United States Government Accountability Office

GAO

Report to the Chairman, Committee on Ways and Means, House of Representatives

October 2006

INTERNATIONAL TRADE

Customs' Revised Bonding Policy Reduces Risk of Uncollected Duties, but Concerns about Uneven Implementation and Effects Remain

GAO

Accountability * Integrity * Reliability

GAO-07-50

G A O
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-50, a report to the Chairman, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Since 2003, the Department of Homeland Security's U.S. Customs and Border Protection (CBP) has been unable to collect at least $480 million in antidumping (AD) and countervailing (CV) duties. In July 2004, CBP revised its policy regarding the continuous bonds (CB) that importers post. The policy potentially significantly increases the amount of the bonds for affected importers. Following the application of the policy to imports of shrimp as a "test case," U.S. importers and trading partners initiated legal action to prevent CBP from continuing to apply the policy.

GAO examined why and how CBP revised its CB policy, how CBP implemented the revised policy, and the effects of the revised policy.

What GAO Recommends

GAO recommends that the Commissioner of CBP (1) conduct a formal review of the lessons CBP has learned from implementing the revised CB policy on shrimp imports and (2) develop clear and consistent guidance for implementing the policy and take steps to inform covered importers of the basis upon which CBP will reduce importers' bond requirement. The Department of Homeland Security agreed with GAO's recommendations and provided technical comments. The Department of Commerce also provided technical comments.

www.gao.gov/cgi-bin/getrpt?GAO-07-50.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

October 2006

INTERNATIONAL TRADE

Customs' Revised Bonding Policy Reduces Risk of Uncollected Duties, but Concerns about Uneven Implementation and Effects Remain

What GAO Found

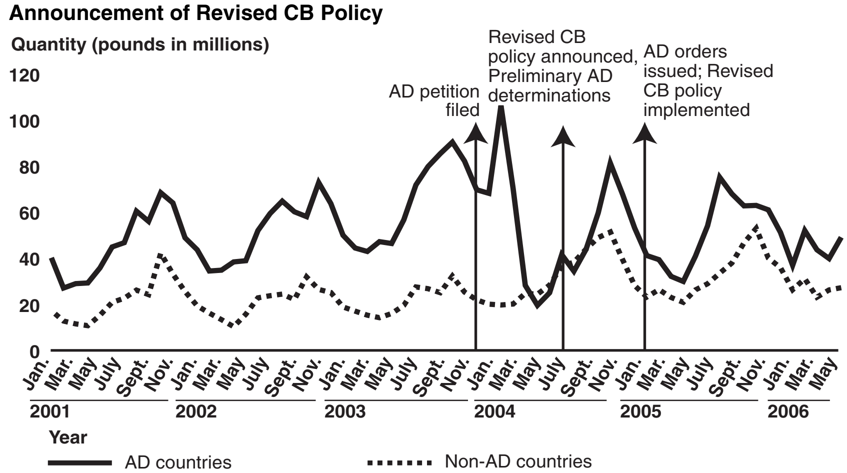
CBP revised its CB policy to reduce the risk of uncollected AD/CV duties. CBP determined that the traditional bond formula provides little protection of duty revenue. In addition, time lags and duty increases associated with the U.S. AD/CV duty system heighten the risk of importers' bonds being insufficient, which led to large amounts of uncollected duties.

CBP developed the revised CB policy internally, and then conducted some outreach prior to applying it to imports of shrimp as a "test case." An internal CBP working group identified options for improving collection of AD/CV duties and recommended revising the CB policy. The revised policy significantly increased bond amounts for some shrimp importers. Before implementing the policy, CBP conducted outreach, but some importers criticized CBP's outreach as insufficient.

CBP's implementation of the revised CB policy lacked transparency and consistency. CBP implemented the policy in February 2005 and required shrimp importers to obtain larger bonds. According to CBP, many importers inquired about lowering their bond requirement, and CBP lowered bond requirements under certain circumstances. However, CBP's procedures for adjusting bond requirements were not formally written and were not public. GAO's review of CBP and importer records showed that CBP set bond requirements on the basis of different data time periods for different importers and used inconsistent criteria when considering bond requests.

The revised CB policy is expected and reported to have a variety of effects on revenue protection, importers, and imports. CBP reports that the revised CB policy protects additional revenue, but the degree of success cannot be known yet. Importers report facing higher costs as a result of the revised policy, which they say leads them to change business practices and has reduced profitability. Trade data show that some import patterns shifted after the AD petition but before the revised CB policy was announced.

Shrimp Imports from AD Countries Dropped after AD Petition Filed, but before Announcement of Revised CB Policy



Source: GAO analysis of official trade statistics from the Department of Commerce, U.S. Census Bureau.

Contents

Abbreviations

AD	antidumping
CD	continuous bond
CV	countervailing
CBP	U.S. Customs and Border Protection
DDP	delivered duty-paid

GAO Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

October 18, 2006

The Honorable William M. Thomas
Chairman
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Since 2003, the Department of Homeland Security's U.S. Customs and Border Protection (CBP) has been unable to collect more than $480 million in antidumping (AD) and countervailing (CV) duties, a problem we have previously blamed for undermining the effectiveness of U.S. trade remedies.[1] Congress has expressed ongoing concern about CBP's problems in collecting AD/CV duties, most recently by enacting legislation to close a legal loophole some believe contributed to a large amount of uncollected duties.[2] In an effort to address the underlying causes of its problem in collecting AD/CV duties, in July 2004, CBP revised its continuous bond (CB) policy. The policy significantly increases the amount of the bonds required for some affected importers.[3] Following the application of the policy to imports of shrimp, U.S. importers and trading partners initiated legal action to prevent CBP from applying the policy.

CBP assesses importers' estimated duties on goods brought into the United States on the basis of declarations by importers at the time that the products enter the country. CBP then reviews the importer's declarations and determines whether the importer's estimates of import duties and fees were accurate or whether additional (supplemental) duties are owed. To help protect the government's interests against loss if importers do not pay

---

[1]CBP reported that it was unable to collect $130 million in AD/CV duties in fiscal year 2003, $260 million in fiscal year 2004, and $93 million in fiscal year 2005.

[2]Section 1632 of Pub. L. No. 109-280 requires reports on collections problems, and temporarily suspended the new shipper bonding privilege, which CBP and others said was contributing to the problems CBP has experienced in collecting AD/CV duties. For a description of the new shipper bonding privilege, see GAO, *International Trade: Issues and Effects of Implementing the Continued Dumping and Subsidy Offset Act*, GAO-05-979 (Washington, D.C.: Sept. 26, 2005), 26, footnote 37.

[3]Currently, the revised CB policy is only being applied to imports of shrimp from six countries that are subject to antidumping orders: Brazil, China, Ecuador, India, Thailand, and Vietnam.

the full amount of duties owed, CBP requires importers to maintain bond coverage.

In addition to standard duties, some imports are subject to AD/CV duties to remedy the adverse impact of unfair trade practices, namely dumping (i.e., sales at less-than-normal value) and foreign government subsidies, on domestic industries and workers. Imposition of these duties requires two separate investigations by U.S. government agencies: one by the Department of Commerce, which determines if dumping or subsidies are occurring, and the other by the U.S. International Trade Commission, which determines whether a domestic U.S. industry is materially injured by such imports. If both agencies make affirmative determinations, CBP is directed to collect additional duties at a rate that Commerce determines.

Given the importance of collecting AD/CV duties without unnecessarily burdening U.S. importers or international trade, we reviewed the development, implementation, and effects of CBP's revised CB policy as applied to shrimp imports. Specifically, we reviewed (1) why CBP revised its continuous bond policy; (2) how CBP developed the revised policy; (3) how CBP has implemented the revised policy; and (4) the effects of the revised policy on revenue, imports, and importers. It was not our objective to assess or comment, nor should this report be construed as assessing or commenting, on the arguments raised in ongoing litigation relating to the revised CB policy. On October 10, 2006, we briefed your staff on the results of our analysis. This report formally conveys the information provided during the briefing (see app. I).

