



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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CONTACT Andrew DeSouza (202) 622-2960

TESTIMONY OF DEPUTY ASSISTANT SECRETARY FOR TAX, TRADE, AND TARIFF POLICY TIMOTHY E. SKUD BEFORE THE SENATE FINANCE COMMITTEE

Washington, DC--Mr. Chairman, Ranking Member Grassley, and Members of the Committee, thank you for the opportunity to appear here today to discuss the Treasury Department's responsibilities for customs revenue functions and the International Trade Data System (ITDS).

Treasury Responsibility for Customs Revenue Functions

As the Committee is aware, the Secretary of the Treasury has authority for "customs revenue functions," as defined by The Homeland Security Act of 2002. Customs policy is important to the Treasury Department not only for revenue collection, but also because the way we approach taxation and regulation of international trade has an important effect on our economy and on promoting global growth. Our overall goals are promoting trade and growth, simplifying and clarifying regulations, and collecting tax accurately and efficiently, with minimal burden on the taxpayer.

While the authority for enforcing the laws involving customs revenue functions has been delegated to the Department of Homeland Security (DHS), the Treasury Department has retained an important role in this area. Specifically, the Treasury Department has sole authority to approve regulations concerning a wide range of functions involving revenue or regulating trade for economic purposes including import quotas, trade bans, user fees, origin, copyright and trademark enforcement, duty assessment, classification, valuation, preferential trade programs, and recordkeeping requirements. The Treasury Department also reviews Customs and Border Protection (CBP) rulings involving these topics that constitute a change in practice. In addition, the Treasury Department shares the chair of the Commercial Operations Advisory Committee (COAC) with DHS.

Moreover, as part of the Treasury Department's responsibility for customs revenue functions, we have worked with DHS and CBP over the past year on particular areas of concern to this Committee.

One area is simplification of the duty drawback rules, a concept we support. In conjunction with the Committee's staff and other interested offices, we have worked with CBP to provide detailed technical advice on draft legislation to simplify administration of duty drawback. We appreciate the Committee's

interest and efforts in this area and look forward to continuing to work with you on this important legislation.

Another area of concern to the Treasury Department, CBP, and other trade agencies has been problems in collecting antidumping and countervailing duties. In response to Congress' interest in this area, the Treasury Department provided a report on this issue last year. Although CBP's collection rate is over 99 percent for duties overall, CBP is able to collect less than 50 percent of antidumping and countervailing duties that have been retroactively assessed in excess of bonds or cash deposits. We concluded in the report that the chief obstacle to ensuring collection of such duties is the difficulty of obtaining adequate security (cash deposits, bonds, or other instruments). This problem appears to have been exacerbated in some cases by unscrupulous importers who imported knowing they were likely to incur duties not fully secured by bonds or cash deposits following retrospective duty assessment and who then absconded when payment was due.

International Trade Data System (ITDS)

One of the most significant areas on which the Treasury Department has worked closely with CBP is the International Trade Data System (ITDS). The SAFE Port Act (P.L. 109-347, October 13, 2006) formally established ITDS and gave the Secretary of the Treasury the responsibility to coordinate interagency participation in ITDS in consultation with an interagency committee consisting of the agencies participating in ITDS and the Office of Management and Budget (OMB).

The goal of ITDS is to make the Federal government's collection of international trade data less burdensome and more efficient by integrating and fully automating the government-wide collection, use, and dissemination of international trade data. Under the ITDS concept, agencies harmonize their data requirements, eliminating redundancies and minor definitional differences. Traders submit standardized electronic import and export data one time to a single collection point, commonly called the "single-window system." The data is then distributed to agencies depending on what information they need to perform their respective trade-related missions.

ITDS is not a separate computer system. Rather, it is a feature of the Automated Commercial Environment (ACE), the new system for processing imports and exports that is being built by CBP. ITDS is being developed and will be operated by CBP with the collaboration of 43 other government agencies.

Today, international traders are confronted with duplicative and non-uniform reporting requirements, both paper and electronic. A number of Federal agencies maintain separate international trade reporting systems. Other agency processes are not automated at all, requiring traders to present CBP officials with paper documentation before their goods are allowed to enter or depart the United States.

