Y2K, CUSTOMS FLOWS AND GLOBAL TRADE: ARE WE PREPARED TO MEET THE CHALLENGES OF THE NEW MILLENNIUM?

HEARING

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CONTENTS

WITNESSES

Y2K, CUSTOMS FLOWS AND GLOBAL TRADE: ARE WE PREPARED TO MEET THE CHALLENGES OF THE NEW MILLENNIUM?

TUESDAY, JUNE 29, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
Washington, DC.

The Subcommittee met, pursuant to call, at 2 p.m. In Room 2200, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen [Chairwoman of the Subcommittee] presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order. It has been said that as a rule software systems do not work well until they have been used and failed repeatedly in real applications. The media has been saturated with coverage about the Y2K challenge and about the possible failures of those real applications. Will operations come to a grinding halt on January 1 of next year? In a country that has always been a step ahead in the information age, the U.S. Is having to reevaluate its answers to the millennium question.

The Y2K bug, as it has been referred to, has been more difficult to exterminate than many had once thought. Today's international business and trade transactions are increasingly conducted via computerized and automated systems. That is surely true for the operations of our U.S. Customs Service which is the focus of our hearing today. Our U.S. Customs Service, in fact, relies heavily upon the use of automated systems to collect duties, taxes and fees on imports as well as to assist in the enforcement of our trade laws. The importance of information technology to this agency is evident in their automated commercial system which is used to process all of the commercial goods imported into the United States.

In fact, 97 percent of the data filed for imports are processed through ACS. Customs automated export systems collects export related information from exporters and is used to identify violators of export laws. These two systems are reflective of the increasing use of computer technology to speed up commercial transactions and their importance in facilitating global trade and enforcing the laws that govern it.

So what does the possibility of technological problems in Customs' automated system mean for the flow of trade? What impact will it have on our U.S. Corporations? And how are our foreign

trading partners coping with this challenge? This last question is one which has been looked at under strict scrutiny.

Japan and Mexico, which account for more than 20 percent of overall U.S. Trade are among those which are not fully prepared to deal with the Y2K issue according to a recently released Senate report.

Venezuela, the United States' largest foreign oil provider, is estimated to be 9 to 15 months behind the U.S. In preparation of Y2K.

And Europe has been heavily criticized for focussing its attention and resources on the introduction of the Euro rather than on the implementation of the Y2K challenge.

Experts fear that even though the U.S. Customs Service may be Y2K compliant, the lack of readiness on the part of our foreign trade partners could have an adverse reaction on our U.S. Businesses. A millennium meltdown in the rest of the world could unsettle our financial markets and deprive the U.S. Of badly needed supplies and export markets.

Delays in the transport or supply chain could cause an entire industry to come to a halt. Are U.S. small- to mid-size businesses especially vulnerable? What are we are doing and what could be done to minimize the impact?

These are the issues that we hope to discuss today as we look at how Customs is meeting the Y2K question. And I would like to recognize our Ranking Member, Mr. Menendez, for his remarks.

Mr. MENENDEZ. Thank you, Madam Chairlady. There clearly isn't a person in America today that hasn't heard, as you have pointed out, about the Y2K phenomenon and who hasn't listened to the stories on National Public Radio about people who are stocking up on bottled water and canned goods. Yesterday NPR even actually had a report that said there are an increase in purchases of old windmills by people concerned about electricity failures on December 31. Most of us won't go to those lengths to prepare for Y2K, but some of us might withdraw a little extra cash just before the big day just in case. The problem however does have the potential to impact our lives in more indirect ways and trade falls into this category. We all know that we import goods from abroad and export American goods, but we seldom think about the processes that are required to make those transactions happen and the mechanisms which ensure that the proper duties are paid on imports and that exports have the requisite export licenses.

The international trading system is a web of suppliers, distributors, and customers who depend on the timely flow of goods and services. The failure of any one aspect of the trading system—communication links, transportation services, financial services, import and export tracking systems—has the potential to slow or even halt trade. While the U.S. Government doesn't control all of these services, the U.S. Customs Service is charged with facilitating, managing, and tracking the flow of imports and exports. A breakdown of the Customs Service could temporarily paralyze trade into and out of the country. Fortunately, the General Accounting Office recently issued a report that concluded that, quote, Customs has established effective year 2000 program management controls including structures and processes for the year 2000 testing contingency planning and the year 2000 status report.

I would be interested to hear from our Customs witness about the status of their preparedness to respond to Y2K issues should they arise. I would also be interested in hearing from our witnesses overall as to the status of the preparedness of our global trading partners and the impact that Y2K could have in American businesses due to a failure in trading systems overseas.

Lastly, this hearing is also intended to look at the implementation of the Customs Modernization Act, particularly Customs modernization of our import and export systems. As we approach the next millennium, that seems fitting and appropriate. However, I am concerned about the administration's intent to pursue a user fee to pay for the implementation of the automated commercial environment system for imports.

It is, in my mind, hardly fair to penalize custom brokers and freight forwarders because of Customs budgetary restraints. Having said that, I would also point out my disappointment in the successive budget cuts made by the Congress in recent years for the U.S. Customs Service. We should be supporting Customs' efforts to facilitate and expedite trade flows. Not only does it behoove us economically to facilitate trade, a well-organized and a well-funded automated export system ensures our ability to oversee exports of sensitive and dual use items.