To determine why and how CBP developed its revised CB policy, we reviewed the July 2004 revised policy and the related August 2005 policy clarification. We also reviewed relevant laws and regulations and publicly available documents that CBP submitted to the U.S. Court of International Trade pursuant to ongoing litigation regarding the revised CB policy. In addition, we interviewed CBP officials who participated in developing the revised policy. We did not independently verify the analysis CBP used to develop the revised CB policy. To identify how CBP implemented the revised policy, we reviewed publicly available documents that CBP submitted to the U.S. Court of International Trade pursuant to ongoing litigation, interviewed CBP officials responsible for implementing the policy, and reviewed selected documentation related to CBP's decisions regarding setting individual companies' bond amounts. We also interviewed and obtained documents from U.S. shrimp importers, which are the first and only importers subject to the revised policy, to obtain information on their experiences with CBP's implementation of the policy.

To determine the effects of the revised CB policy, we reviewed economic literature and analysis. In addition, we interviewed industry representatives, surety companies and associations, and importers. Our interviews with 15 U.S. shrimp importers subject to the revised policy included companies that were both large and small; that are party to and are not party to ongoing litigation regarding the revised policy; that imported shrimp from a variety of countries; and that ranged from almost exclusively relying on shrimp to having shrimp as one of many commodities they import. We also spoke with several domestic producer interests. We conducted our work from April 2006 to September 2006 in accordance with generally accepted government auditing standards. (For additional details regarding our scope and methodology, see app. II.)

Summary

In summary, we found the following in examining why and how CBP revised its CB policy, how CBP implemented the revised policy, and the effects of the revised policy:

- *Why CBP revised the CB policy*. CBP revised its CB policy to reduce three risks of uncollected AD/CV duties that it identified. First, the traditional bond formula provided little protection of duty revenue. It is set at the greater of $50,000 or 10 percent of an importer's bill for duties and other CBP charges from the previous year, which often resulted in an insufficient bond. Second, multiple agencies are involved in a complex AD/CV duty investigation process,[4] final AD/CV duty bills are generated long after products enter the country,[5] and AD/CV duty rates on a product can increase dramatically. This often creates a need for CBP to go back to importers to collect additional duties and a risk that CBP will not be able to collect the full amount owed. In early 2004, CBP determined that the

[4]The AD/CV duty investigatory process includes Commerce's investigation into whether imports are being sold at unfairly low prices or benefit from subsidies and the U.S. International Trade Commission's investigation into whether such imports are causing or are likely to cause injury to the domestic industry.

[5]Specifically, according to Commerce, after its preliminary determination, cash deposits will be collected by CBP or bonds may be posted by the importer on entries of merchandise being investigated. After the investigation is complete and an order is issued (as a result of affirmative determinations by the U.S. International Trade Commission and Commerce), importers are required to pay cash deposits on entries—however, AD/CVD duties are not assessed. AD/CVD duties are not assessed until after the conclusion of an administrative review by Commerce (unless no review is requested, in which case the entries are liquidated at the rate in effect at the time of entry). If, because of litigation, there is an injunction prohibiting liquidation following the publication of the final results of administrative review, the injunction must lift before final AD/CVD duties are assessed.

vast majority of outstanding duty bills were due to increases in AD/CV duty rates, and that insufficient bonds were the key reason CBP was unable to collect these duties when importers were unwilling or unable to pay. Third, CBP analyzed the uncollected AD/CV duties and determined that large portions were attributable to imports from China and to agriculture/aquaculture products. CBP then determined that importers of agriculture/aquaculture products shared certain characteristics, such as low capitalization, that made them a high risk for being unable to pay the full amount of AD/CV duties owed.

- *How CBP developed the revised CB policy*. CBP developed a revised CB policy internally after factoring in several considerations and then conducted some outreach prior to applying the policy to shrimp importers. An internal CBP working group identified potential options for protecting future AD/CV duty revenue, and determined that revising the CB policy was the best mechanism to use because CBP concluded that the revision was within its legal authority and would be less burdensome on importers than other options. CBP decided that imports of warmwater shrimp, which were undergoing an AD investigation, would be a suitable test case for the revised bond policy, primarily because (1) warmwater shrimp shared characteristics with other agriculture/aquaculture products that indicated a risk that CBP may not be able to collect the full amount of duties owed; (2) it represented a large volume of imports and faced potentially high AD duties; and (3) shrimp imports were duty-free, therefore, most shrimp importers had no history of normal duty payments and had minimum $50,000 bonds. CBP's goal was to balance its interest in ensuring that AD/CV duties were collected, with its interest of not imposing an "unnecessarily excessive burden on importers or international commerce." However, while CBP analyzed possible bond premium increases that shrimp importers might incur, it did not consult with its own Customs Surety Executive Committee about the proposed policy. Moreover, CBP did not consider the additional collateral requirements that surety companies could impose to underwrite sizable increases in CB amounts in its analysis, in part because such business decisions reflect each surety's own evaluation of risk. CBP then conducted outreach with certain agencies and groups, such as shrimp importers, before implementing the revised policy. However, certain importers have criticized CBP for, among other things, not providing adequate notice or soliciting formal public comments on the draft policy and for applying the policy to shrimp, where there was no demonstrated duty collection problem, but not to other cases—such as crawfish tail meat—where tens of millions of dollars in AD duties were uncollected.

- *How CBP implemented the revised CB policy*. CBP's implementation of the revised CB policy lacked transparency and consistency. CBP implemented the policy in February 2005 by calculating the initial revised bond requirements for each shrimp importer using the company's imports from the prior year, and by sending certain shrimp importers letters demanding that they post higher bond amounts within 30 days. Some importers complied with the CBP demand as written. Hundreds of other importers, however, requested lower bond amounts. Although CBP officials told us that initially these appeals were routinely denied, they responded to importer calls for greater flexibility by developing internal, unwritten procedures and adjusting some bond amounts. In August 2005, CBP publicly clarified the bond policy appeal procedures, but did not explain what evidence its officials would accept from importers to justify reducing bond amounts. Moreover, our interviews with CBP officials and documentation we reviewed showed that how CBP defines the criteria it considers in making bond adjustments is neither formally written down nor made publicly available and, in practice, is significantly narrower than the August 2005 policy clarification. In addition, CBP based bond requirements on different data time periods for different importers and rescinded some bond increases on the basis of 1 month of import data. CBP has identified additional products to which it might apply the revised CB policy. However, CBP officials told us any decision to apply the revised policy to additional products, while supported by some U.S. producer interests, is on hold pending domestic and international legal challenges to the policy.

- *Effects of the revised CB policy*. Our analysis, interviews with importers, and the limited data available show that the revised CB policy could be expected to have and is having a range of effects on revenue protection, shrimp imports, and importing firms. However, these effects cannot be isolated from the effects of other changes that occurred during the same time frame. Moreover, the small amount of time that has lapsed, Commerce's ongoing review of AD rates for shrimp imports, and other factors make it premature to draw definitive conclusions.

  - CBP estimates indicate that more revenue is protected as a result of the new bond policy. Based on the value of actual bonds obtained after implementation of the revised policy, CBP reported in December 2005 that the revised bond policy would ensure collection of revenue up to an increase of 85 percent in final AD duty rates, versus the traditional bond formula, which would only cover a 28 percent increase. While the revised CB policy protected additional revenue, CBP's degree of success in protecting revenue will depend on a variety of factors. For example, the extent to which revenue will need to be protected will remain uncertain until final duty bills are determined and will be significantly affected by various factors, such as recent settlements between shrimp exporters and the domestic industry aimed at forestalling reviews by Commerce that could have changed duty rates.

- In addition to the AD duties imposed, shrimp importers told us the costs associated with higher bond amounts are substantial. Importers now pay higher premiums and typically must also post the 100 percent collateral required by surety providers before the sureties will write the larger bonds. Importers with whom we spoke reported a range of effects arising from these higher costs on import flows, their sourcing patterns, and their business practices. Many importers emphasized that the collateral requirement is particularly onerous because it restricts the funds available to operate the business, and that this constraint results in lost or forgone business opportunities.

