Gingrich. No, sir, not that we are aware of.

13 The Chairman. What period of authorization?

14 Mr. Gingrich. It's a one-year authorization. It's
15 at \$19,737,000.00.

16 The Chairman. Has that been acted upon by the House
17 Ways and Means Committee?

18 Mr. Gingrich. Yes, sir. They approved the ITC
19 request.

20 The Chairman. And the figure given, is that the
21 ITC request?

22 Mr. Gingrich. Yes, sir.

23 The Chairman. And was the House action one year?

24 Mr. Gingrich. Yes, sir.

25 The Chairman. Is there any objection to making it

1 multi-year?

2 Mr. Gingrich. The Trade Act of 1974 requires an
3 annual authorization of appropriations.

4 The Chairman. I think we might just hold before we
5 act on that until Senator Long is here. Are there any
6 other provisions in the authorizations which should be
7 addressed?

8 Mr. Gingrich. The only other provisions -- there is a
9 provision on authorized non-controlled pay increases.
10 That's the automatic pay increases. That would simply
11 authorize them to spend that money if appropriated. The
12 second provision permits them to accept gifts. This
13 provision would basically be used to permit them to accept
14 gifts of travel expenses from the private organizations
15 asking and requesting speakers.

16 The Chairman. To carry out the purposes of the act?

17 Mr. Gingrich. Yes, sir. It's a provision many
18 agencies have.

19 The Chairman. Saves the Federal Government money?

20 Mr. Gingrich. Yes, sir.

21 The Chairman. Has this authorization been reviewed
22 by staff on each side? Each party and party staff?

23 Mr. Gingrich. Yes, sir. And to my knowledge, there is
24 no problem on either side.

25 The Chairman. That is right?

1 Mr. Kassinger. That's right.

2 The Chairman. All right. Let's not act on it until
3 Senator Long gets here. I see no objections to that
4 request unless Senator Long comes and has objections. Then
5 it will be recorded.

6 Let's just move to review the preliminary on USTR
7 while waiting for Senator Long.

8 Mr. Gingrich. Mr. Chairman, the USTR material is on
9 page 7. It's chart A of the material we handed out.

10 USTR has requested an authorization of \$10.1 million.
11 In addition, they've requested certain housekeeping
12 authorities that were approved both by the House last year,
13 and by the Finance Committee last year. Those provisions
14 would permit the USTR to delegate and redelegate his
15 powers and duties. It would permit the USTR to purchase
16 two cars for the use of the staff in Geneva. It would
17 permit them to accept gifts, a provision similar to the
18 ITC provision. And it would also permit them to pay for
19 travel and expenses in excess of the federal per diem, if
20 approved by the USTR himself.

21 The Chairman. I might ask that chart A on page 7 be
22 made a part of the record in full.

23 (THE CHART FOLLOWS:)
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25

1 The Chairman. Do you know the total staff of the
2 USTR?

3 Mr. Gingrich. One hundred and thirteen.

4 The Chairman. I will wait until Senator Bentsen.

5 Mr. Gingrich. He just walked in.

6 The Chairman. I think Senator Long will be here
7 shortly. I think Senator Long has specifics on your
8 resolution.

9 Senator Bentsen. Thanks very much.

10 (Laughter)

11 The Chairman. I can't recall a time that I have been
12 on the Committee that we have had such an active--so
13 much interest in trade. I've been impressed with the work
14 of Ambassador Brock. And the members of his staff. And
15 there is still a number of important things that are down
16 the road. And I'm the last one, I would hope, that would
17 be here suggesting any increase in an authorization. But
18 I note that the total authorization for fiscal year 1982
19 for the USTR was about \$10 million.

20 Mr. Gingrich. Yes, sir.

21 The Chairman. And it would seem to me that with the
22 work the USTR has in the next year that we could increase
23 that authorization by \$1 million. In addition to giving
24 that additional fund, it would also permit an additional
25 deputy USTR. I introduced a bill last year to provide an

1 additional deputy. I believed then and still believe that
2 the USTR's office needs this additional position to manage
3 its already expanding workload, and to handle the greatly
4 increased responsibilities they are likely to have in such
5 areas of services, investments and high technology. I also
6 believe it would provide the USTR with greater flexibility
7 in future trade negotiations. The additional \$1 million,
8 in addition to covering that expense, would probably permit
9 restaffing of 15 to 20 additional positions to carry out
10 the increased responsibilities. And I say that without -- I
11 must say that the Ambassador is not requesting this. Perhaps
12 he would accept it. He's not in a position to request it
13 because of the budget constraints in his and every other
14 agency. So I would hope, unless there is some objection
15 from members, that we might provide the additional deputy
16 who would come before this Committee for confirmation.

17 Do you have any comments on that?

18 Mr. Gingrich. I believe that the work of the USTR is
19 expanding at a rate that would make it very helpful to them
20 to have additional people.

21 The Chairman. Would this additional position in any
22 way conflict with the Commerce or State Departments?

23 Mr. Gingrich. No, sir, not that we are aware of.
24 The authorizing legislation for the USTR presently permits
25 two deputies. This would simply make it a third deputy.

1 The Chairman. Maybe we could withhold on this until
2 Senator Long arrives. He has a particular interest in the
3 USTR. I think he is coming, and so we will be ready
4 unless there is no objection. If he doesn't have any
5 objections, we could move ahead. I also
6 believe Mr. Lang. I mentioned the proposal to him a minute
7 ago. Senator Dole, and he is, I think, going to come over
8 from a Commerce Committee as soon as he can. He didn't
9 give any reaction to me though.