The cost of redundant reporting requirements burdens not only importers and exporters, but also the government and the performance of the economy as a whole. These requirements protect consumers, the environment, health and safety; provide information for accurate taxation and for trade statistics; and accomplish numerous other worthwhile goals. Nevertheless, the multiple reporting schemes, superimposed one on top of another, result in a significant cumulative burden.

The very separateness of these collection systems also limits their effectiveness. Agencies do not necessarily have access to information that other agencies collect or know what actions other agencies have taken in response to that information. They act in isolation rather than together.

Benefits of ITDS

Once fully implemented, ITDS will have a number of significant benefits to the private sector and the government, including:

- Reducing the burden on business and increasing the efficiency of the government's collection of international trade transaction data by substituting standard electronic messages for the redundant reporting – often on paper forms – that occurs today.
- Enhancing the ability of CBP and other agencies to target risky cargo, persons, and conveyances.
- Extending the capabilities of ACE by bringing together critical security, public health, public safety, and environmental protection agencies through a common platform.
- Reducing the technical barriers to authorized sharing of data with other governments by accepting electronic filings reported using international standards for trade reporting (World Customs Organization standards).
- Improving compliance with laws and regulations that apply to:
 - Carriers – for example, highway safety and vessel clearance requirements,
 - People – for example, immigration requirements for drivers and crews of commercial conveyances, and
 - Goods – which consist of several hundred laws including those addressing public health and safety, animal and plant health, consumer protection, and enforcement of trade agreements.
- Providing convenient access to data on international trade that are more accurate, complete, and timely for Federal agencies with a statistical mission.
- Providing a single billing and collection point for the variety of taxes and fees incurred by traders.
- Serving as a custodian of records on international trade transactions, providing Federal agencies with a convenient, single point of access to data on trade transactions, with each agency having its own, and appropriate, level of access.

Another important feature of ITDS is that its data requirements are being designed to be consistent with the World Customs Organization (WCO) Data Model, an international standard for reporting customs data. International trade transactions are reported not only to U.S. authorities, but also to other nations with their own electronic reporting formats. Currently, firms operating in multiple countries must report to each country in the unique format each requires. The failure to adopt internationally standardized data requirements not only creates costs for traders, but also hinders collaboration among governments to identify, track, and apprehend dangerous shipments, a matter of great importance today.

Status of the ITDS Program

When I testified before this Committee two years ago, I reported that many agencies with a border role were not participating in ITDS, and that even for the participating agencies commitment had been uneven.

This year, however, I am able to report a significant improvement in agency participation due to a number of factors. First is the Congressional mandate in the SAFE Port Act that all “agencies that require documentation for clearing or licensing the importation and exportation of cargo shall participate in ITDS.”

Secondly, agency participation was spurred by the cabinet-level Import Safety Working Group, (created on July 18, 2007, by Presidential Executive Order 13439), which recognized the value of ITDS for

ensuring import safety. The Working Group report, delivered to the President on September 10, 2007, recognized ITDS as a “key component to improve systems interoperability” in the effort to improve import safety. In addition, the Working Group recommended that OMB direct CBP to accelerate implementation of ITDS and, in particular, to:

- Include information currently reported by importers and carriers to CBP in the ACE Data Warehouse, where it can be accessed by other agencies; and,
- Implement the World Customs Organization Data Model messages, which could provide a platform for electronic reporting of health and safety information in advance of the current ITDS production schedule.

Moreover, following up on the SAFE Port Act and the recommendations of the Import Safety Working Group, OMB issued a policy memorandum (M-07-23) requiring each agency involved in clearing and licensing cargo to designate a senior executive to participate in the ITDS interagency team and to prepare a plan, to be completed by November 12, 2007, outlining the agency’s plan for utilizing ITDS, including any necessary rulemaking or acquisitions. A subsequent OMB memorandum, issued on September 28, 2007, incorporated the Working Group recommendations with regard to ITDS. OMB is tracking each agency’s participation in ITDS by establishing milestones and monitoring progress toward those milestones.