- The concurrent imposition of AD duties and other factors affecting the shrimp industry limit the conclusions that can be drawn about the effects of the revised CB policy on imports. However, data we reviewed suggest that while the overall quantity and value of U.S. shrimp imports have not changed significantly since the AD petition (request to impose AD duties) was filed, the amount of shrimp imported from AD duty versus nonduty countries changed significantly, and the changes varied by country. These shifts in sourcing patterns began after the AD petition was filed but before the July 2004 announcement of the revised CB policy. Importers reported that the higher bonds and collateral requirements were negatively affecting many smaller shrimp importing businesses, causing them to stop importing or to exit the industry. The data we reviewed did not show substantial change in the number of shrimp *importers* since the AD petition was filed, but the data do suggest a recent trend toward the top-ranking importers' gaining market share relative to the rest of the shrimp importing industry. The data also show declines in the number of shrimp *exporters* and gains in market share by the top-ranking exporters relative to the rest of the shrimp exporting industry. Moreover, some importers now require their foreign suppliers to ship on a delivered, duty-paid basis. This requirement makes the foreign-based supplier the U.S. importer of record and shifts the burden of higher bonds to them. CBP acknowledges that such importers without assets accessible to CBP represent a potential collection risk.

Conclusions

The revised CB policy significantly increased bond requirements for some importers, and some key lessons can be learned from CBP's application of the policy to shrimp as its "test case." Given concerns about the policy's implementation and effects, recent legislation on other, related aspects of the collections problem, and the prospect of expanding the CB policy to other products, these lessons are timely and apply to both of CBP's goals for the revised CB policy: protecting revenue and not placing an unnecessary burden on importers or international trade. Regarding revenue protection, the revised CB policy likely led to additional revenue protection. However, an evaluation of the lessons learned in this area should consider the policy's indirect effects on revenue and the unique circumstances present in this "test case." Regarding not placing an unnecessary burden on importers or international trade, CBP's outreach efforts during the development and implementation of the policy could have been more effective. In addition, shrimp importers have expressed significant concerns regarding the onerous cost and other negative effects they attribute to the revised CB policy.

Given the importance of the policy to CBP's revenue collection efforts, the policy's reported effects on importers, and the scrutiny the policy has received, it is critical that the policy be applied in a transparent and consistent manner. The revised CB policy represented a significant change from CBP's traditional method of setting bond amounts. However, the importers we interviewed were often unclear about the basis upon which CBP would consider reducing companies' bonds. CBP has not publicly explained a major part of the criteria it considers when adjusting bond amounts, which has contributed to a perception among some importers that the CB policy is being inconsistently implemented. Our review of CBP records confirmed this perception and showed that CBP lacks clear and transparent guidance for making bond adjustments, which led to inconsistent implementation.

Recommendations for Executive Action

We are making two recommendations to the Commissioner of U.S. Customs and Border Protection. To ensure that CBP's goal of ensuring collection of AD/CV duties without imposing an excessive burden on importers or international trade and commerce is achieved, the Commissioner of CBP should conduct a formal review of the lessons CBP can learn from implementing the revised CB policy on shrimp imports. Given CBP's stated desire not to unnecessarily burden importers, this review should include specific steps to systematically obtain importers' views on the policy. Moreover, the review should examine whether the policy appropriately addresses the underlying risks to CBP's collection of

AD/CV duties. To ensure full transparency and remedy inconsistent implementation of the CB policy, the Commissioner of CBP should develop clear and consistent guidance for implementing the policy, take steps to inform covered importers of the basis upon which CBP will reduce importers' bond requirement, and ensure the guidance is uniformly applied.

Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of Commerce, Homeland Security, and the Treasury and to the Office of the U.S. Trade Representative. Commerce provided comments, which are contained in appendix III, and additional technical comments, which we incorporated where appropriate. Homeland Security agreed with our recommendations and intends to take appropriate action to implement them. Its comments are contained in appendix IV.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time we will send copies of this report to interested congressional committees, the Secretaries of Commerce and Homeland Security, the U.S. Trade Representative, and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or YagerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

Sincerely yours,

Loren Yager
Director, International Affairs and Trade

Appendix I: Briefing Slides from the October 10, 2006, Briefing to the House Committee on Ways and Means

GAO
Accountability * Integrity * Reliability

INTERNATIONAL TRADE: Customs' Revised Bonding Policy Reduces Risk of Uncollected Duties, but Concerns about Uneven Implementation and Effects Remain

Briefing for the staff of the House Committee on Ways and Means

October 10, 2006

GAO
Accountability * Integrity * Reliability

Background

- U.S. Customs and Border Protection (CBP) is responsible for collecting import duties; CBP collected more than $28 billion in FY05 revenue
- Antidumping (AD) and countervailing (CV) duties are imposed to protect U.S. industry from unfair imports;[1] from FY03 through FY05, CBP collected $5.6 billion worth of such duties
- From FY03 through FY05, CBP reported to Congress that it had been unable to collect at least $480 million in AD/CV duties

[1]Imports found to be dumped or subsidized that cause injury or threaten material injury to U.S. industry.

2

GAO
Accountability * Integrity * Reliability

Background (continued)

- Importers are required to post bonds to help ensure that duties (including AD/CV duties) are collected
- In July 2004, CBP revised its bonding policy, increasing the amount of security that importers of certain agriculture/aquaculture products subject to AD/CV duties must provide in addition to cash deposits of estimated AD/CV duties
- Since applying the policy to shrimp imports, concerns about the revised continuous bond policy, its implementation, and effects have been raised to Congress and the courts:
  - Two separate legal cases have been filed in U.S. courts
  - Two countries have requested formal dispute settlement consultations within the World Trade Organization; one of them has now requested a panel be established to adjudicate the case

3

GAO
Accountability * Integrity * Reliability

Objectives

I. Why did CBP revise its continuous bond (CB) policy?

II. How did CBP develop the revised CB policy?

III. How has CBP implemented the revised CB policy?

IV. What are the effects of the revised CB policy on revenue, imports, and importers?

4

GAO
Accountability * Integrity * Reliability

Key Findings

- CBP Revised the CB Policy to Reduce Risk of Uncollected Duties
- CBP Developed Revised CB Policy Internally, Then Conducted Some Outreach Prior to Implementation
- CBP's Implementation of the Revised CB Policy Lacked Transparency and Consistency
- Revised CB Policy Reported to Have a Variety of Effects; Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced

5

GAO
Accountability * Integrity * Reliability

I. CBP Revised the CB Policy to Reduce Risk of Uncollected Duties

- I.1 Traditional Bond Formula Provides Little Protection of Duty Revenue
- I.2 Time Lags and Potential Duty Increases Associated with U.S. AD/CV Duty System Heighten Risk of Insufficient Bonds
- I.3 Insufficient Bonds Led to Large Amount of Uncollected Duties
- I.4 CBP Data Showed That One Country and Sector Accounted for Most Uncollected AD/CV Duties

6

GAO
Accountability * Integrity * Reliability

I.1 Traditional Bond Formula Provides Little Protection of Duty Revenue

- Importers pay estimated duties when products enter the United States
- To cover additional duties owed, importers frequently provide a continuous bond equal to the greater of $50,000 or 10% of the duties, taxes, and fees paid the prior year
- In some cases, this bond amount does not sufficiently protect duty revenue if importers are unwilling or unable to pay additional duties

7

GAO
Accountability * Integrity * Reliability

I.2 Time Lags and Potential Duty Increases Associated with U.S. AD/CV Duty System Heighten Risk of Insufficient Bonds

- CBP cannot collect AD/CV duties until other agencies complete lengthy AD/CV investigations and administrative reviews
- Retrospective nature of U.S. AD/CV system involves risk of uncollected duties:
    - AD/CV duties on given imports are often changed years later as a result of after-the-fact “administrative reviews” by Commerce
    - If Commerce increases AD/CV duties, CBP issues “supplemental duty bills” for the additional amount and goes back to the importer to collect
- Significant increases in AD/CV duties can occur between the estimated rate at entry and the final rate:
    - In the cases that it examined, CBP determined that AD/CV duty rates increased 33% of the time
    - In some cases, the increase was more than double

8

GAO
Accountability * Integrity * Reliability

I.3 Insufficient Bonds Led to Large Amount of Uncollected Duties

- Almost all delinquent duty bills in 2002 and 2003 were supplemental duty bills, which CBP linked to the AD/CV duty process
- CBP reported $130 million in uncollected AD/CV duties in 2003
- Bonds were insufficient for 83% of the delinquent duty bills in the write-off process

9

GAO
Accountability * Integrity * Reliability

I.4 CBP Determined One Country and Sector Accounted for Most Uncollected AD/CV Duties

CBP analyzed the $130 million in uncollected AD/CV duty bills from 2003 and determined:

- Imports from China accounted for $104 million (80% of the total)
- Agriculture and aquaculture sector had the highest amount ($95 million, or 73% of the total); crawfish imports alone accounted for $85 million

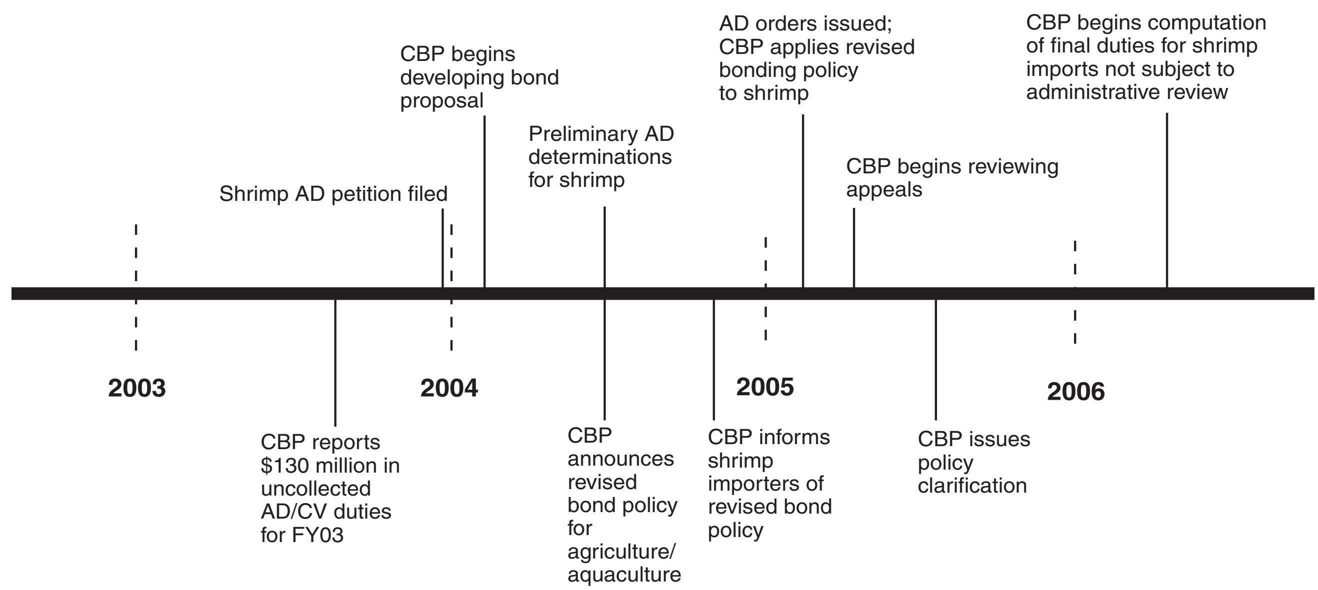
CBP concluded that agriculture/aquaculture importers shared certain high-risk characteristics:

- Low capitalization, many small firms
- Highly leveraged, depend on borrowing
- Fluid market, many entrants and exits
- Most importers had 5 years or less in the industry

10

GAO
Accountability * Integrity * Reliability

Timeline of Development and Implementation of Revised CB Policy



Source: GAO analysis of CBP documents.

11

GAO
Accountability * Integrity * Reliability

II. CBP Developed Revised CB Policy Internally, Then Conducted Some Outreach Prior to Implementation

- II.1 CBP Working Group Proposed Increasing the CB for Shrimp Imports
- II.2 Revised CB Policy Significantly Increases Bond Amounts for Some Importers
- II.3 CBP Conducted Some Outreach Prior to Implementation of the Revised CB Policy

12

GAO
Accountability * Integrity * Reliability

II.1 CBP Working Group Proposed Increasing the CB for Shrimp Imports

An internal CBP working group identified potential options for addressing problems collecting AD/CV duties and chose to focus on the CB because:

- Setting the CB requirement is within CBP's authority
- Increasing the CB would be less onerous on importers than other options, such as holding merchandise or requiring single-entry bonds

Early in the development of the revised CB policy, CBP targeted shrimp as a test case primarily because it:

- Was an aquaculture product undergoing an antidumping investigation
- Represented a large value of imports (approximately $3 billion)
- Proposed estimated dumping duties ranging from 26% to 349%
- Was duty-free, so had no history of normal duty payments
- 75% of shrimp importers had the minimum $50,000 CB

13

GAO
Accountability * Integrity * Reliability

II.1 CBP Working Group Proposed Increasing the CB for Shrimp Imports (continued)

CBP's stated goals for the policy were to:

- Ensure that AD/CV duties are collected (by protecting CBP up to a doubling of AD/CV duties)
- Not impose "unnecessarily excessive" burden on importers or international trade and commerce

CBP analyzed potential costs to importers, such as bond premium increases to obtain larger CBs, but:

- Did not consult its Customs Surety Executive Committee about the proposed policy
- Did not consider the additional significant collateral requirements that sureties could impose to reflect business' exposure

14

GAO
Accountability * Integrity * Reliability

II.2 Revised CB Policy Significantly Increases Bond Amounts for Some Importers

- Announced in July 2004, the revised policy potentially increases agriculture/aquaculture importers' CB by an amount equal to the duty rate set by Commerce times importer's imports from the previous year.[2]
- For example, if an importer has imported agriculture/aquaculture merchandise subject to the antidumping case with a value of $1 million during the previous 12 months, and the AD duty rate is 40%, the importer's CB amount will be increased by $400,000.
- Thus, if an importer previously had the minimum $50,000 bond, under the revised CB policy, it would need to post a bond 9 times the size of its previous bond ($400,000 + $50,000 = $450,000)

[2]Shrimp was not specified. New importers' requirement is based on the importer's estimate.

15

GAO
Accountability * Integrity * Reliability

II.3 CBP Conducted Some Outreach Prior to Implementation of the Revised CB Policy

Before applying the requirements to shrimp, CBP took steps to inform other agencies and importers, including:

- Meeting with congressional staff and officials from Commerce
- Meeting with representatives of shrimp importers
- Sending explanatory letters to shrimp importers in December 2004 outlining the new bond formula and indicating importers might need to obtain larger bonds

Some importers have criticized CBP's outreach because:

- CBP did not solicit formal public comments on the revised CB policy
- Some importers told us they were unaware the policy applied to them until CBP notified them that their bond was insufficient (the July 2004 policy and the December 2004 letter were broadly worded and did not specify that shrimp importers would be a covered case)
- CBP's basis for choosing to apply the policy only to shrimp was not clear to shrimp importers

16

GAO
Accountability * Integrity * Reliability

III. CBP's Implementation of the Revised CB Policy Lacked Transparency and Consistency

- III.1 CBP Set Initial Bond Amounts on the Basis of Prior Year's Imports, and Some Importers Complied
- III.2 CBP Bond Adjustment Criteria Are Not Transparent or Consistently Applied
- III.3 CBP Monitors Bond Sufficiency and Considers Possible Future Covered Cases

17

GAO
Accountability * Integrity * Reliability

III.1 CBP Set Initial Bond Amounts on the Basis of Prior Year's Imports, and Some Importers Complied

In February 2005, CBP implemented its revised CB policy for importers of shrimp from six countries[3] subject to AD duties:

- CBP calculated revised bond amounts using the revised CB formula by multiplying each shrimp importer's imports for the previous 12 months by the applicable AD duty rate set by Commerce for each AD country and exporter

- CBP officials told us they sent letters to about 200 importers with insufficient bonds, demanding that they post higher bonds within 30 days:
  - The letters referred importers to general bonding requirements, but did not specify whether or on what basis an importer could request that CBP lower the bond requirement

- According to CBP, most importers did not obtain bonds on the basis of this initial request

[3]These six countries are Brazil, China, Ecuador, India, Thailand, and Vietnam.