10 The Chairman. Well, why don't we just pass. We have
11 made the record. And unless there is some objection to
12 those two amendments as far as the additional deputy and
13 the additional \$1 million -- I know that both Senator
14 Bentsen and Senator Matsunaga have an interest in the
15 Customs authorization. We can proceed to that.

16 First, we might have Claude give us the specifics of
17 the request, and how it compares to last year, and any
18 other matters that he could address.

19 Mr. Gingrich. Mr. Chairman, last year, the Committee
20 authorized \$480 million for the U.S. Customs Service. In
21 the continuing resolution, there was appropriated in any
22 \$493 million. This year, the Administration has requested
23 a total of \$530 million. The Ways and Means Committee
24 bill added approximately \$38 million to that amount.

25 The Chairman. What page are you on?

1 Mr. Gingrich. I'm sorry. It's page 9 of the material
2 handed out.

3 Senator Bentsen. Ways and Means added how much?

4 Mr. Gingrich. Approximately \$38 million.

5 The Chairman. I would ask that page 9 be made a part
6 of the record, or any additional pages that should be made
7 a part of the record.

8 (THE PAGES FOLLOWS:)

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U.S. Customs Service

	<u>Total Employees</u>	<u>Inspectors</u>
Colorado	23	10
Delaware	12	12
Hawaii	282	206
Idaho	18	18
Iowa	3	3
Kansas	5	2
Louisiana	517	152
Maine	168	153
Minnesota	169	114
Missouri	51	23
Montana	91	75
New Jersey	533	331
New York	3,498	1,244
Oklahoma	11	11
Oregon	108	46
Pennsylvania	373	183
Rhode Island	20	13
Texas	1,681	904
Virginia	265	142
Wyoming	2	2

1 Mr. Gingrich. In addition, the Ways and Means
2 Committee added three other provisions in the bill. The
3 first is for non-controlled pay increases. The second is
4 they removed the overtime cap that had previously been in
5 their legislation, and presently exists in the made a part
6 appropriations legislation. And third, they put in a made
7 provision preventing the use or expenditure of any funds for
8 shortening the 10-day collection period for customs duty.

9 Senator Bentsen. Do you mind if I interrupt?

10 The Chairman. No.

11 Senator Bentsen. The "cap." Was that a \$20,000.00
12 cap? Do I remember that correctly?

13 Mr. Gingrich. Yes, sir. It was a \$20,000.00 cap.

14 Senator Bentsen. The question was that there had been
15 some abuses, hadn't there?

16 Mr. Gingrich. Yes, sir.

17 Senator Bentsen. Now why would they deem it right to
18 take off a \$20,000.00 cap?

19 Mr. Gingrich. They did so pursuant to an Administration
20 request that the cap come off. The administration of the
21 cap was costing approximately \$1 million a year. Customs
22 believes that it is able to administer the use of overtime
23 by its employees without the cap. And they feel that if the
24 cap is off, it will give them slightly increased flexibility,
25 but they will still be able to control the use of overtime.

1 Senator Bentsen. How will they eliminate the abuses
2 that were incurred in the past that resulted in the cap
3 being placed?

4 Mr. Gingrich. I believe through just plain better
5 management, more consistent checking of how much overtime
6 is being accumulated by any particular inspector.

7 The Chairman. Would you move up front here? And
8 would you identify yourselves for the record?

9 Mr. De Angelus. Mr. Chairman, my name is Alfred
10 De Angelus, Assistant Commissioner of Customs.

11 The Chairman. Did you hear the question from Senator
12 Bentsen?

13 Senator Bentsen. I'm trying to better understand.
14 I recall there was a \$20,000.00 cap on overtime. It seemed
15 to me to be quite a substantial amount of overtime. Now
16 I assume in taking off the cap that obviously they mean to
17 exceed that \$20,000.00. Now why should they do that?

18 Mr. De Angelus. Part of the reason, Senator, is to
19 exceed the \$20,000.00. But the main reason, as was
20 mentioned by staff, is that it costs approximately
21 \$1 million a year to administer that cap. Customs, as you
22 know, is in 320, approximately, locations around the
23 country. Many places are one and two men locations. As
24 they get to the cap or as they get to the cap quarterly, we
25 have to detail people in there on \$50-\$75.00 per day

1 subsistence expenses, plus have two people in the port or
2 three extra people when the workload doesn't require their
3 being there. So it's very expensive to administer the cap
4 in many places because of those type things. In addition,
5 we have instituted many management controls. The management
6 controls on the ADP system to control the cap are not expensive.
7 It's the monitoring of the precise amount as we get near
8 the cap that is a big problem. We would propose to still, in effect,
9 have an administrative cap within the Service. But the
10 commissioner would have the discretion where it would be
11 more costly to put someone else in there to take
12 alternative measures than to allow someone to go slightly
13 over the cap. We believe we can do that for well under
14 \$100,000.00 rather than the \$1 million it costs us now.
15 Senator Bentsen: Thank you. My concern, Mr. Chairman, is that
16 what we are seeing is a substantial reduction in the services
17 of Customs that will be brought about if we don't go along with
18 something comparable with what the House has done in the
19 Ways and Means Committee. And the net return you get to
20 Treasury as a result, the incremental return, is one
21 that is very substantial for the amount of money that is
22 involved -- an additional sum to provide some of the
23 services in collecting revenues.

1 I had all of those the last time we had this before
2 us. I don't see it in my notes at the present time.
3 You may have something.

4 On the incremental gain that you get for the
5 additional amount of money that is spent -- could you
6 comment on that? Perhaps you have some numbers for me.