We need to remember that the Customs Service ensures that the export control laws which we pass in the Subcommittee are enforced in our Nation's air and seaports.

My second concern is with the automated export service, or AES. I support Customs' moves to fully implement the AES. However, I am concerned about the large number of exporters who are unaware of the transition from AERP to AES. I hope to hear from our witnesses on how we are going to better educate exporters about the end of the year deadline for that transition.

I look forward to hearing from our witnesses, Madam Chairlady, and I appreciate you holding this hearing.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Menendez. Mr. Delahunt.

Mr. DELAHUNT. I have no opening statement. Thank you.

Ms. ROS-LEHTINEN. Thank you. I would like to introduce the two panelists now. Mr. John McPhee is the director of the Office of Computers and Business Equipment in Trade Development for the International Trade Administration of the U.S. Department of Commerce.

In this capacity, John is responsible for analysis, trade policy development, and export assistance affecting the computer systems, software, and networking industries. Mr. McPhee has led business development and issues throughout the world, including Germany, Japan and Venezuela. In recognition of his work, he was awarded the Department's silver medal in recognition of his long term contributions to the analysis and developments in these industries. We welcome Mr. McPhee.

Then we will hear from Mr. Woody Hall who serves as the Assistant Commissioner for the Office of Information and Technology and is the Chief Information Officer for the United States Customs Service. He is responsible for ensuring the effective acquisition and use of information and applied technology to meet Customs' busi-

ness needs as well as for the development, implementation, and maintenance of sound and integrated information technology architecture. Mr. Hall was previously with the Department of Energy where he served as the Deputy Assistant Secretary for Information Management and Chief Information Officer as well as senior advisor to the Secretary.

We welcome both of you gentlemen to our Subcommittee, and your statements will be in the record in full. If you could summarize your statements. Mr. McPhee.

STATEMENT OF JOHN McPHEE, DIRECTOR, OFFICE OF COMPUTERS AND BUSINESS EQUIPMENT TRADE DEVELOPMENT, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. MCPHEE. Thank you, Madam Chair. Madam Chair, Representative Menendez, and Representative Delahunt, thank you for inviting me today to talk about what the Department of Commerce is doing about international Y2K outreach activities with our trading partners. We have been actively involved in a number of activities which I will briefly discuss with you.

First, I would like to draw your attention to a report we put out which helped us select the countries that we have been holding conferences, Y2K conferences with. It is entitled, "The Year 2000 Problem and the Global Trading System." we have placed it on the International Trade Administration's Y2K web site. It has received 13,000 hits, visits, since May reflecting a very strong interest in the Y2K problem and its effect on trade.

The report highlights the dependence of international trade on well functioning infrastructure which is composed of such critical elements as energy, communication, transportation, and finance. It also focussed on the fact that at that time when it came out—and still, unfortunately, the case—that small- and medium-sized enterprises lag behind in addressing the Y2K problem.

We decided on the basis of this information that we would put together a very ambitious schedule of international outreach conferences with our trading partners focussing on small- and medium-size enterprises. Previous to this, the National Institute of Standards and Technology and KPMG had developed a CD–ROM self-help assessment tool and began to distribute it throughout the United States through its manufacturing extension partner centers, SBA, and the Department of Agriculture cooperative extension offices.

This is our international version of this, so-called. This incorporates the Y2K tool from NIST, and it adds to it a 10 minute video featuring Secretary Daley and other noted Y2K experts discussing the issue of contingency planning. In addition, we have added hot links via the Internet to important Y2K information sites. We have translated the CD–ROM materials into ten foreign languages, and we have begun to distribute this throughout the world to the conferences, which I will describe in a minute, and also to all of our posts overseas.

We, working with the Department of State, United States Information Agency and other U.S. Government agencies such as the Department of Transportation, plan and continue to conduct the

Y2K information sharing conferences with our trading partners. Since March 31, when the first such event was held in Shanghai, China, we have completed 28 of these events in 18 countries.

I have attached a list of these events to the back of my testimony. For each event we have tried to work with the host governments to identify the most appropriate focus on the Y2K problem. For example, in Shanghai we provided Y2K experts on problems of embedded systems, ports and shipping, and local government. These experts joined their Chinese counterparts to discuss best practices and successes in addressing the Y2K problem.

We have demonstrated the CD–ROM at these conferences and distributed to the attendees. We have today distributed roughly 80,000 copies worldwide. We hope to finish distributing the first printing of this by the end of July. The target audience is typically multiplier organizations such as government agencies and trade associations that can distribute the CD–ROM to small- and medium-sized enterprises. We have had great demand for the CD–ROM; and, in some languages, we will be through our first printing shortly. This is particularly true of the Chinese and Portuguese versions.

We have learned several things as a result of our outreach conferences. No matter where we have held them, local governments and businesses have been grateful for the boost that the events have given to raising local awareness of the problem and the need for contingency planning. Often audiences realize for the first time that it is not enough to address the problem internally in an organization. All organizations have external relationships with suppliers and clients and must also address the problem successfully to avoid broader disruptions.