18

GAO
Accountability * Integrity * Reliability

III.2 CBP Bond Adjustment Criteria Are Not Transparent or Consistently Applied

CBP said it initially denied all appeals

Faced with calls to show flexibility, CBP made bond adjustments for some of the numerous importers who inquired about lowering bond amounts

According to CBP officials, they reduced bond amounts in some cases, notably if:

- the initial calculation was incorrect or
- an importer shifted its sourcing patterns

19

GAO
Accountability * Integrity * Reliability

III.2 CBP Bond Adjustment Criteria Are Not Transparent or Consistently Applied (continued)

In August 2005, CBP issued a policy clarification that:

- Contained appeal procedures
- Specified factors CBP would consider in adjusting bond amounts including a likely reduction in an importer's duty liability, but did not clearly explain how an importer could demonstrate this
- Identified the policy as potentially applying to all AD/CV cases
- Specified that only imports of shrimp were currently covered

20

GAO
Accountability * Integrity * Reliability

III.2 CBP Bond Adjustment Criteria Are Not Transparent or Consistently Applied (continued)

GAO's review of selected CBP and importer records showed that:

- How CBP defines the criteria it considers in making bond adjustments are:
  - Neither written nor public and
  - significantly narrower than those listed in the August 2005 policy clarification
- CBP set bonds on the basis of different data time periods for different importers:
  - Following importer appeals, CBP rescinded some bond increases based on as little as 1 month of import data

21

GAO
Accountability * Integrity * Reliability

III.3 CBP Monitors Bond Sufficiency and Considers Possible Future Covered Cases

According to CBP officials, they monitor imports subject to AD/CV duties to ensure importers' bonds are sufficient:

- Importers are notified when a bond is "fully saturated"
- Some delays in posting bonds or import disruptions may occur

CBP officials considering applying the revised CB policy to other cases:

- Where problems collecting AD/CV duties were experienced
- Holding off pending resolution of legal challenges
- Some domestic producer interests support wider application

22

GAO
Accountability * Integrity * Reliability

IV. Revised CB Policy Reported to Have a Variety of Effects; Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced

- IV.1 Revised CB Policy Expected to Affect Revenue, Imports, and Importers
- IV.2 CBP and Importers Report Variety of Effects of Revised CB Policy
- IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced

23

GAO
Accountability * Integrity * Reliability

IV.1 Revised CB Policy Expected to Affect Revenue, Imports, and Importers

Effects of revised CB policy for shrimp imports cannot readily be isolated from other changes occurring at the same time, such as the imposition of AD duties

Economic theory suggests that revised CB policy would:

- Reduce risk that CBP will not be able to collect AD/CV duty revenue
- Increase costs for importers
- Cause importers to change business practices
- Reduce imports from countries subject to AD/CV duties

24

GAO
Accountability * Integrity * Reliability

IV.2 CBP and Importers Report Variety of Effects of Revised CB Policy

Revenue

CBP says revised CB policy protects additional revenue:

- CBP estimates that without the revised CB, bonds would have covered an increase in the AD duty rate of up to 28%
- Following the revised CB policy, CBP received bonds equal to $146 million, which covers an increase in the AD duty rate of up to 85%

25

GAO
Accountability * Integrity * Reliability

IV.2 CBP and Importers Report Variety of Effects of Revised CB Policy (continued)

Adequacy and appropriateness of the level of protection provided by the revised CB policy, and the actual amount of revenue protected will depend on a variety of factors, such as whether:

- The revised CB policy as implemented addresses the risks of Commerce increasing the AD duty rates on given exporters
  - Degree of success in protecting revenue with the revised CB policy will not be known until final duty rates are set
- Exporters that made agreements with domestic shrimp producers to be removed from the administrative review would have seen their AD duty rates (and thus expected government revenue) increase or decrease
- Importers shift to lower duty exporters
- Imports by importers without assets accessible to CBP (which CBP sees as a potential collections risk) increase
- Exporters illegally circumvent AD duties

26

GAO
Accountability * Integrity * Reliability

IV.2 CBP and Importers Report Variety of Effects of Revised CB Policy (continued)

Importers Report Facing Higher Costs

- AD duties and higher bond premiums increase costs
- Sureties' view many shrimp importers as a risk and now require them to typically post 100% collateral, which causes most significant negative effects by:
  - Reducing the amount of funds available to operate the business
  - Tying up collateral for several years
  - Straining the borrowing capacity of some importers

27

GAO
Accountability * Integrity * Reliability

IV.2 CBP and Importers Report Variety of Effects of Revised CB Policy (continued)

Importers we interviewed report changing business practices, such as:

- Adjusting purchasing amounts
- Altering sourcing patterns
- Losing or forgoing business opportunities
- Shifting risk to exporters by buying on a delivered duty paid (DDP) basis

Importers we interviewed report that increased costs reduce profitability and impact market structure:

- Smaller importers having harder time competing
- Some importers exiting the industry
- Well-capitalized importers gaining market share
- Number of foreign importers of record increasing

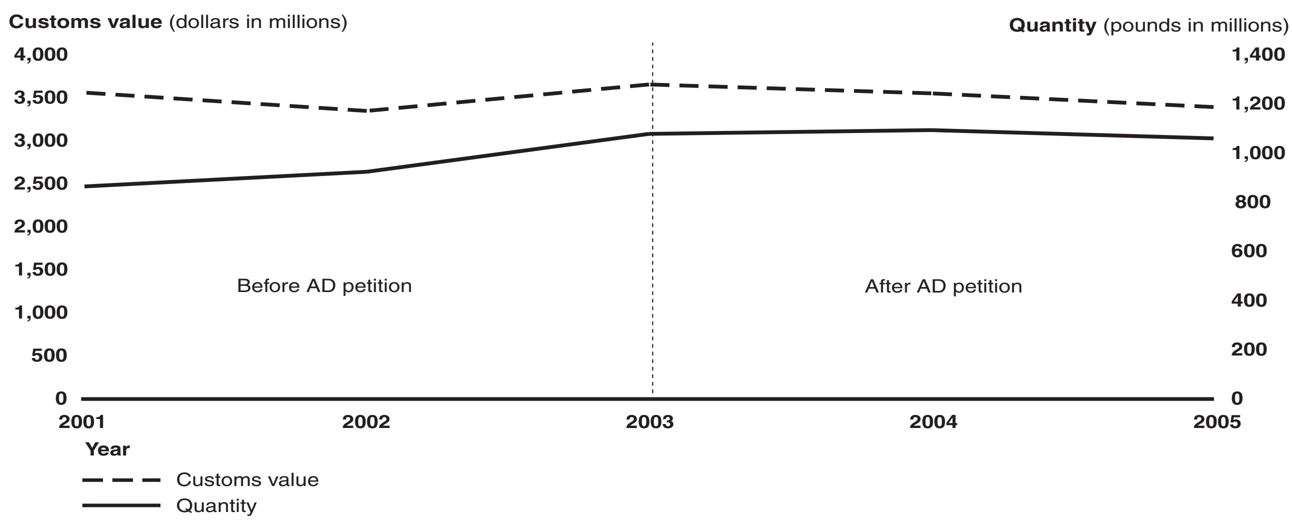
28

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced

Imports

Since AD Petition Filed, Shrimp Import Quantities Level Off and Total Import Value Declines



