

ANALYTICAL BULLETIN

CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM (C-TPAT) AND ITS IMPLICATIONS FOR DEVELOPING COUNTRIES

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In the wake of the September 11, 2001 attacks on New York and Washington, the United States moved quickly to implement a variety of new programs, requirements, and procedures addressing vulnerabilities in the international supply chain.

One of these programs, the Customs-Trade Partnership Against Terrorism (C-TPAT) was launched in November 2001 to gain the voluntary participation of the international trading community in tightening internal security measures throughout all links of the supply chain. Another of these programs, the Container Security Initiative (CSI), was announced the following January, and it led to the deployment of U.S. Customs and Border Protection officers to the world's major seaports to identify high-risk containers and ensure that they are inspected before being loaded onboard vessels for the United States. CSI brought a new requirement that sea carriers and non-vessel operating common carriers provide detailed descriptions of the contents of U.S.-bound sea containers 24 hours prior to loading.

While the initial impact of these programs and requirements may have focused on U.S.-bound cargo, other governments and international organizations around the world recognized the vulnerability of the international supply chain and have worked collaboratively to harden security.

In June 2005, the World Customs Organization (WCO), which consists of 168 member nations representing 99 percent of global trade, promulgated a common set of international standards to secure cargo moving into, through, and from all ports of the world. These guidelines are known as the *Framework of Standards to Secure and Facilitate Global Trade*.

The United States, the European Union, Japan, Australia, and Canada have announced their commitment to provide aid to the developing nations that exhibit the political will to implement the security Framework but require assistance to do so. Supply Chain Integrity addresses a threat that is likely to exist well into the future and has become a mandate for Customs administrations worldwide.



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The Customs–Trade Partnership Against Terrorism (C-TPAT), launched by the U.S. Government in 2001 following the September 11 terrorist attacks, and the *Framework of Standards to Secure and Facilitate Global Trade*, issued by the World Customs Organization in June 2005, provide both guidance and incentives for all participants in the international supply chain of world trade. Measures are described for assuring the security of the international operations of suppliers as well as for the international shipment of goods. Other developed countries are enacting similar standards for international trade across their borders.

Compliance with these international security standards will be essential not only for those companies directly involved in importing goods into developed countries but also for those companies that supply them with goods. Compliance will be particularly important for developing country suppliers, as failure to do so will limit their access to international markets. Compliance, on the other hand, will increase their export business and will promote the economic growth of their countries.



The requirements of CSI and the “24-hour rule” have been well publicized throughout the international trading community and have been implemented by the maritime community. However, the impact of C-TPAT on foreign manufacturers has received somewhat less attention outside the United States.

From seven major importers at its inception in 2001, voluntary participation in C-TPAT has grown to more than 8,800 enrolled companies in 2005, including importers, Customs brokers, U.S. terminal operators, carriers, and some foreign manufacturers. C-TPAT currently limits the participation of foreign manufacturers to those in Mexico and to other foreign manufacturers by invitation only. This does not mean, however, that foreign manufacturers and suppliers will not be affected by the partnership and its requirements.

Those that supply goods to C-TPAT members will be subject to the same security guidelines, and failure to comply will limit their access to international markets. On the other hand, compliance by developing country suppliers will increase their export business and will promote the economic growth of their countries.

To understand the impact of C-TPAT on foreign manufacturers and suppliers, one needs to understand American business motivation for voluntary participation in the program and the obligations they incur when they become participants.

► **What are the advantages to C-TPAT participants?**

To encourage participation in C-TPAT, the U.S. Customs and Border Protection (CBP) offers approved companies the following distinct economic incentives:

- A reduced number of inspections
- Reduced border clearance times
- An assigned account manager
- Access to the C-TPAT membership list
- Eligibility for account-based processes
- An emphasis on self-policing, not Customs verifications

► **What are the obligations associated with C-TPAT participation?**

To become a C-TPAT participant, a U.S. importer must sign an agreement committing to the conduct of a comprehensive security assessment of its international supply chain and to communication of its security guidelines to business partners to ensure the integrity of their security practices. C-TPAT participants must agree to develop written and verifiable processes for the selection of business partners including manufacturers, product suppliers, and vendors.

C-TPAT importers must require their business partners that are not eligible for C-TPAT participation to demonstrate that they are meeting C-TPAT security criteria by obtaining written/electronic confirmation attesting to and demonstrating their compliance with the C-TPAT security criteria or an equivalent WCO-accredited security program administered by a foreign Customs authority, or by providing a completed importer security questionnaire.

Importers must ensure that their business partners develop security processes and procedures consistent with the C-TPAT security criteria to enhance the integrity of the shipment at point of origin and are required to conduct periodic reviews of business partners' processes and facilities to ensure that the security standards required by the importer are maintained by the foreign business partner.

► **What are the implications of the C-TPAT initiative for private and public international businesses and organizations in developing countries?**

Even though the majority of foreign manufacturers, suppliers, and vendors are currently not eligible to become approved C-TPAT participants, those that do business or wish to manufacture or supply goods to U.S. importers enrolled in the C-TPAT program will be required to meet established security guidelines. C-TPAT guidelines are available for review on the Customs Web site at <http://www.cbp.gov>.

In June 2005, the WCO published the *Framework of Standards to Secure and Facilitate Global Trade*. Visit the BOOKSHOP/ Download Free Publications section of the WCO Web site at <http://www.wcoomd.org>.

► **What benefits can be expected from participation in the C-TPAT initiative as a foreign business partner to a C-TPAT-approved importer?**

Obviously, compliance with C-TPAT security guidelines as a foreign business partner will enhance a manufacturer's or supplier's access to the world's markets. The ability of foreign suppliers and manufacturers to attract major U.S. customers for their goods and services has taken on a significant new aspect: their ability and willingness to implement and maintain internal security procedures. As the WCO Framework is adopted by the major importing nations, manufacturers and suppliers in the developing world that do not move now to address security concerns will find that their failure to meet reasonable security standards will restrict their ability to gain access to international markets.

Customs administrations in developing countries should discern that improving security measures will have a direct correlation on improving compliance and should be encouraged to provide meaningful incentives to local manufacturers and traders. As already mentioned, Customs and Border Protection offers C-TPAT partners a reduced number of inspections, shorter processing times, account-based rather than individual transaction-based duty payment systems, and a designated Customs contact (an account manager) to work with the company on all Customs issues.

Foreign businesses and governments benefit at another level: when the world trading system is made more secure, their economies will be more secure. The impact of the September 11 attacks on New York and Washington was felt worldwide. The unprecedented grounding of civil aviation following the attacks had a negative impact on the economies of not only the United States but its trading partners worldwide. As recent events have so clearly indicated, the current wave of fundamentalist terrorism is not aimed solely at the United States, but at all civilized nations. International trade is an essential driver of economic prosperity and growth. The global trading system is vulnerable to terrorist exploitation that would severely damage the entire global economy. C-TPAT, CSI, and the WCO Framework have been designed and implemented to address vulnerabilities that could offer terrorists the means of delivery of their weapons of destruction.

► **How do the requirements of C-TPAT and the WCO Framework affect the reform and trade facilitation assistance needs of developing countries?**

Customs reform and trade facilitation assistance have historically focused on rationalizing national tariffs, simplifying Customs and related laws and procedures, automating Customs processes, implementing risk management, increasing compliance levels, reducing corruption, and bringing Customs procedures into

compliance with such international standards as the *Kyoto Convention* (The International Convention on the simplification and harmonization of Customs procedures), the *WTO Valuation Agreement* (Agreement of Implementation of Article VII of the General Agreement on Tariffs and Trade), the *Arusha Declaration*, and others. The focus of this assistance has primarily been on Customs and other government agencies with international trade responsibilities, although considerable attention has been given to improving the levels of public-private cooperation and coordination. The extent to which physical security entered into technical assistance efforts was generally limited to the physical security of Customs-controlled areas (such as warehouses, bonded areas). C-TPAT and its international cousin, the WCO Framework, add a new set of international standards focusing on improving security throughout all links of the international supply chain, private as well as public.

The new focus on supply chain security, exemplified in C-TPAT and the WCO Framework, must now include assistance to developing world Customs administrations to adapt the WCO Framework, working with them to develop meaningful incentives (and disincentives, when necessary), and encouraging public-private cooperation in securing the supply chain. This will require working directly with local companies and trade organizations (such as chambers of commerce, import/export associations, carriers, airports, and seaports) to assist them in developing and implementing reasonable, effective, and affordable security plans.

As mentioned previously, the United States, the European Union, Japan, Australia, and Canada have announced their commitment to provide aid to the developing nations that exhibit the political will to implement the security Framework but require assistance to do so. The Commissioner of U.S. Customs and Border Protection recently announced the creation of the Capacity Building Division within the agency's Office of International Affairs to help developing nations implement the WCO Framework. CBP will work closely with the Directorate for Capacity Building at the WCO Headquarters in Brussels, Belgium. Substantial funding is projected for this new office to finance the provision of training and technical assistance to developing countries.

Through the **FASTrade Project** (<http://tcb-fastrade.com>), the Bureau for Economic Growth Agriculture and Trade (EGAT) works with field missions, other U.S. agencies, the U.S. private sector, other donors, and a range of developing country government agencies and private sector stakeholders to:

- Streamline clearance procedures
- Meet new security requirements
- Reduce incoming and outgoing transaction costs at international borders

FASTrade focuses on building and strengthening developing countries' institutional foundations to ensure that training, technology transfer, and new infrastructure can have a strong and sustainable long-term impact on economic development.

The project objective is to help developing countries build and strengthen the institutional foundations needed for fast and efficient trade clearance systems. FASTrade provides short-term advisory services to USAID missions, supporting efforts to design assistance strategies, activities, and projects in trade facilitation issues.

Available assistance includes:

- Pilot projects, including assistance in design and implementation of benchmarked action plans, to address institutional or procedural trade facilitation needs
- Short-term training and advisory services to developing country partners, supporting ongoing efforts to improve border processing systems
- Technical workshops and training courses, focused on institutional development
- Technical research, analytical reports, and other informational materials that may help USAID missions and their clients improve the efficiency and effectiveness of other projects addressing trade facilitation objectives
- Methodologies for conducting diagnostic field audits of Customs clearance and other border processing institutions and systems

FASTrade assistance is immediately available to assist developing world Customs administrations in working with their business clients (i.e., manufacturers, suppliers, transportation companies) to meet world-standard Customs procedures, including the new security standards established by the U.S. Customs-Trade Partnership Against Terrorism and the World Customs Organization's Framework of Standards to Secure and Facilitate Global Trade.



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