7 Mr. De Angelus. On the total budget, Senator?
8 Senator Bentsen. Yes.

9 Mr. De Angelus. All right. We have requested this
10 year in the basic Customs' budget \$499 million. The
11 \$430 million includes funding for the alcohol and tobacco
12 transfer which was proposed to the Customs Service. The
13 basic Customs' budget from year-to-year was \$499 million.

14 We believe that in this budget climate that the
15 Customs Service has to do all it can to keep its expenditures
16 down. And one thing I neglected to mention on the overtime
17 was that over the years, over the past 30 years,
18 reimbursable overtime is a way that Customs copes with
19 problems in its budget. Those who request the services
20 pays for the services, and we can provide them outside
21 regular working hours. And we can thereby handle our
22 workload.

23 Senator Bentsen. Well, I'm trying to find some real
24 justification for the economies they are talking about.
25 And yet I have this letter from the Comptroller from the

1 Department of the Treasury that was addressed to one of
2 the Congressmen in the House. And the question was: How
3 much additional revenue could be collected if Customs
4 were authorized funds for an additional 1,000 personnel to
5 be allocated to the categories of import specialists,
6 auditors, special investigators and inspectors? There
7 statement is approximately \$100 million in additional
8 revenues could be collected. That represents a marginal
9 return of about 3 to 1 all things. We have requested this
10 year I represent a state that has a great deal of the
11 international border. You take a port like Laredo will be
12 have several times as many people coming through there as
13 you have through Kennedy, for example. So our chief
14 concern about cutting the services to the point that we
15 don't render adequate service, and we slow down the
16 passage of people and commerce coming through those
17 different ports. Over the past 10 years,
18 Senator Matsunaga: Mr. Chairman, it's my understanding
19 of the increase that \$31.5 million will cover the
20 additional cost of the Bureau of Alcohol, Tobacco and
21 Firearms once it is merged with the Customs Service. Am
22 I correct?

23 Mr. De Angelus: If that were to happen. Yes, Senator,
24 the \$499 million is the basic Customs' appropriation,
25 plus \$31 million for alcohol and tobacco functions which

1 were proposed to be merged into Customs. That is currently
2 under review.

3 Senator Matsunaga. When is that contemplated?

4 Mr. De Angelus. It is currently under review. It had
5 been contemplated for April 1st. But both the House and
6 Senate in the continuing resolution directed that no
7 merger take place prior to March 31st. And I believe we
8 have an agreement from the Secretary that nothing will
9 happen prior to June 30th while the House and Senate
10 consider legislative action.

11 Senator Matsunaga. Now it's my further understanding
12 that by the Administration's budget, the Customs Service
13 will need to drop 2,600 positions. Is that correct?

14 Mr. De Angelus. That's correct, Senator.

15 Senator Matsunaga. And of this number, 800 positions
16 will be through attrition. But 1,800 workers will need to
17 be RIFed. Am I correct?

18 Mr. De Angelus. That's approximately correct, Senator.
19 The last time we looked at it it was 1,600, but as the
20 numbers change, that changes.

21 Senator Matsunaga. Now the Customs Service, last
22 year, raised \$10 billion, as I understand, through customs
23 collection.

24 Mr. De Angelus. That's right.

25 Senator Matsunaga. And, of course, in addition to this,

1 they interdicted in contrabands, drugs and let cetera. Now
 2 the loss of 2,600 workers will definitely reduce the
 3 federal receipts. And also a check on drug smuggling.
 4 Wouldn't that happen? It is currently under review. It had
 5 been Mr. De Angelus. Senator, we believe that the actions
 6 we are taking will result in no absolute reduction in
 7 revenues. The revenues are relatively inelastic to the
 8 relative changes in Customs staffing. We have it
 9 different from IRS. Customs has a community of customs
 10 house brokers who are intermediaries between importers and
 11 the Customs Service. They are very knowledgeable people.
 12 They are licensed by the Customs Service. And they, in
 13 effect, help us to absorb our workload by presenting the
 14 entry declarations in proper format. Senator.

15 We are trying to cut out -- in any organization, also
 16 even Customs -- we believe from time to time there is fat,
 17 and we are trying to cut that out and identify it. And
 18 the other thing, Senator, is that in our own households
 19 our demands quite often exceed our resources as the
 20 Senator Matsunaga. Now the figure came from your
 21 service yourself. That for every \$1.00 of Customs Service
 22 expenditure, the government gains \$18.50 in receipts. Is
 23 that correct?

24 Mr. De Angelus. That is correct, Senator. That is
 25 correct.

1 Senator Matsunaga. So that if we reduce the current
2 Customs' inspectors by 1,200, now this will effect 28
3 percent of all Customs collectors in each of our states.
4 And it will also definitely reduce our anticipated revenue.
5 Am I correct?

6 Mr. De Angelus. We don't believe there will be a
7 significant impact on revenues, Senator. We believe that
8 the measures we take and the way we absorb the cutbacks,
9 that our revenues will actually increase. I don't have the
10 figures here with me, but we believe the revenues will
11 actually increase.

12 Senator Matsunaga. You don't make sense to me. Really.

13 Mr. De Angelus. I have the same problem.

14 Senator Matsunaga. Now I have a list here of the
15 Customs' inspectors for the various states. Now you can
16 see where New York, for example, has total employees laid
17 off would -- the total employees now is this 3,498, and
18 inspectors, 1,244. Now one-fourth of them will be laid off.
19 In the case of Texas, it is 1,681 total employees, and
20 904 inspectors. Now one-fourth of them will be laid off.
21 Let's see, we have Kansas. Kansas, fortunately, has only
22 five total.