We also have pointed out and it struck people for the first time that the Y2K problem is not only a technical issue but most importantly, it is a management challenge. Management at the highest levels, whether it is a company or a government, or nation must lead the efforts and allocate the necessary resources to address the problem. As we approach January 1, 2000, we will be continuing our efforts to reach out to small and medium size enterprises in this country and overseas, and we will be working with our trading partners as much as possible to minimize the disruptions that Y2K may introduce into international trade. Thank you.

Ms. ROS-LEHTINEN. Thank you.

Mr. Hall?

STATEMENT OF S.W. HALL, JR., ASSISTANT COMMISSIONER AND CHIEF INFORMATION OFFICER, U.S. CUSTOMS SERVICE

Mr. HALL. Madam Chair and Members of the committee, thank you for the opportunity to appear before you today and report on the status of both the year 2000 and the modernization programs of the U.S. Customs Service.

I am pleased to report the Customs vital computer systems are ready for the new millennium. Assuring that our systems are year 200 compliant is a top priority for Customs and is critical to the Nation's economy and safety. A major failure of Customs computer systems would result in delays, loss of revenue and would jeop-

ardize the integrity of U.S. Borders by severely crippling our ability to apprehend criminals and interdict narcotics.

To reassure you that Customs is prepared for the year 2000, I would like to briefly discuss the efforts that we have made over the past few years to address the Y2K problem. All of the computer systems that support our most critical functions, for example, those affecting inbound and outbound trade and the processing of international passengers, have been successfully renovated, tested, validated and placed back into operation.

Customs computer systems are also vital to the operational success of other Federal Government agencies with whom we share electronic information such as the Census Bureau, Fish and Wildlife Service, Food and Drug Administration, Department of Justice, Department of Agriculture, and other bureaus within the Department of Treasury. Customs has tested or is currently testing the systems that provide information to each of these groups.

On an international level, Customs has been in discussions with our Canadian and Mexican counterparts on the year 2000 issues and is participating in the World Customs Organization's year 2000 awareness campaign. We also continue to work with the United Nations Conference on Trade and Development to address year 2000 issues.

We have completed comprehensive continuity of operations plans to ensure that procedures are in place to continue Customs business in the event of a system failure. Although our systems are year 2000 compliant, they do rely on public utilities and communications infrastructure.

Major failure of these services could cause a disruption to Customs' operations. We have established a Year 2000 Emergency Response Center which will enable Customs to quickly respond to any year 2000-induced information technology failure affecting our private and public sector trading partners. The emergency response center will be operational on August 1, this summer.

The success of the Customs' approach to year 2000 has been recognized with the Government Executive Magazine's Federal Technology Leadership Award, an award of excellence by Government Computer News Magazine, and Vice President Gore's Hammer Award. In addition, the General Accounting Office conducted an audit of the structure and processes of the year 2000 program at Customs.

GAO found that the Customs has established effective year 2000 program controls and praised the management structure that we put into place to assure the year 2000 program is successful. It was critical to Customs and the organizations that interface with our computer systems that the year 2000 programs receives the Bureau's number one priority.

However, work did proceed on elements of the Modernization Act which helped expedite and streamline the processing of cargo into the United States. The regulatory and operational aspects of the Modernization Act that did not require automation changes have been implemented. Customs has also implemented modernization projects that could be done within the limits of our current information infrastructure and the current automated commercial system.

Recent modernization and accomplishments include the development of software that permits an entry of merchandise to be filed electronically with Customs from a location other than at the port of arrival or the place of examination; the development of software which permits the filing and processing of protests against Customs' decisions regarding imported merchandise; the development of software to allow our trading partners to enter preliminary cargo entry data in stages.

These entries are later completed and then finalized by Customs automated systems. The implementation of the national Customs automation program prototype demonstrates a fully electronic process for the release of cargo, collection of import data and duties, and supports the critical elements of the Modernization Act and business process redesign such as account management and periodic filing.

Five importers at three Customs ports currently participate in the pilot which provides electronic cargo release and examination processing. After the first year of operation, more than 25,000 trucks and 54,000 entries have been processed using this highly automated system. While not required by the Modernization Act, Customs has implemented other initiatives to modernize and streamline cargo processing including enhancements to the automated export system, information gateway design to assure compliance with bugs relating to exporting, improving trade statistics and improving customer service.

The goal of the automated export system is paperless reporting of export information by the year 2002. AES is a joint venture between the Customs Service and the Foreign Trade Division of the Bureau of Census at Commerce and the Bureau of Export Administration at Commerce, the Office of Defense Trade Controls at the Department of State and the export trade community. It is the central point through which export shipment data required by multiple agencies is filed electronically with Customs using the efficiencies of electronic data interchange.

AES facilitates quick and efficient exporting by eliminating inaccurate information, filling out paper forms and duplicating reporting. The efficiencies generated by this consistent single source of uniform data translate into billions of dollars saved for business and government worldwide.