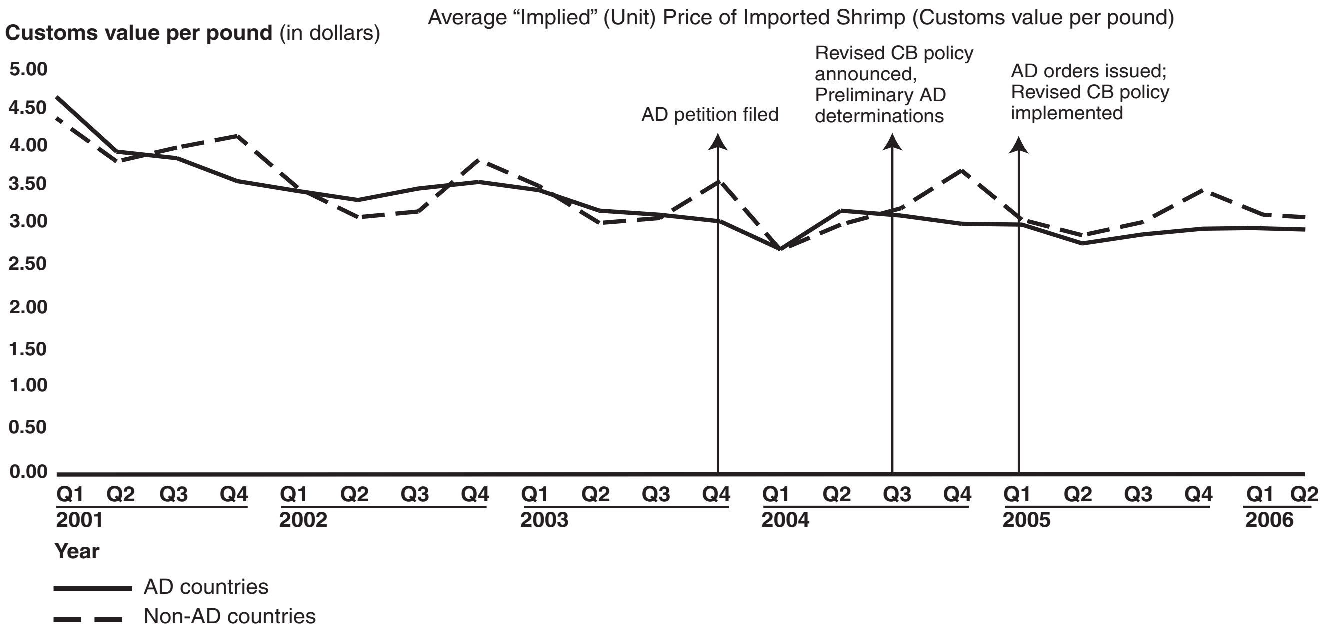
Source: GAO analysis of official trade statistics from the Department of Commerce, U.S. Census Bureau.

29

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced (continued)

After Preliminary Shrimp AD Determination, "Implied" (Unit) Prices Consistently Lower for AD Countries



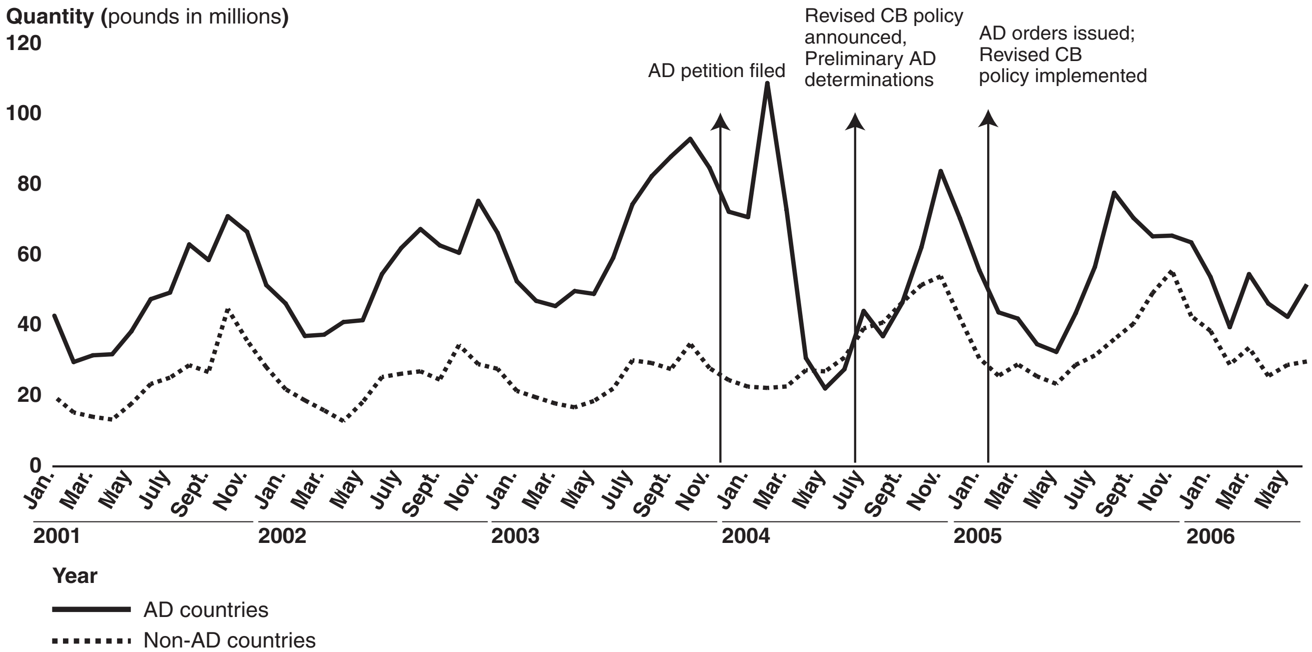
Source: GAO analysis of official trade statistics from the Department of Commerce, U.S. Census Bureau.

30

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced (continued)

Shrimp Imports from AD Countries Dropped Significantly after AD Petition Filed, but before Announcement of Revised CB Policy



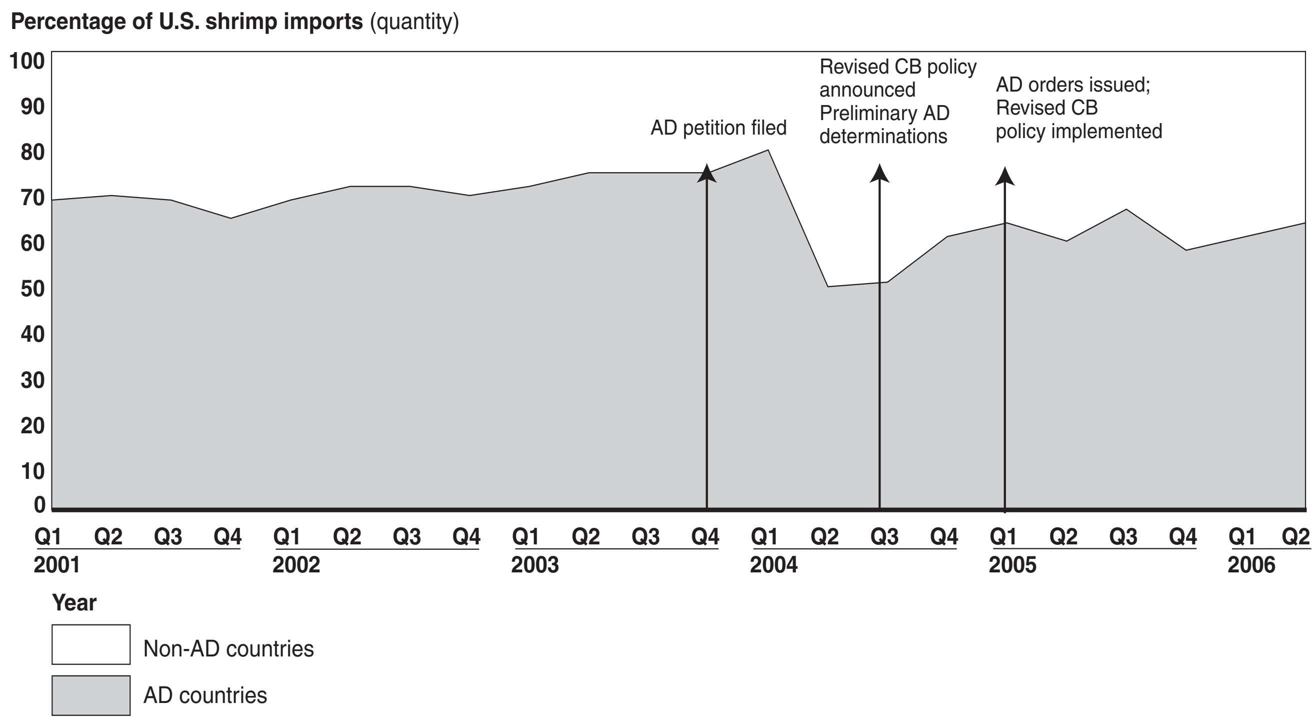
Source: GAO analysis of official trade statistics from the Department of Commerce, U.S. Census Bureau.