23 Mr. Gingrich. It's almost 50 percent, Senator.

24 Senator Matsunaga. That's right. And then Hawaii has
25 282. And of them, 206 inspectors. Right now, business

1 coming into Hawaii stands in excess of two hours in line to
2 pass through that inspection line. And now if you reduce
3 that-- we are supposed to increase. And yet we are going
4 to reduce it by 25 percent, down to 151. reduced revenue.
5 And The Chairman. Is that the way it works? Disciplined
6 to every state to reduce it 25 percent, or do you have a
7 national plan? Impact on revenues. Sales. I believe that
8 the Mr. De Angelus. No, Senator. We probably will not do
9 it across the board. We will probably look at our problems
10 places most. One of the things I mentioned was the overtime.
11 That will help us deal with that type situation. And where
12 our problems are worse, we will make other adjustments Really.
13 Senator Matsunaga. But if you reduce, now you would
14 definitely need to increase overtime. And overtime is paid
15 at time and a half rather than a regular hour. The cost
16 would actually increase by working those who remain and
17 overtime over keeping the ones who would otherwise be be
18 RIFed, and working them at regular time. It be all off.
19 the Mr. De Angelus, Senator, if I may. Most of the
20 overtime is reimbursable to Customs Service. be all off.
21 the Senator Bentsen. It's paid by the customer, isn't it?
22 Some of that overtime is paid by the customer?
23 Mr. De Angelus. Correct. It's paid by the airlines
24 and by the shipping lines. That's how we adjust. If they
25 demand more services, if they demand services greater than

1 our resources, they actually reimburse the Customs Service
2 for the personnel costs.

3 Senator Matsunaga. For the full amount?

4 Mr. De Angelus. Yes, Senator.

5 Senator Matsunaga. Not just for the overtime?

6 Mr. De Angelus. For the full amount.

7 The entire overtime compensation to the inspector is
8 reimbursed to the Customs Service by the carrier.

9 Senator Bentsen. Could I interrupt with a question
10 along the lines you are talking about?

11 Senator Matsunaga. Yes.

12 Senator Bentsen. Let me refer again to this letter
13 from Jack T. Lacy, Comptroller, Department of the Treasury.
14 I am just really trying to understand here. If this
15 letter is just wrong, then I want to know it. When he
16 says the marginal return is about 3 to 1, approximately
17 \$100 million in additional revenues could be collected if
18 they kept the 1,000 in personnel. Is that wrong?

19 Mr. De Angelus. No, that is not wrong, Senator.
20 If, in fact, we were to increase our work force in those
21 ratios we would recover dollar amounts at that level. But
22 if we are going to reduce the size of government, Customs
23 has to do its share to meet those overall reductions. And
24 we believe that we can adequately safeguard the revenue
25 without increases.

1 If we add people, they do produce more revenue.

2 for Senator Bentsen: Three to 1?

3 Mr. De Angelus: Correct.

4 Senator Matsunaga: Three to 1 or for every dollar

5 \$18.50? Eighteen and one-half to one?

6 Mr. De Angelus: Correct. If you take the overall
7 cost of the Customs Service -- there's a certain amount of
8 money that comes in easy, so to speak.

9 The Chairman: Just hire everyone and we will solve the
10 problems.

11 (Laughter)

12 Mr. De Angelus: That's the 18 to 1. But at the
13 margin, just as with the Internal Revenue Service, you don't
14 have the same returns when you add personnel at the margin
15 because those are the hard dollars, those are the people
16 who are very sharp in their practices in dealing with
17 Customs or IRS.

18 Senator Matsunaga: I don't understand. If you take
19 just the inspectors for what they bring in, is it then
20 18-1/2 to 1?

21 Mr. De Angelus: No. It's much higher than that,
22 Senator.

23 Senator Matsunaga: Much higher than that. Wow. If
24 it is much higher than that -- the Administration is
25 proposing to hire 5,000 auditors for the Internal Revenue

1 Service and they project an increase of revenues of
2 \$2.1 billion by hiring these 5,000. Now we are proposing
3 to reduce Customs' inspectors by 2,600. That's just about
4 half. And then according to my calculations, we will lose
5 \$2.8 billion by laying off, by RIFing these 2,600. Now it
6 doesn't make sense that we RIF 2,600, lose \$2.8 billion,
7 and we hire 5,000 to make \$2.1 billion. That's a loss of
8 \$700 million by taking the action which the Administration
9 proposes.

10 You may not wish to comment, but are you for the RIF
11 or are you against the RIF?

12 Mr. De Angelus. I would support the budget as
13 submitted, Senator.

14 Senator Matsunaga. I see. Otherwise you wouldn't have
15 a job. You would be RIFed, too.

16 (Laughter)

17 Senator Matsunaga. So it will be 2,601 RIFs.

18 (Laughter)

19 The Chairman. How many employees are there in the
20 Customs Service?

21 Mr. De Angelus. There are approximately 14,000,
22 Senator.

23 The Chairman. Fourteen thousand. And under the
24 budget that you have, you will reduce that total figure
25 by 2,600?

1 Mr. De Angelus: By 2,600 people.

2 The Chairman: Twenty-six hundred people. Not all of

3 those people are getting all this money back, are they? but

4 They are not all inspectors? How many inspectors are you

5 going to RIF? by laying off, by RIFing, about 1,500. Now it

6 does Mr. De Angelus the approximately 1,100 to 1,200.

7 The Chairman: Eleven to 1,200? That's a loss of

8 Mr. De Angelus: Yes, sir. The Administration

9 The Chairman: And do you have an idea where those

10 1,100 or 1,200 -- some will be RIFed; some will be the attrition?

11 attrition? against the RIF?