Implementation of the international trade prototype, a joint development by the U.S. Customs Service and Her Majesty's Customs and Excise of the United Kingdom will lead to a uniform methodology for sharing import and export information across international Customs organizations. We have developed a strategic plan to replace the current automated system with a redesigned trade compliance system that meets the requirements of the Mod Act and leverages information technology breakthroughs to meet increasing demands for international trade related services and information.

The new system is known as the Automated Commercial Environment, or ACE. ACE will allow Customs to fully implement the Modernization Act and the benefits that will accrue from electronic processing of trade data. ACE will provide brokers, importers and carriers a streamlined cargo entry process and just in time report-

ing capabilities. Support for international account management and trend analysis will ensure that Customs resources are targeted to the most substantial compliance risks.

Finally, ACE implements a comprehensive flexible design that can carry Customs and the trade community well into the 21st century. To date, the development of ACE has been severely impacted by a lack of funding. The cost of moving to ACE is estimated to be 1.4 to 1.8 billion dollars over a 4-year development deployment cycle and 3 years of initial operation. The lack of funding is impeding the transition from the aging current system to the needed modernized capability.

In order to prepare for the development of ACE when funding becomes available, we have developed the plan that ensures successful phased implementation of ACE. This plan includes partnering with MITRE Corporation to plan, review, and oversee ACE development. MITRE brings expertise in system acquisition, program management technical design and program evaluation. We will rely on MITRE for technical advice and independent evaluation of the ACE project as it progress.

MITRE is an internationally recognized leader in the evaluation of large technologically complex projects. Customs is also planning to competitively procure a prime contractor to be responsible for the technical design, development and deployment of the ACE system. The contractor will be selected primarily on the basis of its proven world class systems development capabilities.

This concludes my remarks before the committee. I would be pleased to answer any questions that you may have.

Ms. ROS-LEHTINEN. Thank you so much. I would like to ask you two questions. The first one is a two-part question about the compliance trials that ran for about 4 months starting in February. If you could elaborate on that, how they were run, what were the results, what problems were discovered and what is being done to correct those, and related to that, the testing for the passenger process and how you are—what conclusions do you have even though they are preliminary and what will be done to correct those?

Mr. HALL. The compliance tests basically were an effort to deal with the question of end-to-end operational capability of our systems that interface with other people's systems. This was to ensure that our trade partners really had an opportunity to make sure that once their systems were corrected they would work with ours.

We have been in the process of doing that as, you mentioned, since earlier this year. We have tested with any members of the trade who have been ready to do so. Those tests actually have gone very well. What we found is the folks that came to us ready to test, other than the usually problems you have in getting the systems repointed at each other, have been very reliable. Our systems have worked well. Theirs have worked well.

At this point, we have tested with representatives of approximately 80 percent of the kinds of organizations that we deal with. That is not 80 percent of the whole world, but 80 percent of the various kinds of brokers, freight forwarders, carriers, and so forth that we deal with. There are still many organizations within the private sector though who have—who are not ready yet themselves.

So what we have done to deal with that is we have extended the opportunity to test with less until they are ready.

We are about to conclude our formal window of testing in the next few weeks. What we have published is our willingness to test with anybody who is ready actually through early next year. But frankly, this is basically a kind of system maintenance kind of an issue. This is a matter of doing the tedious work of looking at the software and finding the places where there are dates and making sure that they work properly. We haven't found any really unusual situations. It is just a matter of making sure that these large programs work and they will work together.

Ms. ROS-LEHTINEN. And related to the problems of our trading partners that aren't quite ready, we hear a lot of reports about Latin America being one of the regions that is not ready, neither the governments nor the corporations. Was this a discussion in the Trade Negotiation Committee of the free trade area of the Americas? What discussions have you had at your levels with our trading partners?

Mr. HALL. Primarily from the Customs point of view, our international affairs organization has been leading that effort as I mentioned in my introductory remarks. We have been very active with the United Nations efforts and the World Trade Organization and other international Customs organizations to share lessons learned, point out the things that we have discovered as we have gotten ready to provide some technological advice.

Fundamentally, though, the responsibility to get their nation's systems and infrastructure ready falls on them. We have put a lot of effort into our continuity of operations plans to ensure that we have got ways to respond to problems at our borders. So we have focussed over the last 4 or 5 months in discussions with Canada and the Mexican Government to make sure that we are clear on what our procedures are and how we could support mutual operations if there were a problem on either side of the border.

We also have made sure that we understand how we could reconfigure our systems to support each other if that became necessary at the borders. Primarily it has been a combination of sharing lessons learned and awareness and making sure that our systems will work has been our approach to dealing with the problem.

Ms. ROS-LEHTINEN. Thank you. Mr. Menendez.

Mr. MENENDEZ. Thank you. Let me ask you in your statement that I just want to make sure that I am not reading into that more than what it is. In the second paragraph, "I am pleased to report that Customs vital computer systems are ready for the new millennium." .

Does that mean selective parts of your computer system or are you just referring to all of your computer systems?

Mr. HALL. No, sir. What I referred to there is the mission-critical systems which are all of our mainframe systems and have actually been back in operation since last October.

The only qualification there is actually this month we are finishing the renovation of our desktop computers and some of our voice telephone systems nationwide which will essentially complete our efforts to upgrade all of our communication and computing systems. But the basic mainframe oriented systems, that major sys-

tems that support the trade and our other government partners have been renovated and back in operation since last fall.

