

WRITTEN TESTIMONY OF MICHAEL D. LADEN
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS
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Mr. Chairman, members of the Committee, good morning. My name is Michael Laden and I am the President of Target Customs Brokers, Inc., a wholly owned subsidiary of Target Corporation. I am also the current Chairman of the American Association of Exporters and Importers (AAEI), and I am an appointee to the Treasury Advisory Committee on the Commercial Operations of the U.S. Customs Service (COAC). I would like to thank you for allowing me the opportunity to express my views on the important matters under consideration today.

First, and most importantly Mr. Chairman, please allow me to make a critical distinction; I am not a self-professed expert on security. I rely on others, including the U.S. Customs Service, for advice and assistance on security matters. What I have to offer the committee today is more than 25 years of practical operational experience on international logistics and customs matters. With that in mind, I'd like to divide my remarks into three separate categories:

What the trade and Customs have already done to secure international cargo

What COAC and Customs are currently doing to strengthen security

What steps the Target Corporation has in place or is considering for the future

From the outset, it is vital for the Committee to keep in mind that the international trade industry is an intricate weave of stakeholders: private and government, foreign and national. Today, the U.S. Customs Service administers more than 400 laws and federal regulations imposed on foreign commerce by more than 40 federal agencies. And, while I would rather be before you today to discuss matters of simplification, the atrocities committed against our nation on September 11th have preempted that discussion. That said, the Committee should know that many of the regulations and laws governing our business are over 200 years old. Given the dynamic nature of modern commerce and the globalization of our economy, many of the regulations we operate under are antiquated, rendering them incompatible with today's modern business practices. Simplification of onerous or outdated regulations designed to expedite the flow of legitimate trade will also result in a significant productivity savings for the U.S. Customs Service, and other

regulating agencies. This will allow those agencies to optimize their resources concentrating more on wanton violators and conspirators.

What the Trade and Customs Have Done

I am pleased to report to you that the trade community and the U.S. Customs Service, under the direction of the Treasury Department, are working cooperatively together to improve many of the security features already in place. At the U.S. Customs Trade Symposium held in Washington last week, Customs Commissioner Bonner called upon the trade community to advance the partnership embracing Customs and the trade to a new plateau. Speaking on behalf of Target Corporation, COAC and AAEL, we stand prepared to work side-by-side with Customs in establishing practical, effective and cost efficient to ensure the safekeeping of our supply chain.

The U.S. Customs Service, under the auspices of their Industry Partnership Program (IPP), developed a series of cooperative alliances between Customs, and the trade industry at large. Among these programs are the Carrier, Land Border Carrier and Super Carrier Initiatives. In each of these initiatives, the U.S. Customs Service cooperates with commercial transportation companies to prevent the introduction of contraband into the stream of legitimate commerce. The Customs Service conducts site surveys, if requested, and also provides extensive training on concealment and narcotics detection. To induce their participation, the degree of a carrier's compliance with the agreement may become a mitigating factor in the assessment of penalties if narcotics are found in a conveyance belonging to them. This is a powerful tool, and today more than 3,800 Carrier Initiative Agreements, and 27 Super Carrier Agreements have been signed.

Rounding out the U.S. Customs IPP portfolio is the Business Anti-Smuggling Coalition (BASC). Created under Commissioner Weiss's administration in 1995, BASC is a business-led, Customs-supported, alliance to combat the unscrupulous contamination of legitimate trade. As the Customs Service became more successful in closing the air and sea smuggling corridors, other concealment techniques evolved. With increased frequency the drug cartels targeted otherwise lawful commercial shipments as their preferred conveyance for the movement of their contraband. Innocent carriers and importers were victimized and publicly embarrassed by these acts. BASC is the corporate equivalent of the "SAY NO TO DRUGS CAMPAIGN" so well known to the American public.

In May of this year, the first ever World BASC Conference was convened in Cartagena, Colombia. Customs officials and business leaders from around the world gathered to honor the accomplishments of BASC, and to become signatories to the first worldwide

BASC Agreement. Accentuating the significance of this program and their commitment to it, the Acting Commissioner of U.S. Customs was in attendance, as were the Vice President of Colombia and the majority of his cabinet, and the Secretary General of the World Customs Organization (WCO). More than 15 governments leaders and industry executives entered into the Worldwide BASC Agreement, which defines and adopts a specific set of standards for maintaining cargo security. BASC is a win-win partnership; it is not only endorsed by the WCO, but it has gained the support of the International Chamber of Commerce, as well. The effective BASC and Carrier Initiative Programs were launched in response to supply chain incursions confined to a certain geographic region of our world. So, we have an excellent model from which to build. Using these concepts as a prototype, the programs can be retrofitted to become worldwide in scope.

Actions Currently Underway By COAC and the U.S. Customs Service

On November 17th the Treasury Advisory Committee on the Commercial Operations of the U.S. Customs Service (COAC) met for the first time since the events on 9/11. The 20-member COAC is an expert group of appointees representing the trade community. COAC is a compilation of importers, carriers, customhouse brokers, ports and trade attorneys. This group meets quarterly to provide advice to Treasury officials on Customs matters of particular interest to the trade community. During the November meeting, Under Secretary of Enforcement Gurulé briefed COAC members on issues related to supply chain security, and then authorized COAC to form a Technical Advisory Team on Border Security. A plan for organizing the group was presented and approved by the Under Secretary on November 28, 2001, and the first meeting of that group was held yesterday, December 5, 2001, at Customs Headquarters. The outpouring of support has been both heartening and overwhelming. In the last few days I have fielded calls from the Arizona Governor's Office, practically every major trade association, and a number of other major corporations offering their assistance. As you can readily see, the trade has mobilized quickly and we are working on very tight deadlines. Customs Commissioner Bonner has requested a report in his office no later than December 12, 2001, with a view toward submitting all Technical Advisory Team recommendations to the full COAC on January 25, 2002.

In light of the aforementioned complexities of our industry and cognizant of the fact that this is a significant undertaking, the Technical Advisory Team has been separated into three sub-groups, land, marine and air teams. Teams will be further broken down to address sector disparities for example; under the marine category different sub-groups will study containerized cargo versus bulk. Each group will also examine consolidated shipments versus factory-loaded consignments. As a first step, the teams developed a flow chart of the entire process and identified the critical stakeholders involved. A single

import shipment will pass through many different hands and many different checkpoints as it travels to our border. Every hand-off obviously creates new vulnerabilities. In the next week, the teams and process owners will examine their respective areas for vulnerabilities and opportunities to fortify security. In part, I believe that some of the answers to our security concerns lie in new or developing technologies, and perhaps in redesigning and streamlining the information flow, but we must also rely on good old-fashioned common sense and American ingenuity. What it will amount to is building some logic into the systems to recognize anomalies.

During a typical year, the U.S. Customs Service processes 10.8 million trucks; 5.3 million cargo containers; 1.9 million railcars; 786,000 commercial aircraft; 140,000 private aircraft; 220,000 vessels; 123,200,000 vehicles; and 479.8 million passengers. Given the technology and resources available today, it is impractical and impossible to search or examine 100% of these conveyances, cargo and passengers. Physical cargo examinations are time consuming and costly. The infrastructure across our land borders is simply not adequate to accommodate the massive quantities. Our airports and marine terminals will become congested with shipments awaiting inspection.

In today's environment, the U.S. Customs Service in addition to selecting cargo or passengers randomly for inspection uses a risk management tool known as "selectivity" to identify high-risk shipments. A number of ideas are currently being discussed; including improving the data Customs has at its disposal to conduct selectivity analysis and pre-inspection at origin. But from my perspective, sorting out the "known" from the "unknown" shippers is the most expedient way for Customs to refocus its energies on potentially problematic shipments. Last year, the Customs Service processed shipments entered by more than 400,000 importers. However of that number, the top 10,000 importers are responsible for the vast majority of the import volumes. In recent years given the explosive growth in trade and static resources at Customs, they have migrated to an account based management approach for the top tier of importers. Continued expansion of Customs' account based management philosophy is necessary.

Actions Target Has Taken

One of the first tasks I undertook after joining Target in 1998 was establishing a Target BASC Program. Comparatively, Target does not have substantial volumes of traffic from countries that BASC identifies as high risk. This notwithstanding, some of the basic security standards were embraced when creating the compliance questionnaire used by our compliance inspectors. The Target Assets Protection and Import Administration groups coordinate our BASC participation. The Target Brands group who maintains responsibility for Target's Approved for Purchase Program and foreign-based compliance

inspectors provides additional support. Target's bottom line is this: we want no more, nor any less than exactly what we've ordered when it comes to an international consignment. Simply stated, we want no contraband of any kind contaminating our shipments.

The centerpiece of the Target BASC Program is training. Working closely with our vendors and service providers located in high-risk countries, we educate them using seminars, written materials and onsite visits to reinforce our expectations. These efforts are further augmented when the factory is designated for an unannounced compliance inspection performed by Target Brands. These rigorous examinations include a review of the premises and available security features. When concerns arise, we work closely with the factory management to rectify matters.

But the process of screening really begins much further upstream, at the beginning of our relationship with a particular vendor. In my view, for an importer, one of the most crucial aspects of security is having reliable knowledge about the suppliers your company is associated with. A few years ago Target launched the Approved for Purchase Program (AFP) for vendors producing owned brand merchandise and certain other product categories. AFP is analogous to making application to become a Target supplier. The vendor is required to complete a comprehensive "application process" by reviewing an AFP Booklet spelling out all of Target's expectations, terms and conditions. Upon receipt of the AFP information, a supplier profile is created and stored for future use. AFP information provided by the factory is then validated during the facility's first compliance inspection. To further advance Target's commitment to the highest ethical and legal standards, we have recently published and are just beginning to distribute a Vendor Conduct Guide that further spells out Target's expectations related to compliance with all laws. Eventually this document will be distributed across our entire vendor base.

While we will wait until the standards that trade and Customs are presently preparing for COAC are complete, going forward I can envision us taking some or all of the following actions:

Expanding and restructuring the Target BASC Program into an Anti-Contraband Program that is global in scope

Enhancing our compliance inspections programs to include a more thorough review of security

Enlisting the support of our Quality Assurance department who also routinely has inspectors in the factories

Encouraging our carriers to review and improve their security procedures

Modifying our training materials to include all of the new features in our Anti-Contraband Program[1]

Heightening security awareness across our entire supply chain

The Target Assets Protection team responds to all breaches of our supply chain integrity through proactive and reactive investigations. This team is a valuable tool in protecting our brand image. Through the use of third party and in-house investigative resources, all threats to our supply chain are thoroughly scrutinized. This team relies not only on internal data, but also has access to various private and public intelligence sources, law enforcement agencies and industry peers to aid them in identifying threats and trends. The team also routinely interacts with the Overseas Security Advisory Council at the State Department.

In summary, as it is with so many other business critical missions, recurrent and consistent communication is imperative to the success of any program. Target frequently offers customized training programs to ensure that new policies or procedures are implemented uniformly. These training initiatives are the backbone of any change to business practices that directly impact our suppliers.

Let me thank you Mr. Chairman for the attention this committee is giving to the security problem, and for giving me an opportunity to appear here today to offer my views. I am sure that I speak for the entire United States international trade community when I say that we are deeply concerned about security, and determined to prevent U.S. international trade from being exploited for inappropriate purposes. We are eager to work with the Congress to accomplish this noble and patriotic goal.

[\[1\]](#) The next Target Vendor Import Training program is scheduled to take place in March 2002. Materials for these sessions are currently in production so it will be easy to incorporate new security information into the documentation. We will also be adjusting our schedule to include a security module in these seminars.