12 Mr. De Angelus: Correct. Some would be RIFed, some

13 would be attrition. We have various proposals under

14 consideration. And it depends on the final numbers and have

15 our attrition rates up until that period where the

16 actual cuts would take place.

17 We are proposing, for instance, in the 2,600, there

18 are 300 man years, in effect, to be funded instead of from

19 the appropriation from user fees where the airlines would

20 pay -- currently aren't paying for entrance and clearance

21 of their aircraft where carriers, ocean vessels, pay for

22 that. We are proposing to recoup funding for approximately

23 300 man years through user fees. We are proposing to

24 eliminate approximately 300 funded reimbursed positions

25 in the warehouse area as well as 150 funded positions

1 within the appropriation by moving to an audit approach in
2 the way we handle Customs' warehousing operations.

3 The Chairman. What does that net out to? How many
4 people are you really going to unload? Not very many.

5 Mr. De Angelus. That nets out to 150 off the rolls from
6 the warehouse and 300 off the rolls from the appropriated
7 funds, and funded by reimbursable funds by reimbursement
8 through user fees.

9 The Chairman. That's 450?

10 Mr. De Angelus. Yes, Senator.

11 The Chairman. You are talking about 2,000.

12 Mr. De Angelus. The rest of the 2,000 is by
13 attrition and by anticipated RIFs approximating the 1,600
14 that we spoke of earlier.

15 The Chairman. I don't quite follow it. If Senator
16 Matsunaga is right, for every additional employee, we
17 pick up a 3 to 1 ratio in revenues, you should be hiring
18 about a million people and then we could pay off the
19 national debt.

20 Mr. De Angelus. No.

21 The Chairman. I don't think it works that way.
22 There has got to be some limit where you don't have that
23 same return.

24 Mr. De Angelus. That's correct, Senator.

25 The Chairman. And I imagine there are probably too

1 many employees at Customs like there may be too many on in
2 around the Senate. I can't believe that everybody there is
3 vital in the Customs Service and you can eliminate some.
4 But if you really have a plan to make certain that while
5 you are in the eliminations process you are not the rolls from
6 compromising the problems they may have in Texas or Hawaii
7 or Florida, New York -- reasonable terms of reimbursement
8 Mr. De Angelus. Senator, we are trying to minimize
9 any adverse impact on the actual operational areas. On
10 the line professional Customs officers. One of the items
11 under consideration is a reduction in the number of regions
12 which would save approximately 300 man years in
13 administrative overhead. Not cut one import specialist
14 or one inspector by consolidating the number of regions.

15 The Chairman. How many do you have now? Senator
16 Mr. De Angelus. We now have nine regions. And we are
17 looking at either five, six or seven. Unfortunately, it
18 costs a few dollars to effect the savings. And depending on
19 the resources available.

20 The Chairman. Where are those nine regions?

21 Mr. De Angelus. They are currently in Boston, New
22 York, Baltimore, Miami, New Orleans, Houston, Los Angeles,
23 San Francisco and Chicago.

24 The Chairman. Let's take Houston.

25 Mr. De Angelus. Houston is not one of the ones that is

1 looked at for reductions, Senator.

2 The Chairman. The --

3 Mr. De Angelus. Unfortunately, when the knife goes
4 in, it always hurts some place. And of the nine, someone is
5 going to have to be hurt.

6 Senator Matsunaga. And Hawaii usually gets that.

7 Mr. De Angelus. No, Senator. Hawaii is a district
8 office and it would not lose one employee by this
9 consolidation of regions. We really believe we are cutting
10 out administrative fat when we make that consolidation.

11 Senator Matsunaga. And if Hawaii is not going to be
12 effected, then other areas will be more severely hurt.

13 Mr. De Angelus. Hawaii would not be hurt with regard
14 to the regional consolidation because there we are cutting
15 out administrative personnel. Hawaii is a district and it
16 is operational. Overall, I can assure you that there
17 will not be some reduction in personnel in Hawaii.

18 The Chairman. Have you given any thoughts to how
19 many? Surely you have some plan. You don't say 2,000 go
20 and then make the plan. Have you tried to -- you probably
21 know certain areas where there may be too many and other
22 areas where there may be too few. Let's take Texas. Both
23 of these Senators are concerned, obviously, about how it
24 might impact on their states and with good reasons. What
25 can you tell them? If, in fact, they accept the

1 Administration's request.

2 Mr. DeAngelus. We believe that we will minimize the
3 adverse impact. We are in approximately 42 of the 50 states
4 in addition to the Virgin Island and Puerto Rico, and those
5 two would not be affected. There will be some cut-backs,
6 probably in all states. Some of the savings -- if the
7 overtime cap is removed, for instance -- will be in places
8 where we only need one man or two men and we have got three
9 or four merely to meet the cap. So we try to concentrate, not
10 necessarily on waste -- we don't believe we waste money
11 in Customs -- but in the fat areas, the inefficient areas of
12 Customs. There will be some adverse impacts, but I think we
13 have all got to tighten our belts to try to meet the
14 economic situation. Solidation because there we are cutting
15 Senator Matsunaga. Mr. Chairman, I think the House
16 realized by cutting especially in the area of inspections
17 that -- if we adhere, it is proposed to reduce inspectors
18 by 1,200 RIFs. Now this is over and above attrition.
19 One thousand, two hundred would actually be RIFed. And
20 by Customs Service's own declaration, it means a loss of
21 revenues even to an extent greater than what we would be
22 paying should we retain the inspectors. Now this being the
23 case, Mr. Chairman, I offer an amendment to accept the
24 House version. The House Ways and Means increased by
25 \$38.3 million, which would still require, Mr. Chairman,

1 a reduction of force by 200 workers. Now if the Committee
2 is willing, I would request the \$44 million increase in
3 authorizations to retain Customs' staffing at the present
4 level. But in the spirit of compromise, I would offer an
5 amendment to accept the House level of \$38.3 million
6 increase over the Administration's proposal.