Mr. MENENDEZ. With reference to on page 2 of your statement, you say we have completed comprehensive continuity of operations plans in the eventuality of a system failure.

Can you give us a sense of those contingency plans; what they are?

Mr. HALL. Sure. We actually have contingency plans for each port which are hundreds of locations. We have administrative contingency plans for our regional headquarters, if you want to think of them in that way, of our Customs management centers. And then, of course, we have contingency plans by functional area within the headquarters. That deals with both operational considerations and information technology considerations.

For example, I am responsible for a set of contingency of operation plans for if we have an information system failure or a problem at the National Data Center. Most of these contingency plans have to do with how would you restore operations at a local operating location if, for example, you lost power or lost automation. In fact, we recently ran two simulated tests in two ports to collect data and measure how we would respond to such an outage. Basically, what we would have to do is revert to manual operations which is very inefficient and time consuming but that is what you would do if you had a major catastrophe. We have invested considerable effort over the last 9 months or so putting these detailed plans in place and distributing them and making sure people understand what their role would be.

Mr. MENENDEZ. So at the Port of Elizabeth in Newark in my district in New Jersey, you would have a set of circumstances should it be necessary that that port in essence wouldn't close down, it would continue to operate? Probably a lot slower but it would continue to operate?

Mr. HALL. That is the plan.

Mr. MENENDEZ. Has anybody done a dry run of that plan?

Mr. HALL. We just did that recently a couple of weeks ago. Not at that port. We picked two ports in the southeast. While we didn't bring the live systems down, we did a manual simulation of how we would do business without automation, for example. Resorted to manually doing the forms and going through the inspections and so forth. And Customs is in the process of evaluating that data now. Of course, as you might imagine, the initial indication is that things really slow down, but that is how we operate. We would go back to a manual operation.

Mr. MENENDEZ. If I was bringing narcotics into this country, that would be a good time of the year to give it a shot?

Mr. HALL. Probably, that would be a better time, but we would still be vigilant. We do rely heavily on our information systems to collect intelligence and decide where the risks are higher.

Mr. MENENDEZ. Let me ask you one other different set of questions. What is the—what can you tell us about the administration's proposed user fee to be paid by importers for the ACE computer system? How much is it expected to be? And my understanding is importers already pay fees to Customs. What are you looking at here?

Mr. HALL. Well, as I mentioned, our cost to develop the new system over a 7-year-period—that is 4 years to develop and 3 years of initial operating cost—is in the range of 1.4 to $1.8 billion. To get started, we need $242 million in the first year. I think the fee proposed was expected to collect about 150, $160 million, if my memory serves. The idea was to—once you were well into development, we would collect about half of the costs. The costs ramps up to about 300, $330 million a year over the course of the development period. So the fee was structured to collect about half of that.

Mr. MENENDEZ. Now, that fee is focussed on importers?

Mr. HALL. Yes, brokers. Basically the fee was proposed to charge an access fee to connect to our data systems.

Mr. MENENDEZ. Have you looked at whether or not that has any problems in terms of WTO challenges?

Mr. HALL. That has been considered, but I have no information on the WTO's position on that.

Mr. MENENDEZ. Could you submit to us through the committee some information on where the Department and the administration is on this whole issue?

Mr. HALL. Certainly.

Mr. MENENDEZ. So that I could get a better sense of it. It seems to me that I understand we are not giving you the money and that is part of your problem. By the same token, I am not sure that we are going to create a set of circumstances in which we are going to even inhibit or put an onerous burden on some of the trading entities that are important to us at a time of greater trading opportunities; and secondly, whether or not you are also going to face the WTO challenge in the process. We saw that in another context of the Nation's ports with its harbor user fee taxes. I would love to see some of the information that you have on that.

Thank you, Madam Chairlady.

Ms. ROS-LEHTINEN. Thank you. Mr. Delahunt.

Mr. DELAHUNT. The Chairwoman posed a question regarding our Latin American trading partners and what is the status of their preparation. I guess my question would be posed to Mr. McPhee.

Do you have concern about particular trading partners in terms of their preparation for the end of the year? Some are real, and I don't know whether you feel comfortable in identifying them. I am not necessarily asking, but are some in real—do we have a serious concern with some of them? What would be the consequences to this country, to this nation?

Mr. MCPHEE. We haven't—I haven't been involved directly in any effort in the government to really evaluate countries lately. I have been focussing mostly on these conferences that we have been holding. But the feeling that you get from the attendees of these many conferences gives us some indication of at least where part of a given country's efforts are.

We have held roughly seven or eight events in Latin America. One of my staff members is leaving today to go to Brasilia for the third event in Brazil. There is a great deal of interest in the materials. There is a great deal of activity on the part of organizations like the AMCHAMs in these countries. They are one of our biggest supporters in terms of getting the word out and getting to the small companies.

Mr. DELAHUNT. What is your judgment though in terms of where they are at at this point in time? Have they started too late?