31

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced (continued)

AD Countries Overall Lose Market Share



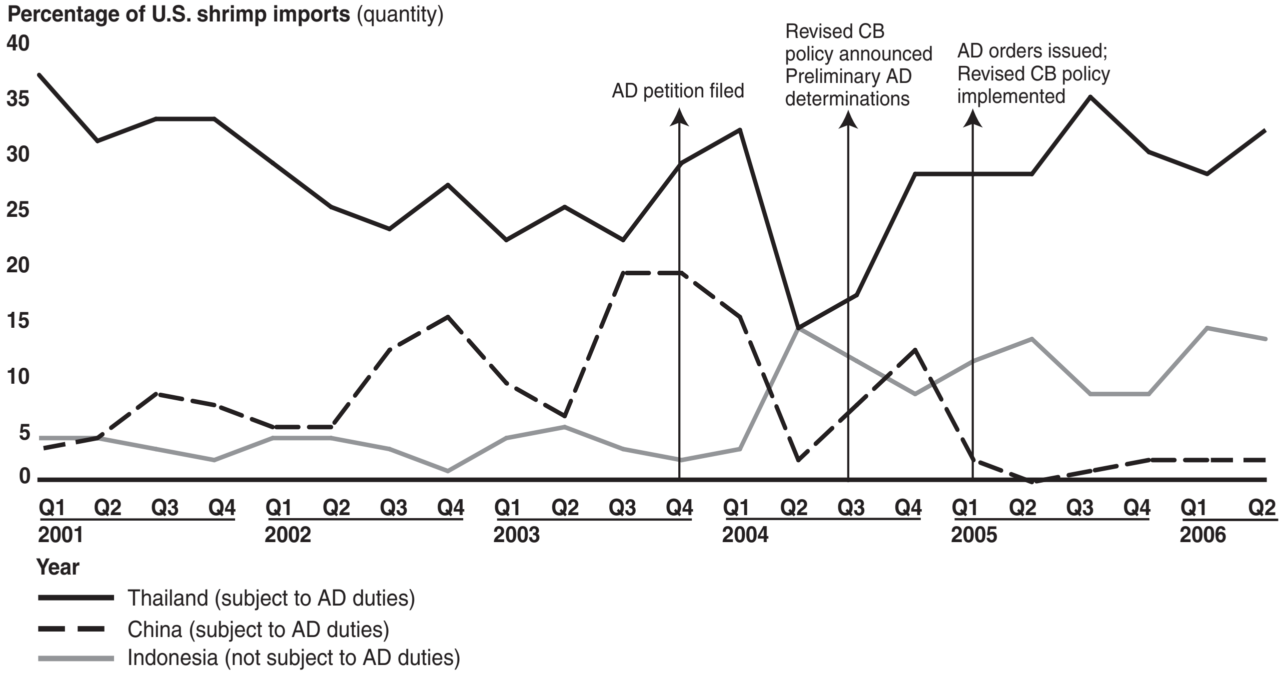
Source: GAO analysis of official trade statistics from the Department of Commerce, U.S. Census Burearu.

32

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced (continued)

U.S. Shrimp Imports from Some Countries Shift Substantially



Source: GAO analysis of official trade statistics from the Department of Commerce, U.S. Census Bureau.

33

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced (continued)

Largest Shrimp Importers Gain Market Share Recently

	2003 (full year)	2004 (full year)	2005 (full year)	2005 (through June)	2006 (through June)
Total Number of Shrimp Importers	722	772	770	553	550
Cumulative Share of Total U.S. Shrimp Imports (Percentage of Quantity)					
Top 5 Importers	8.4%	7.4%	8.9%	9.4%	9.9%
Top 15 importers	18.0	16.6	19.4	19.3	22.5
Top 25 importers	24.7	22.9	25.9	26.3	30.9
Top 50 importers	36.8	35.0	37.9	40.3	45.2
Top 100 importers	53.0	52.3	54.3	59.8	62.7

Source: GAO analysis of CBP data.

34

GAO
Accountability * Integrity * Reliability

IV.3 Some Import Patterns Shifted after AD Petition, but before Revised CB Policy Announced (continued)

Number of Shrimp Exporters Declines; Largest Exporters Gain Market Share

	2003 (full year)	2004 (full year)	2005 (full year)	2005 (through June)	2006 (through June)
Total Number of Shrimp Exporters	2,743	2,469	2,162	1,462	1,346
Cumulative Share of Total U.S. Shrimp Imports (Percentage of Quantity)					
Top 5 Exporters	3.1%	4.3%	5.2%	6.0%	6.2%
Top 15 Exporters	6.7	8.9	9.9	12.0	14.0
Top 25 Exporters	9.6	11.8	12.9	16.2	18.3
Top 50 Exporters	14.7	17.5	19.1	24.1	26.9
Top 100 Exporters	22.2	25.9	28.4	34.5	38.5

Source: GAO analysis of CBP data.

35

GAO
Accountability * Integrity * Reliability

Conclusions

Revised CB policy significantly increased bond requirements, and key lessons can be learned:

- Regarding CBP's goal of revenue protection:
  - Revised CB policy likely led to some protection of revenue
  - Shrimp did not have history of uncollected duties, but exhibited some characteristics that could make it a collections risk
  - Indirect effects on revenue and unique case characteristics are important to consider
- Regarding CBP's goal of avoiding unnecessary burden:
  - Outreach to importers and other stakeholders could have been more effective
  - Importers have significant concerns regarding the higher cost and other negative effects on their business, which they attribute to the policy

36

GAO
Accountability * Integrity * Reliability

Conclusions (continued)

- Revised CB policy represented significant change from prior policy, thus making clear communication and preparation critical
- CBP lacks clear and transparent guidance for making bond adjustments
- Lack of clear and transparent guidance led to uneven implementation

37

GAO
Accountability * Integrity * Reliability

Recommendations for Executive Action

We are making two recommendations to the Commissioner of U.S. Customs and Border Protection:

- To ensure that CBP's goal of collecting AD/CV duties without imposing an excessive burden on importers or international trade and commerce is achieved, the Commissioner of CBP should conduct a formal review of the lessons CBP can learn from implementing the revised CB policy for shrimp imports. Given CBP's stated desire not to unnecessarily burden importers, this review should include specific steps to systematically obtain importers' views on the policy. Moreover, the review should examine whether the policy appropriately addresses the underlying risks to CBP's collection of AD/CV duties.

38

GAO
Accountability * Integrity * Reliability

Recommendations for Executive Action (continued)

- To ensure full transparency and remedy inconsistent implementation of the CB policy, the Commissioner of CBP should develop clear and consistent guidance for implementing the policy, take steps to inform covered importers of the basis upon which CBP will reduce importers' bond requirement, and ensure the guidance is uniformly applied.

39

GAO
Accountability * Integrity * Reliability

Scope and Methodology

- To determine why and how CBP developed its revised continuous bond policy, we reviewed the revised policy and the related August 2005 policy clarification. We also reviewed relevant laws and regulations and publicly available documents submitted by CBP to the U.S. Court of International Trade pursuant to ongoing litigation. In addition, we interviewed CBP officials who participated in the development of the revised policy and the agencies they sought to involve in this process. We did not independently verify or evaluate CBP's analysis used as the basis for developing the revised CB policy.

- To identify how CBP has implemented the revised policy, we reviewed publicly available documents submitted by CBP to the U.S. Court of International Trade pursuant to ongoing litigation and interviewed CBP officials responsible for implementing the policy. In addition, we requested additional documents from CBP and reviewed correspondence provided by CBP regarding its communication with shrimp importers concerning bond adjustments. We also interviewed and obtained documents from U.S. importers that are subject to the policy to obtain their experiences with CBP's implementation of the policy.

- To determine the effects of the revised CB policy, we reviewed economic literature and analysis regarding the expected effects of the policy. In addition, we interviewed industry representatives, surety companies and associations, and importers. Our interviews with 15 importers subject to the revised policy included companies that were both large and small; were party to and were not party to ongoing litigation regarding the revised policy; imported shrimp from a variety of countries; and ranged from almost exclusively relying on shrimp to having shrimp as one of many commodities they import. We also obtained and analyzed publicly available official data on shrimp imports from the Department of Commerce as well as additional data from CBP. The results of this analysis provided valid insights, but cannot be considered definitive due to several limitations. We conducted our work from April 2006 to September 2006 in accordance with generally accepted government auditing standards.

40

Appendix II: Scope and Methodology

To determine why and how the Department of Homeland Security's U.S. Customs and Border Protection (CBP) revised its continuous bond (CB) policy, we reviewed the revised policy and the subsequent August 2005 policy clarification. We also reviewed relevant laws, regulations, and legal precedents and interviewed officials at CBP, the Department of Commerce, and the Department of the Treasury. In addition, we reviewed publicly available documents that CBP submitted to the U.S. Court of International Trade pursuant to ongoing domestic litigation regarding the revised CB policy. Furthermore, we interviewed CBP officials who participated in the development of the revised policy and the agencies they sought to involve in this process. We did not independently verify or evaluate CBP analyses used as the basis for developing the revised CB policy, because this matter is presently under litigation.