7 The Chairman. The Administration is not requesting the
8 \$38 million, is that correct?

9 Mr. De Angelus. That's correct.

10 The Chairman. Could the Administration use the \$38
11 million? They could probably use \$38 million.

12 Mr. De Angelus. Mr. Chairman, we believe we are
13 effective managers and we would not waste any money. However,
14 we believe we can operate at the \$430 million and meet the
15 President's objective.

16 The Chairman. Are you convinced that without that
17 increase you could still maintain or exceed the total
18 revenue of \$10 billion?

19 Mr. De Angelus. Mr. Chairman, we believe that with
20 the reduced personnel we will still collect approximately
21 \$10 billion increase over the current fiscal year.

22 Senator Matsunaga. Did I see your fingers crossed
23 when you said that?

24 (Laughter)

25 Senator Matsunaga. I don't know why you can't be

1 truthful. I can't believe you. Really. If the Committee
2 is Mr. De Angelus, Senator, I'm not being untruthful.
3 Senator Matsunaga: You don't have to explain. I can't
4 understand your position. If I were in your boots, I would
5 say the same thing: the House level of \$35.3 million
6 increase (Laughter) the Administration's proposal.

7 The Chairman. I don't know who is right or wrong, but the
8 we can fuss with the Appropriations Committee for not
9 doing their fair share of budget reductions, which, in
10 effect, makes us wage taxes more. Senator Hatfield and
11 others on the Committee can argue with that. If you
12 stopped increasing the authorizations that you send to us,
13 it would be very helpful. We don't want any money. However,
14 Senator Matsunaga: I wish they would listen to these
15 arguments. It's really by the statement, by the testimony
16 of the Customs Service at hearings, they say that for
17 every \$1.00 spent they bring in \$18.50. And then on the
18 same theory, the Administration asks for 5,000 additional
19 IRS auditors to increase revenues by \$2.1 billion. And
20 according to my calculations and mathematicians who worked
21 on this, by firing 2,600 workers of which 1,200 will be
22 inspectors, we will lose \$2.8 billion in revenues. It
23 doesn't make sense, does it?

24 The Chairman. No argument. I'm concerned, too, about
25 the inspectors. I think they are probably knee deep in

1 administrative personnel. They probably have to walk
2 around underneath the inspectors.

3 (Laughter)

4 The Chairman. But I do believe they need to take care
5 of it through overtime. I would hope that whatever happens,
6 we won't see a cut in the area of inspector services.

7 Mr. De Angelus. Senator, we are doing all we can to
8 concentrate our resources in the areas of the greatest
9 stress. Florida is one. And Texas is another, especially
10 with regard to the land border crossers. We are doing all
11 we can to handle that.

12 Senator Bentsen. It's just a frustrating thing, you
13 know, to serve on this Committee when we are trying to
14 cut back, and then I read this letter from the Comptroller
15 and he says that the marginal rate will pick up at 3 to 1.
16 I know at some point, just as you say, that if you get too
17 many, obviously, you don't get the return.

18 Mr. De Angelus. Senator, in that regard, the IRS
19 marginal rate is approximately, I think, 6 to 1.

20 Senator Bentsen. I think even a 3 to 1 return is
21 pretty good.

22 (Laughter)

23 Mr. De Angelus. Yes, Senator, it is. But, again, if
24 we are going to try to hold the cost of government down, we
25 have got to take our cuts in the less effective areas. The

1 Internal Revenue will return approximately \$6.00 to \$1.00.
 2 The Chairman. The fiscal cuts in the less effective
 3 areas -- do you have a figure?

4 Mrs. DeAngelus. We believe we will still collect more
 5 \$10 billion under our requested amount and whatever happens,
 6 The Chairman. How would that reflect if you had the
 7 \$38 million? If it is a money maker, maybe we just ought
 8 to hire more people. Was it the idea of the greatest
 9 Mr. DeAngelus. There would be additional especially
 10 collection; Senator. The Inspector. We are doing all
 11 Senator Matsunaga. There will be if we authorize the
 12 \$38.3 million. This is a... you
 13 The Chairman. Would that be true of all? What would
 14 you say if we decided not to reduce the number of inspectors?
 15 Maybe you do have administrative personnel involved in the
 16 process too. Maybe it's more direct than inspectors.
 17 Mrs. DeAngelus. The revenue collection is brought
 18 about by a team effect. The people who actually clear the
 19 cargo are the inspectors. The people who actually make the
 20 assessments are the import specialists who know the tariff
 21 facts and evaluation of commodities. There are
 22 administrative personnel who actually make the collections
 23 and accounts of the collections. Where we plan to cut out
 24 administrative personnel -- it's the redundancy that we
 25 have in dual management structures in the extra regions.

1 The Chairman. Why don't you just cut out those? How
2 many would that be?

3 Mr. De Angelus. That will save us approximately \$10
4 million, Senator, in 300 man years by reducing the number
5 of regions. That will not reduce one inspector or one
6 import specialist.

7 Senator Bentsen. Could I comment?

8 The Chairman. Yes.

9 Senator Bentsen. Would the Senator from Hawaii
10 consider this kind of a limitation put on his amendment that
11 the additional funds would be allocated to the categories
12 of import specialists, auditors, special investigators and
13 inspectors? If we are talking about that kind of return,
14 it has to be those kind of people.

15 Senator Matsunaga. In the area. Yes, I would accept.

16 The Chairman. Well, I will be very happy to hold the
17 amendment. It seems to me that if it is not adopted, I
18 think we still have some flexibility with it being in the
19 Ways and Means Committee. I think we ought to find out.
20 Maybe all the staff could be helpful to make certain that
21 we are not going to reduce the effectiveness. There may be
22 a lot of waste in the \$490 billion we are not looking at.
23 We are looking at \$38 billion. There may be other areas
24 that we could have addressed. Maybe the staff, before you
25 poll the Committee, could look at that.

1 Senator Matsunaga. We should not overlook the fact
2 that the smuggling of drugs and contraband are also
3 involved. And by reduction of inspectors, we have put
4 extreme pressure on the remaining employees. The number
5 of Mr. Gingrich. Mr. Chairman, if I could just add one
6 thing. That \$38.3 million figure that the House came up
7 with was based on an administration estimate of what it
8 would take to maintain the existing level of services in
9 FY-83 that they had in FY-82. We asked the CBO to check
10 that figure. The Chairman. In his amendment that
11 the Senator Bentsen. They came in at \$33 million?
12 Mr. Gingrich. Yes, sir. \$33.7 million. So there is
13 a slight discrepancy there. The Chairman. What kind of return,
14 The Chairman. You all put \$38 million.
15 Senator Matsunaga. \$38.3 million. I would have
16 offered \$44 million, which would retain the present level,
17 but since the House came up with \$38.3, I am going along.
18 But the CBO has the other. The Chairman. Being in the
19 The Chairman. I think there is some mental ground
20 there. I don't want to prejudice your amendment. Why
21 don't we do this? The Chairman. There may be
22 Senator Matsunaga. I don't know whether the CBO took
23 into consideration the increased traffic of drugs. For
24 example, in Hawaii inspectors spend so much time trying to
25 ferret out drugs being smuggled in.

1 The Chairman. Well, we will go ahead and proceed on
2 that basis. Is it all right with the members present that
3 we poll the amendment regardless of the outcome? And I
4 think the same is true of USTR. Senator Long is not here.
5 If he has some objections we would be glad to reopen. It's
6 all right.

7 Is there any other business, Claude, to come before
8 the Committee?

9 Mr. Gingrich. No, sir.

10 The Chairman. And you will make the information
11 available for the record. And I think it would be helpful
12 if before you poll the Customs' authorization maybe to have
13 a staff check again to make sure that we are not
14 compromising the effectiveness of the Agency.

15 Senator Matsunaga. Could those of us present, Mr.
16 Chairman, cast our vote now?

17 The Chairman. Sure.

18 Senator Matsunaga. I vote not. And Senator Moynihan
19 "aye" by proxy.

20 Senator Heinz. Mr. Chairman, before we adjourn could
21 I just address a question to the Chair on a related,
22 different issue?

23 The Chairman. All right. If you hurry.

24 Senator Matsunaga. Oh, Senator Mitchell, "aye" by
25 proxy.

1 Senator Heinz. Let's get the vote announced.
 2 The Chairman. I vote "no." It's on an authorization
 3 bill: poll the amendment regardless of what you want? And I

4 think that seems to be the way to go. I will find out later.

5 The Chairman. Fine. We are going to poll the others.
 6 Go ahead.

7 Senator Heinz. Mr. Chairman, I note and congratulate
 8 you on your statement regarding the recent decision of the
 9 Administration to impose what appears to be a very, very
 10 costly thing to the consumer -- sugar quotas on the United
 11 States. And I think it would be helpful
 12 if I must say I have as much sympathy for the sugar farmer
 13 as anybody, but I don't know that he has ever, that anyone
 14 has alleged that somehow this is unfair foreign competition,
 15 that it's subsidized, that this sugar is being dumped in this
 16 country by unscrupulous merchants who are being subsidized
 17 by their foreign governments. That may be the case, but I
 18 don't know of anybody who has alleged it.

19 Senator Matsunaga. I have.

20 Senator Heinz. Senator Matsunaga is probably willing
 21 to allege that and more. I don't know. But I find the
 22 imposition of these quotas not only difficult to understand
 23 but really frankly upsetting at a time when there are many
 24 industries in this country that anybody knows are being
 25 victimized by subsidized dump and otherwise unfairly traded

1 exports. And I am referring specifically to imports of
2 steel, subsidized steel from Europe, from France, from
3 Britian, most specialty in carbon steel. And I, frankly,
4 Mr. Chairman, cannot understand why the Administration,
5 which has even self-initiated subsidy cases and dumping
6 cases, but has been, unfortunately, slow to act -- how they
7 could continue to ignore and not take more aggressive action
8 on our steel industry when they have seen fit to act with
9 such urgency on sugar.

10 The farmer at least -- and we still have a few farmers
11 left in Pennsylvania. They are in about the same shape
12 as they are in Kansas. They are not doing too well. But
13 it can be said that farmers can, on occasion, grow other
14 crops. It's very difficult to shift a steel mill into
15 making copper or aluminum. It just isn't quite the same.
16 And I'm not arguing against helping our farmers. Lord
17 knows, they need all the help they can get. It just strikes
18 me as a totally inappropriate double standard to put in a
19 sugar quota which will cost the consumers \$3 billion, and
20 then turn a blind eye to the fact that thousands of steel
21 workers in Pennsylvania and a lot of other states are out
22 of work because of subsidized steel imports. I hope the
23 Administration will do what I urged them to do about 10
24 days ago in a letter to Secretary Balridge, and that is
25 announce that critical circumstances do exist in the steel

1 industry. That when they do make their findings prior to
 2 steel subsidized steel from Europe, from France, from
 3 June 10th on the dumping or subsidy cases, that in the
 4 event they do find subsidies, the critical circumstances
 5 having been found will apply. That will cause a liability
 6 on importers to be retroactively applied to as early as
 7 March 10th. The withholding of appraisement, therefore,
 8 would be in jeopardy back to then.

9 And it is simply the case, Mr. Chairman, that we are
 10 not powerless to sit here and do nothing about subsidized
 11 foreign imports of steel anymore than the Administration is
 12 powerless to do anything about sugar imports. I just
 13 believe that we have got a double standard here. It is
 14 very unfair. It is hurting my steel workers. It doesn't
 15 do much for my consumers, let me tell you. We don't happen
 16 to have any sugar growers that I know of in Pennsylvania,
 17 so it seems to be something that we get very little benefit
 18 out of. We may pay a bit more for it. But what I object
 19 to is the fact that there just doesn't seem to be an
 20 understanding downtown that while sugar quotas may be good
 21 for sugar farmers, somehow just some very modest relief
 22 is somehow inappropriate to the steel industry.

23 And I thank you, Mr. Chairman, for yielding and
 24 allowing me to make these points out of order.

25 The Chairman. I know Senator Matsunaga has a direct
 interest. And my own view was that we were too generous

1 in the sugar area of the farm bill. I guess I can only
2 say that they had a very effective lobby -- media might be
3 a better word. Plus the Administration, I think, must
4 accept part of the blame if, in fact, consumers end up
5 paying more because as I understand, the Administration
6 agreed to keep hands off the sugar provisions in exchange
7 for -- maybe not an exchange -- but at least for a
8 sympathetic look at the Economic Recovery Tax Act last year
9 on the House side. And so we believe we made some progress
10 in the conference on sugar support prices although there
11 were some who felt that we probably should have had a higher
12 support price, including some on this Committee. Including
13 Senator Boren and the Senator from Louisiana and others.
14 I know there is a steel problem. But I'm not certain
15 whether the answer would be to do the same thing for steel
16 that we have done for sugar or to undo what we have done
17 for sugar.

18 Senator Heinz. Mr. Chairman, I might answer the
19 implied question. All steel -- work in enforcement of the
20 law. That doesn't seem to me to be really too much to ask
21 for. Thank you, Mr. Chairman.

22 Senator Matsunaga. Mr. Chairman, in defense of the
23 Administration -- and this is an unusual role here with
24 two Republicans attacking the Administration and the other
25 side is defending the Administration.

1 The Chairman. We appreciate that. I can only
2 say (Laughter) as a very effective lobbyist -- media might be
3 Senator Matsunaga. But in defense of the Administration of the action taken in sugar, may I ask the
4 Administration of the action taken in sugar, may I ask the
5 Senator from Pennsylvania whether steel is an export or
6 import commodity. And off the sugar provisions in exchange
7 Senator Heinz. It's a steel export commodity. There
8 are imports. Look at the world. Last year
9 Senator Matsunaga. But do we still export steel?
10 Senator Heinz. Some. supports proposals although there
11 Senator Matsunaga. Well, herein lies the difference.
12 In the case of sugar -- and this is a point so much
13 overlooked by those who say it is going to cost consumers
14 a billion dollars, and certainly it is estimated at a
15 billion, not \$3 billion -- but sugar is an import commodity.
16 We produce only 55 percent of our domestic requirement. And
17 we import 45 percent of our sugar needs. And if we let our
18 sugar industry die domestically, then we would need to
19 import 100 percent of our sugar needs. And if the
20 And if the gentleman will recall what happened in 1972
21 when we were importing only 8 percent of our oil from the
22 Middle East, the OPEC nations, and when an embargo was
23 invoked, see what happened. We had miles of lines of
24 automobiles at service stations. Just imagine if the
25 foreign producers of sugar formed a cartel and invoked an

1 embargo of sugar exports to the United States. Heavens,
2 you would find every member of the family lined up at
3 supermarkets for one pound of sugar. And this is the
4 difference. And the price of sugar has been the most
5 stable of all consumer products since 1934 when the Sugar
6 Act was invoked. And we are simply returning to that
7 by the placement of that. I think the Administration did a
8 very laudable thing by doing what it did.

9 And let us not try to compare the two. Let us say if
10 what is right for sugar is right for steel, okay, let us do
11 it. If the application of the rules, regulations and laws
12 are possible, then do it. And if that is possible, I would
13 support the Senator from Pennsylvania definitely. I think
14 the steel industry or the auto industry or other industries
15 suffering from excessive imports should be protected. I
16 say "excessive imports." Imports which are actually
17 subsidized by their own governments. For example, the
18 European Community. The cost of a pound of sugar is
19 27¢. The government -- the European Community -- subsidizes
20 up to 14¢ a pound yet they take that sugar, dump it on the
21 world market, and then from the world market dump it in the
22 United States at 9¢ a pound, which is below what even the
23 government gives to the grower. That's 5¢ less. Now this
24 is absolutely something that we should not allow. And if
25 the same thing is being done with steel I would say let's

1 stop it. And I would support the Senator from Pennsylvania.
 2 Not say, well heavens, we are going to have the American
 3 consumer paying additional \$1 billion -- if it hadn't been
 4 for that, the American consumer might be paying twelve
 5 hundred times more for sugar than it would by initially
 6 placing an embargo. And just as we are now paying twelve
 7 hundred times for oil that we used to pay back in 1972 and a
 8 Thank you, Mrs. Chairman.

9 (Whereupon, at 11:05 a.m., the hearing was adjourned.)

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