Mr. MCPHEE. I think what you see as you look out lately is that when we first started this back in January, March time frame, there was still an issue of even being aware that there was an issue in some of these countries. I think we are beyond that now. I mean, from what we can tell from these conferences, everybody is aware. Some of them know they are late to start, but what they are doing now is they are remediating as much as they can.

Mr. DELAHUNT. Are we working with them to remediate?

Mr. MCPHEE. Well, we are not exactly in there helping them do it. We help them in the sense of illustrating contingency planning. A lot of what the experts that we bring in these conferences focus on that aspect. So while remediation continues, at the same time we are suggesting very strongly that they put contingency plans into place.

Mr. DELAHUNT. That they accelerate their efforts?

Mr. MCPHEE. I think efforts—my sense is that efforts are accelerating whether it is in Japan or Brazil or whatever. I think it is becoming abundantly clear at all levels that the possible dimensions of the Y2K problem in terms of disruptions to internal and external structures that they depend on. I think a lot of people are moving much more quickly than they used to.

Mr. DELAHUNT. What happens if they don't get there in time? What are the consequences for the United States in terms of our commercial relations, our trade relationships with them?

Mr. MCPHEE. I sort of use Commissioner Hall's examples of what would happen if you had to go manual on some of these ports. I think that you would probably see some slow downs. You will see some backlogs, that kind of thing. People before that, though, I think will see in the next 6 months a lot of people working or trying to work around that in terms of additional supplies or inventories. I think that you will also see countries put into place some contingency plans that are broadcast literally so everybody knows where they are at. I think there is more of that happening.

Mr. DELAHUNT. So we could see a spike in our exports in the last quarter is what you are suggesting.

Mr. MCPHEE. We could. I am not sure to what extent that would happen, but that has been a suggestion from many quarters that just in time, inventories be put aside for a while, and maybe some extra inventories put in.

Mr. MENENDEZ. If the gentleman would yield, is that a market——

Mr. DELAHUNT. That is an insight. Just one final question. Are there any opportunities with this problem for American high tech firms? And are we taking advantage of them?

Mr. MCPHEE. American high tech firms are quite involved in many of these countries. In fact, we work with them and the AMCHAMs, as I said before, in many of these conferences. They are certainly on the ground there, as well as host countries' own high tech communities, depending on how large they are. The Indians and the Chinese are very active in terms of doing remediation of software programming around the world. So you see that there is opportunity actually for a lot of this. As a matter of fact, in some

cases the Japanese are forecasting that they will be short software engineers fairly dramatically toward the end of this year as they try to speed up and complete their remediation. So I think there is more than enough business for everybody at this point.

Mr. DELAHUNT. You say the Chinese and the Indians and the Americans are active in terms of providing these remediation services globally?

Mr. MCPHEE. Yes. Those are examples of two countries that are particularly active besides ourselves.

Mr. DELAHUNT. Thank you. I yield back.

Ms. ROS-LEHTINEN. Thank you, gentlemen, and we would appreciate it if you would get back to Mr. Menendez with those numbers. Thank you so much for being with us.

I would like to introduce the two gentlemen in the second panel. Mr. Jack Brock, Jr., is the director of Government-wide Information Systems at the U.S. General Accounting Office where he is responsible for information management evaluations at the Department of Defense, State, Treasury, and Justice.

In addition, Mr. Brock is responsible for developing guidance for improving the performance in such areas as investment controls, computer security, and performance management. He is currently involved in evaluating the readiness of Federal agencies successfully addressing the issues associated with the year 2000 and for reviewing the readiness of the banking industry, telecommunications, retail and manufacturing as well as international sectors. We welcome Mr. Brock to our Subcommittee.

He will be followed by Mr. Harold Brauner, who is the president of Brauner International Corporation, a family business started by his father in 1931. The corporation is a customs broker, ocean transport intermediary, and an air freight forwarder. Mr. Brauner has also served as president of the National Customs Brokers and Freight Forwarders Association, then chairman of the board and currently serves as senior counsellor to the new york freight forwarders and brokers association. Mr. Brauner was one of the members of the teams that helped design the ACE system for the Port Authority of New York and New Jersey. We welcome him as well to our Subcommittee.

Your statements will be entered in full in our record. If you could summarize your statement. Mr. Brock.

STATEMENT OF JACK L. BROCK, DIRECTOR, GOVERNMENT-WIDE AND DEFENSE INFORMATION SYSTEMS, GENERAL ACCOUNTING OFFICE

Mr. BROCK. Thank you very much, Madam Chair and Members of the Subcommittee. I think Mr. Hall and yourself largely preempted much of my statement today.

We agree, Customs is doing a good job. Sometimes as an auditor, it is painful to say that, we want to caveat, but Customs to its credit established a very strong management process which they followed. And we believe that the chances of success in any sort of endeavor are greatly high. If you have a strong process with controls over that process, it would allow you some assurance that you have established goals, you have established processes to reach those goals, and, in fact, you are able to measure your progress.

Customs has done all of these things and done them very well. They have either met or exceeded the OMB guidelines for system remediation. They are well into the interim testing. They have got a good start on their contingency plans. They have a good start on testing their contingency plans. I think that if Customs continues to follow its management process, it is going to be in good shape. I am not worried about Customs particularly.

However, you were talking about international trade and Customs is only one aspect of that. If Customs works and others fail, either suppliers or customers or distribution channels or the custom authorities of other countries, then the risk of failure to U.S. Trade is high and Customs can't do that much about that.

I can tell you with some certainty about what Customs is doing because I have some visibility there. I can go in, and I can review their records. I can review their test plans, and I can look at their schedules. I can look at all of the details that they have. I cannot do that for the Latin American countries. I cannot do that for customers. I cannot do that for suppliers.

So largely what we are faced with is a set of anecdotal data, much of which is not verifiable. And we lack the certainty of the status of our trading partners, the same level of certainty that we have over the Customs Department. I think there are risks to the U.S. Trading community. I think those risks largely aren't defined yet and that remains the largest challenge for the rest of the year; how certain do we feel about our trading partners.

Are the customers okay? Are the suppliers okay? Will the distribution channels work? Will the countries' infrastructure work? Will the telecommunications and power work? Will all of these things work that will allow a certainty of goods being transferred from one point to the other? That, Madam Chair, is the largest challenge that we face. That concludes my summary.

Ms. ROS-LEHTINEN. Excellent witness. We are going to have you back.

Mr. Brauner.

STATEMENT OF HAROLD BRAUNER, PRESIDENT, BRAUNER INTERNATIONAL CORPORATION

Mr. BRAUNER. Madam Chairperson, Mr. Menendez and Members of the Subcommittee, I serve as a board member of the New York Coalition for Customs Modernization. This organization was created in July 1998 by New York and New Jersey industry leaders to raise regional and national awareness of the critical possibility of the U.S. Customs Service computer breaking down and the need for immediate funding for a new system to replace the current one.

I have been president and now am senior counselor for both the New York and New Jersey Forwarders Association and the National Custom Brokers and Forwarders Association of America. You have asked me to testify concerning Y2K issues at the Customs Service.

Preliminarily to that, I believe it is necessary to make the Subcommittee aware of the pivotal role played by the Custom Brokers and Freight Forwarders in assisting the U.S. Customs Service to meet its statutory obligations. We act as the bridge between Customs and the importing and exporting public on over 90 percent of

their transactions. This interaction is most often conducted without the use of a single piece of paper.

In fact, U.S. Customs is one of the most automated of Federal agencies. It is self-evident then that of course Y2K compliance is fundamental to U.S. Customs performing its mission to meet the demands of world trade. A constrictive flow of trade is the make or break element that separates failure from success, disaster from commerce as usual.

Fortunately, U.S. Customs has been recognized and applauded for its proactive attention to Y2K compliance. Central to its success appears to be customs program management structures and processes. The agency has organized itself to take care of this problem of unprecedented enormity. In short, Customs has come a long way in its preparation and, although work remains, we have every reason to expect success.

Nonetheless, Customs alone cannot prevent Y2K disruptions. As the GAO pointed out, there are serious risks outside of its control. The GAO points out the Customs dependence on power, water, transportation, and voice and data telecommunications as examples where outside forces are at play.

Yet this only brushes the surface. International trade is dependent on the entire chain of commerce conducive to the ultimate consignee. It is a chain with many automated links, many in foreign countries, each of which presents a clear vulnerability. That is where we need to focus now. We are concerned about reports that other nations have been slow in moving forward with Y2K programs of their own. We need to be concerned that international air and ocean carriers are Y2K compliant.

For example, many ocean air carriers are domiciled in countries less disciplined in Y2K solutions than we are. A single vessel manifest, a critical Customs document, might contain computer input from as many as five to ten different foreign ports of call. Customs has established the Automated Export System, AES, totally automating the collection of inport statistics making them more accurate and more timely and enhancing our ability to negotiate the international trade agreements.

Now the freight forwarder must also meet his obligation to Customs by becoming Y2K compliant. The National Customs Brokers and Forwarders Association is taking aggressive steps to ensure that all of its members have the planning resources and technical tools to meet the challenge posed by Y2K conversion.

In my company, we are presently working with our own computers. We have a letter from our programmers that they have tested with U.S. Customs and that that test was successful. For years, Customs has warned that its principal operating system, the Automated Commercial System, was on the verge of overload.

Then in 1998, Customs experienced a series of outages and brownouts that clearly warned the private sector, and now Congress, that a replacement system was absolutely essential immediately. Customs has, on last Wednesday, done a test in Charleston and Savannah to see if Customs can function when its automated systems are down and it is deluged with paper transactions. Brokers I have contacted in these cities said that the test was on the

whole successful, especially as it pointed out weaknesses on the part of Customs and the brokers.

As far as the impact of Y2K on the implementation of the Customs Modernization Act, there is no doubt that Customs devoted resources to Y2K which might have been devoted to other programs, yet it must be said emphatically that what is really holding up the full implementation of the Mod Act is Congress's failure to fund the new customs computer system, ACE.

Such funding is most urgently needed. Yet despite these downside scenarios, U.S. Customs is the most crucial element in the flow of international trade and has done an outstanding job in managing its way to and hopefully through the crisis. We brokers and forwarders are far more concerned that Custom modernization is vulnerable to an aging Customs computer than it is to Y2K. However, we are able to acknowledge Customs fine work and face the millennium optimistically.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Brauner.

Mr. Brock, GAO states that systems have been renovated and tested may encounter unanticipated year 2000 problems. What type of problems do you think they would be? What evidence is apparent that a problem can or will occur even after a system has been renovated and tested?

And if a system cannot be 100 percent failsafe, what type of contingency plans can the Federal agencies implement to prepare for such a situation?

Mr. BROCK. In the case of Customs, where they have renovated their systems and implemented them and they are actually running, in this case the Y2K failure may come from outside sources. For example, if their power supply goes down or telecommunications links breaks or a building doesn't work properly or some other extraneous factor comes to play, then the system for all intents and purposes won't work regardless of where the fault lies.

Customs needs to develop really a rich range of contingency plans to account for a whole variety of activities, many of which are beyond their control. Of course, that makes their planning that much more difficult.

Ms. ROS-LEHTINEN. Thank you. Mr. Menendez?

Mr. MENENDEZ. Thank you, Madam Chairlady. In that context, Mr. Brock, does part of your auditing look at what Customs' interrelationships with others, which they don't control in that respect, in terms of have they interfaced with those—the power suppliers, telecommunications companies?

Mr. BROCK. To some extent. We have the visibility problem that we were talking about when we are dealing with the private sector. The telecommunications industry, for example, is now undergoing extensive testing and we have increased confidence that the U.S., the domestic telecommunications industry will be ready.

There is still an issue with customer premise equipment, that is, the equipment you own. If that is not ready, then you have a problem. So Customs is making that kind of interface. But for many aspects in terms of suppliers, a lack of consistent information from suppliers has been a problem on a government-wide basis. But I believe, in reviewing some of the Customs contingency plans, that they are taking that into account.

Mr. MENENDEZ. Thank you. Mr. Brauner, let me ask you a couple of questions. I actually appreciate everything that you had to say with reference to Customs and Y2K, but that is not what I want to talk to you about.

I am concerned about the last statement that you made in your presentation. "we brokers and forwarders are far more concerned that Customs modernization is vulnerable to an aging computer systems than it is to Y2K." .

In that respect, I have been looking at some of these reports that are coming out about this transition, about potential problems at the U.S.-Mexico crossings, few prepared for the shutdown of AERP are evident; looking at the whole question that many members of associations similar to yours have raised; the lack of, as I understand it, the preparation by many to be ready to transition to the new system; and lastly, the concern by some with reference to imposing upon importers a fee for a computer system used by exporters.

Can you, from your industry perspective, address some of those issues?

Mr. BRAUNER. Yes, I think so. As I understand it, the funding system that Customs wanted to use would be on the basis of the use of the computer. The number of bits or bytes that you input and receive back from Customs would send a clock going and you would pay according to that.

Which is probably the most unfair way of charging anybody because you might have a small shipment worth $5,000 and have as many bits and bytes in that as you would have a shipment worth millions of dollars; an oil tanker, for instance, entering the harbor. So that is not a fair way to assess the charges for any kind of computer.

The real fair way to do it is for the general public to pay for this new computer. And the importers have already, through the merchandise processing fee, paid for this computer and there shouldn't be any further new charges. As far as AES, I am not sure if someone was—from Customs was here. I believe that is on a separate funding system. That computer, while it is still resident in the old Customs computer, is more up to date than the present one and would not—would integrate into the new computer fairly easily without a lot of extra expense.

Mr. MENENDEZ. Do you feel many people in the industry are ready to make this conversion by the end of the year?

Mr. BRAUNER. No, I believe not.

Mr. MENENDEZ. That is going to be a problem, isn't it?

Mr. BRAUNER. It is a difficult program. It requires a lot of input, and a lot of exporters are not really prepared. They feel it is going to go away or something will happen. The freight forwarders are trying very hard to get into that system. But while the customs brokers were dragged kicking and screaming into the computer age by U.S. Customs, the freight forwarders have not. And they are more used today to the Internet, hooking of cargo on the Internet and things like that. There is no single system that unites the forwarders into one group. For instance, the ABI, the Customs system, really united the Custom brokers to one system. Everybody had to have the same system and therefore it became less expen-

sive. It is fairly expensive if you have 15 different systems going around.

Mr. MENENDEZ. In the absence of my last question of congressional funding for the ACE system, do you foresee the industry supporting a user fee at any level to pay for the implementation of this?

Mr. BRAUNER. That is a hard question for me to answer because you are asking me to speak for my customers. My customers are the importers. They are the people that would be paying for this if it were like a user fee. Ultimately they would pay. I think they ultimately would have to bow to something, but Congress should realize that it comes out of the pockets of the American people in higher prices to their imported goods. So why are we doing it that way?

Mr. MENENDEZ. Thank you, Madam Chairlady.

Ms. ROS-LEHTINEN. Thank you, Mr. Menendez. Mr. Delahunt.

Mr. DELAHUNT. I have no questions.

Ms. ROS-LEHTINEN. I thank you gentlemen for being with us. And I thank the Members, and the audience for their participation as well. Thank you.

The Subcommittee is now adjourned.

[Whereupon, at 3:07 p.m., the Subcommittee was adjourned.]

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