At the passage of the SAFE Port Act there were 31 agencies participating in ITDS. At that time, Treasury identified ten additional agencies required by the SAFE Port Act to participate in ITDS. All of those agencies have since joined ITDS, and OMB has also joined the ITDS Board of Directors. Currently, 43 agencies participate in the ITDS program.

Some ITDS functions are already operational. ITDS agencies are able to obtain, in near real time, detailed information about any importation reported through an electronic filing. Most information currently required by CBP from importers (entry summary data) is transferred daily from CBP’s current processing system to the ACE “Data Warehouse,” which ITDS agencies can access through the ACE Portal, a secure web-based interface. For example, an agency analyst using the ACE portal at his or her desk could identify all imports (which were reported electronically) for any given month, day, port, or importer over the past 3 years. Twenty-five of the agencies participating in ITDS already have access to data on import transactions through the ACE portal.

Several agencies have also been able to put this information-processing power to work. For example, as a result of information obtained through ACE/ITDS, the Food Safety Inspection Service increased the amount of ineligible product it removed from commerce 44-fold in 1 year (36,000 to 1.6 million pounds between FY 2005 and FY 2006)¹. Access to the ACE Portal has also allowed agencies to eliminate redundant paperwork requirements. Before obtaining access to the ACE Portal, Treasury’s Alcohol and Tobacco Tax and Trade Bureau required importers of industrial alcohol to file a paper certification that the product was to be used for non-beverage purposes. The import information available through the ACE Portal now allows the agency to eliminate that requirement.

Challenges Remain for ITDS

ITDS still faces a number of challenges, chiefly resource and priority issues associated with any large IT project or multi-agency project. The November 2007 Report to Congress on ITDS made 11 recommendations. While progress has been made on many of the recommendations, several challenges remain. While we will provide a complete status report by the end of 2008, as required by the SAFE Port Act, some key areas of progress are as follows:

¹ Report to Congress on the International Trade Data System, November 2007

- To some extent, ITDS has become a victim of its recent success. Increased agency participation means that fixed ITDS program resources must be spread among more agencies. Another potential issue emphasized by the growth in ITDS participation is the competition between the resources spent on “establishing a data interchange system” and those devoted to related policy and operational matters. With a finite funding stream for ITDS, delays to the completion of the “data interchange system” can put the ultimate success of the program at risk. In part, the energy of the very capable ITDS program team has mitigated this risk. (Recommendation 10)
- CBP has focused its efforts on integrating import safety agencies into ITDS and has been particularly successful in this effort. (Recommendation 1)
- Work on harmonizing data among agencies, which is critical for eliminating redundant data demands and is the basis for the entire ITDS concept, has accelerated but is not complete, in part because the talented data team has earned additional responsibilities. Ways to refocus resources in this area are under discussion. (Recommendation 2)
- ITDS agencies are already able to obtain much detailed import information through the ACE Portal, but are unable to access other data already collected electronically either (1) because the data has not yet been added to the ACE Data Warehouse, or (2) because software for retrieving that data is not fully operational. Making this data available could have immediate benefits (particularly with regard to import safety) and would also accelerate agency plans to fully utilize ITDS. These goals are being addressed but at this point, this additional data has not been made available to ITDS agencies. It may not be possible to do so without a significant impact on the current program schedule. (Recommendation 5)
- The ITDS team is aligning agency data requirements with the World Customs Organization standards for transmitting data from traders to governments, but there are not yet firm plans in place for implementing WCO consistent messaging capability in ACE. (Recommendation 7)

Conclusion

We are very pleased with the progress that has been made to date on ITDS, and we look forward to working with the participating agencies to ensure that each of the recommendations in the November 2007 report are addressed and that ITDS achieves its overall intended purpose. Once fully implemented, ITDS will provide a critical “single-window” for electronic filing by private-sector market participants and subsequent distribution of the relevant information to the appropriate Federal agencies, thereby eliminating redundant reporting and systems, while providing agencies with access to information and processing capability that they do not now have.

Mr. Chairman, thank you again for the opportunity to testify before the Committee this morning. I would be happy to answer any questions you may have.