To identify how CBP implemented the revised CB policy, we reviewed publicly available documents that CBP submitted to the U.S. Court of International Trade pursuant to ongoing domestic litigation and interviewed CBP officials responsible for implementing the policy. In addition, we requested and reviewed other documentation from CBP, including correspondence between CBP and 39 shrimp importers that CBP selected as representative examples of how they handled bond adjustment requests. We also obtained documentation of importer/CBP bond adjustment discussions from 5 shrimp importers. In addition, we also interviewed 15 U.S. companies that import shrimp (importers) that are subject to the policy, including those that sent us documentation of CBP communication, to obtain information on their experiences with CBP's implementation of the policy. More details on how this sample of 15 importers was selected are discussed later in this appendix. Lastly, given that antidumping (AD) and countervailing (CV) duties are imposed to remedy injury to domestic producers, we interviewed representatives of U.S. shrimp producers as well as representatives of producers in industries where CBP has experienced problems collecting AD/CV duties.

To analyze the effects of the revised CB policy on duty collections, imports, and importers, we first reviewed relevant economic and related literature on tariffs and AD duties to determine the expected effects of CB policy, which we used as a guide to the interpretation of importer interviews and our data analysis. We then gathered relevant information from shrimp industry officials, shrimp importers, and government reports to ascertain reported effects on importers and to examine U.S. shrimp importing trends. This information is factual in nature, but it does not represent a definitive determination of the effects associated with the revised CB policy, which would be premature at this time. While we consider the information presented relevant and instructive, it has known limitations resulting from such factors as the continued flux in important variables that could affect revenue and imports, such as Commerce's AD duty rates; the difficulty in distinguishing the policy's effect from other changes occurring at the same time (notably the imposition of AD duties); the short amount of time the policy has been in effect; and the limited availability of data.

To examine the implications of the CB policy for revenue collection, we obtained CBP data regarding the amount of cash deposits obtained for shrimp imports and the amount of continuous bonds that CBP received since the policy was implemented. To examine the effects on imports and importers, we obtained and analyzed official U.S. trade statistics from the U.S. Census Bureau as well as additional data from CBP. We have done a detailed data reliability assessment for U.S. trade data on past engagements. On the basis of these reviews, we concluded that there are no specific biases or limitations in these data that significantly impair their use, and that these data are sufficiently reliable to show the import trends in shrimp products.

To further examine the effects of the AD and bond policies on imports and importers, we interviewed shrimp industry representatives, surety companies and associations, and a selected group of U.S. shrimp importers. In selecting importers to interview, we judgmentally chose importers on the basis of their size and referrals from shrimp industry representatives and other shrimp importers. The importers we interviewed included companies that

- were both large and small (annual shrimp imports ranged from a few million dollars to over $100 million);
- were party to and were not party to ongoing litigation regarding the revised policy;
- imported shrimp from a variety of countries; and
- ranged from almost exclusively relying on shrimp to having shrimp as one of many commodities they import.

We conducted our work from April 2006 to September 2006 in accordance with generally accepted government auditing standards.

Appendix III: Comments from the Department of Commerce

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
ASSISTANT SECRETARY FOR IMPORT ADMINISTRATION
Washington, D.C. 20230

OCT - 6 2006

Ms. Kim Frankena
Assistant Director
International Affairs and Trade
U. S. Government Accountability Office
Washington, D.C. 20548

Dear Ms. Frankena:

Thank you for providing us with your draft report on Customs and Border Protections' revised bonding policy. We appreciate the opportunity to comment on GAO's report and understand the importance of this issue. Enclosed is an attachment with specific comments relating to the text of the report.

Sincerely,

David M. Spooner

Appendix IV: Comments from the Department of Homeland Security

Note: GAO comment supplementing those in the report text appears at the end of this appendix.

U.S. Department of Homeland Security
Washington, DC 20528

Homeland Security

October 10, 2006

Mr. Loren Yager
Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Yager:

RE: Draft Report GAO-07-50, International Trade: Customs' Revised Bonding Policy Reduces Risk of Uncollected Duties, but Concerns about Uneven Implementation and Effects Remain (GAO Job Code 320392)

The Department of Homeland Security and Customs and Border Protection (CBP) officials appreciate the opportunity to review and comment on the draft report referenced above. The Government Accountability Office (GAO) recommends that the Commissioner of Customs and Border Protection (1) conduct a formal review of the lessons CBP can learn from implementing the revised continuous bond policy on shrimp imports; and (2) develop clear and consistent guidance for implementing the policy, taking steps to inform covered importers of the basis upon which [CBP officials] will reduce importers' bond requirement, and ensure it is uniformly applied.

Customs and Border Protection officials agree with the recommendations and intend to take appropriate action to implement them. It should be emphasized, however, that CBP personnel revised the continuous bond (CB) policy in order to enforce the United States antidumping and countervailing duty law within the legal authority afforded the component. CBP officials welcome GAO's findings that the revised CB policy had its intended effect of reducing the risk of uncollected duties and that the collateral requirements imposed by the sureties, which cause the most significant negative effects, are based on the sureties' own evaluation of risk and their determination that many shrimp importers are a risk.

GAO's first recommendation that the Commissioner of CBP conduct a formal review of lessons learned from implementing the revised CB policy on shrimp is consistent with normal CBP procedure, which is to conduct a review of lessons learned when applying policy revisions to test cases. In this case, as part of the lessons learned process, CBP officials intend to seek comments within 60 days from stakeholders on the revised CB policy via a Federal Register Notice. These comments along with CBP's review and evaluation of the policy's implementation will provide the basis for the consistent,

www.dhs.gov

See GAO comment.

2

transparent application of the revised CB policy to future cases. CBP personnel will evaluate the policy's effectiveness in protecting the revenue once Department of Commerce officials complete the administrative review process in 2007.

GAO also recommends that the Commissioner of CBP develop clear and consistent guidance for implementing the policy and take steps to inform covered importers of the basis upon which it will reduce importers' bond requirement. To promote clear and consistent guidance for implementing the policy, as noted in the response to the first recommendation, CBP personnel will publish a Federal Register Notice outlining the revised CB procedures and formulas and seek public comments on these procedures from interested parties such as importers, sureties, trading partners and domestic stakeholders. In addition, CBP personnel will conduct an internal review of the policy and its implementation.

We have two general comments on your findings. With regard to GAO's finding that importer's criticized CBP's outreach as insufficient, it should be noted that during the drafting stage and prior to implementation, CBP officials met with Hill staff and officials from the Department of Commerce and reached out to officials at the United States Trade Representative. CBP personnel also met with sureties, shrimp importers and major associations representing shrimp importers. Prior to the policy being implemented, CBP officials sent letters to all known shrimp importers of record explaining the new bonding requirements and their responsibility to comply with these requirements.

GAO also found that CBP used inconsistent criteria when considering bond requests. It should be noted that CBP was consistent in applying a single criteria to reduce bond demands and a single criteria to rescind bond demands.

Thank you again for the opportunity to comment on this draft report.

Sincerely,

Steven J. Pecinovsky

Steven J. Pecinovsky
Director
Departmental GAO/OIG Liaison Office

MMcP

The following is GAO's comment on the Department of Homeland Security letter dated October 10, 2006.

GAO Comment

CBP's publicly available August 2005 clarification listed seven factors that CBP would at least consider in adjusting bonds for individual importers. Our interviews with CBP officials and review of CBP records show that CBP (1) applied only one of the seven criteria, (2) applied a narrow interpretation of that criterion, and (3) was not transparent.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Loren Yager (202) 512-4347

Staff Acknowledgments

In addition to the individual named above, Kim Frankena (Assistant Director), Jason Bair, Ken Bombara, Grace Lui, and Don Morrison made key contributions to this report. Tim Wedding, Mark Speight, Martin de Alteriis, Casey Keplinger, Stephen Lawrence, and Christine San provided professional support and technical advice. Karen Deans and Jeremy Sebest provided editorial assistance and graphics support.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER