

SUMMARY

SUPPLY CHAIN SECURITY: FEASIBILITY AND COST-BENEFIT ANALYSIS WOULD ASSIST DHS AND CONGRESS IN ASSESSING AND IMPLEMENTING THE REQUIREMENT TO SCAN 100 PERCENT OF U.S.-BOUND CONTAINERS (GAO-10-12)

On December 2, the GAO released its report "Supply Chain Security: Feasibility and Cost-Benefit Analysis Would Assist DHS and Congress in Assessing and Implementing the Requirement to Scan 100 Percent of U.S.-Bound Containers (GAO-10-12)." The report examined CBP's Secure Freight Initiative (SFI) and efforts to scan 100% of cargo containers. Selected findings of the report include:

- CBP has made only limited progress in working at the initial SFI ports, leaving the feasibility and efficacy of 100 % scanning as largely unproven. SFI port participation in the program has been limited in either duration or scope. At three relatively low-volume ports, scanning rates of 54-86% have been achieved. However, at two relatively high-volume ports-the type that ship most containers to the United States-scanning rates of only 3-5 % have been achieved.
- Feasibility also remains unproven because of challenges encountered at the initial ports-many of these challenges were identified earlier by GAO and CBP. These challenges include: safety concerns, terminal logistics, transshipment of containers, equipment breakdowns, and image clarity.
- CBP has two initiatives planned to improve container security-the strategic trade corridor to implement 100% scanning at selected ports and the 10+2 program to gather better information on shipments. While these two initiatives may improve container security, they will not achieve the legislative requirement to scan 100% of U.S.-bound containers. It is unclear whether DHS intends for these two initiatives to be implemented in lieu of 100% scanning or whether these are the first steps toward implementing 100% scanning worldwide.
- The first initiative, the strategic trade corridor, will focus on a limited number of ports selected due to known smuggling routes, volume of container traffic, proximity to special nuclear material sources, and known presence of terrorist cells. CBP estimates that U.S. costs for implementing the trade corridor at 70 ports would be \$500 million to \$1.6 billion, depending on whether costs are paid by the U.S. Government or by foreign governments and terminal operators. The estimated costs of this initiative compares favorably to CBP's rough estimate of \$20 billion for worldwide implementation (this CBP estimate assumed scanning infrastructure at 2,100 lanes at \$9.7 million each).
- The second initiative, the 10+2 importer security filing requires importers to provide CBP with 10 data elements on the shipment, and the carrier to provide CBP with 2 data elements. CBP will use this data to supplement the advanced cargo information it already receives and believes the new data will improve targeting suspicious containers for further examination.
- Senior DHS and CBP officials acknowledge that most, if not all, ports will not be able to meet the July 2012 target date for scanning all U.S.-bound cargo. They acknowledge they will need to grant extensions to ports unable to meet the requirement. Granting such extensions on

a port-by-port basis could, according to various international organizations, potentially give a competitive advantage to some ports and lead to trade disruptions. So DHS has decided under the current circumstances it will provide a blanket 2 year extension to all ports.

- While the legislation requiring 100% scanning did not specify who will pay the costs to establish and maintain the program, most of the costs to date have been paid by the U.S. Government (CBP and DOE) and total about \$100 million. This does not include costs paid by foreign governments or terminal operators. According to European customs officials, fully implementing the 100% scanning requirement at large ports with complex operations would likely result in fundamental redesign of the ports, entailing substantial infrastructure costs. Additional costs would include delays in shipments and extra costs to consumers.
- Selected terminal operators have proposed that the U.S. Government reach out to foreign customs officials to determine if terminal operators could purchase, operate and maintain the scanning equipment. According to these terminal operators, this model would ease the financial burden on the U.S. Government, as the terminal operators would pay for the scanning equipment by charging shippers a fee for the scanning. The proposal excluded transshipment. CBP has rejected the proposal on concerns that the terminal operators focus would be on moving containers quickly rather than on securely.
- The 100% scanning requirement differs from CBP's existing layered security strategy, which may hinder the continuing operation of programs including advanced targeting of containers, the Container Security Initiative (CSI), The Customs-Trade Partnership Against Terrorism (C-TPAT), mutual recognition for Authorized Economic Operators (AEO), and multilateral cooperation.
- The 100% scanning requirement is a departure from CBP's use of advanced cargo data to first determine potential risk before scanning containers. In contrast, under the 100% scanning concept, all U.S.-bound containers are required to be scanned before CBP conducts any analysis of risk. Officials from international organizations and foreign governments stated that scanning 100% of containers is inconsistent with risk management. They added that, given limited resources, 100% scanning could reduce security because the focused attention to specific high-risk containers will be replaced by a blanket approach applying the same scrutiny to all containers.
- The Container Security Initiative (CSI) is a program where CBP places staff at participating foreign ports to work with host country customs officials to target and examine high-risk containers. The strength of the CSI program is the information gained from host government officials that CBP would not otherwise have access to. However, our work at three of the four SFI ports indicates that implementing 100% scanning could result in reduced collaboration between CBP and host government customs officials or the end of the CSI program at some ports.
- The Customs-Trade Partnership Against Terrorism (C-TPAT) is a program where CBP developed voluntary partnerships with members of the trade community (e.g., shippers) who agree to improve their security practices in return for the benefit of reduced scrutiny of their shipments. However, this benefit could be diminished by the 100% scanning requirement since all containers would be scanned regardless of membership in C-TPAT.
- The Authorized Economic Operator (AEO) program is a bilateral program where CBP works with other countries with programs similar to C-TPAT and agrees to recognize their AEO

companies and provide them with the benefit of reduced scrutiny of their shipments. According to officials from international organizations and foreign governments, under a 100% scanning requirement, there is little incentive for companies to join AEO programs without the key benefit of reduced scrutiny of their containers.

- The 100% scanning requirement is a reversal from the pattern of international cooperation that is part of U.S. Strategy and CBP's practices to date. While CBP has worked on both a bilateral and multilateral basis to create voluntary partnerships to improve container security, the 100% scanning requirement was initiated solely by the United States. The World Customs Organization and European Parliament have expressed their opposition to the 100% scanning requirement. Some countries have threatened to implement a reciprocal scanning requirement on U.S. containers bound for their countries. CBP and terminal operators at domestic U.S. ports stated that they would have a difficult time meeting such a requirement and it could come at the expense of their ability to secure the United States from suspicious inbound containers that might contain Weapons of Mass Destruction.
- GAO recommended that CBP (1) conduct a feasibility analysis in light of the challenges found, (2) develop more comprehensive costs estimates for achieving the scanning requirement, (3) conduct a cost-benefit analysis to include all significant economic costs, and (4) provide the results of these analyses to Congress, along with various cost-effective alternatives to 100% scanning that would improve security.