

Why Is Now the Right Time to Be C-TPAT Certified?

A White Paper by Integration Point

Introduction

It has been a little less than ten years since the development and implementation of the U.S. Customs and Border Protection (CBP) Customs-Trade Partnership Against Terrorism (C-TPAT) program. What began with seven charter members has now expanded into a partnership program of over 10,000 participants, covering all entities involved in the global supply chain. Although growth of the program over the years has been impressive, with over 810,000 U.S. importers¹ and over 11,000 active U.S. customs brokers alone, there is still great opportunity to increase participation in the program.

The C-TPAT program, as defined by CBP, is a “voluntary government-business initiative to build cooperative relationships that strengthen and improve overall international supply chain and U.S. border security.” By participating in the program, companies provide a more secure and expeditious supply chain.

In addition, certified members can enjoy the added benefits of:

- Lower risk scores in the automated targeting system
- Reduction in the number of CBP inspections thus reducing border delay times
- Priority processing (front-of-line) for inspections
- Assignment of a CBP Supply Chain Security Specialist (SCSS) who will work with the company to enhance overall supply chain security
- Additional reductions in penalties during mitigation for violations of the Importer Security Filing
- Eligibility for the FAST lanes (expedited processing) at land borders
- Eligibility for the Importer Self Assessment (ISA) program with an emphasis on self-policing vs. CBP audits
- Recognized “Trusted Shipper” status with business partners in the global arena
- Brand protection

On Point

Although growth of the program has been impressive, with over 810,000 U.S. importers and over 11,000 active U.S. customs brokers alone, there is still great opportunity for more growth.

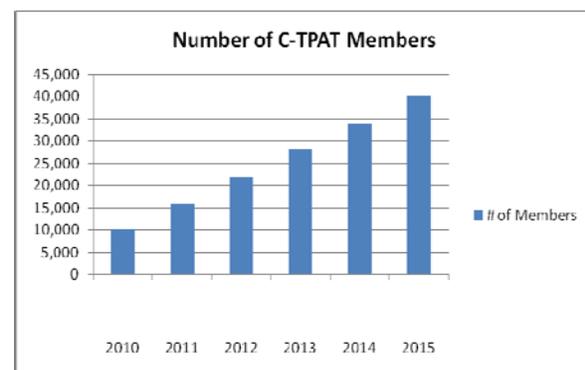
Furthermore, many companies participating in C-TPAT acknowledge the collateral benefits such as reduction in theft/pilferage, greater transparency and supply chain integrity.

However, many companies have yet to take the steps to apply to the program. The reasons for non-participation are varied and can include the following:

- The perceived costs that would be incurred to bring company standards up to a level where minimum criteria for the program would be met are too high. This is especially true for small businesses with limited resources. The current economic climate also makes this a challenge for even the largest companies.
- The potential member currently has very few inspections or exams of cargo and therefore sees no added benefit for the promised reduction.
- For small and mid-size shippers, there is an inability to take advantage of the expedited processing at ports of entry. Most small businesses ship less-than-truckload (LTL) or less-than-container load (LCL) cargo. Because this cargo moves on consolidated conveyances, the load is typically a mix of C-TPAT and non-C-TPAT cargo. Only loads of 100% C-TPAT cargo are eligible for expedited processing.
- Certain land borders currently lack the infrastructure to allow for a true FAST lane, therefore, the reality of the benefit does not exist.
- Businesses that are regulated by more than one government agency (e.g., FDA, CPSC, USDA, etc.) cannot truly benefit from expedited release unless all agencies involved in the shipment provide an expedited release. CBP estimates that 42% of shipments held upon arrival at U.S. ports are held by other government agencies. C-TPAT members are 3.5 times less likely to be held by CBP (4.8 times less likely if Tier 3), however if another government agency is involved, the benefit provided by CBP is neutralized.²

What is Changing?

Since being appointed to the position of CBP Commissioner, Alan Bersin has spoken on numerous occasions of rethinking the trade mission for CBP. This involves refocusing CBP on the crucial role the flow of trade plays in maintaining global competitiveness for U.S. businesses. The goal is now to secure and expedite legitimate trade and travel through risk segmentation. The C-TPAT program is a critical link to accomplishing this goal. Bersin has stated that the trusted shipper programs – such as C-TPAT – are some of the agency’s most effective risk segmentation tools, and expansion of partnership programs such as C-TPAT is essential.



This message was reinforced during a recent presentation by Commissioner Bersin at this year’s CBP Trade Symposium where *he set a goal of increasing membership in the C-TPAT program from 10,000 to 40,000 members within five years.* At an average of 6,000 new members a year, that is an aggressive goal by any standard.

However, expansion of the program will require CBP to address a number of challenges:

- **Budgetary constraints:** The proposed White House 2012 budget provides \$45 million to manage the C-TPAT program. This is a decrease of approximately \$18 million from fiscal years 2010 and 2011.
- **Resource limitations:** There are approximately 200 CBP Supply Chain Security Specialists (SCSS) currently managing the existing C-TPAT members. Funding does not exist to increase the number of SCSS, which is necessary if the number of members quadruples.
- **Benefits of participation:** The debate over concrete benefits of participation in the program has continued over the years and is a stumbling block for many companies when attempting to justify to senior management the cost of participation with a quantifiable return on investment. This is especially true for small and mid-size enterprises and is an area that will need to be addressed if CBP plans to bring more businesses on board. All companies are facing budget tightening, and investment in certification must be considered against the benefits.
- **Mutual Recognition:** Realization of mutual recognition – a key goal for the trade with respect to partnership programs – will require a global consistency in approval processes and enhanced benefits. This will encourage more participation from trade.

Although the above challenges may appear to be tough to overcome, there are signs that efforts are being made to address these issues on a number of fronts. On April 14, 2011, the SAFE Port Reauthorization Act was introduced in Congress by Sens. Collins (R-ME) and Murray (D-WA). The bill proposed funding for C-TPAT of \$66.4 million in 2012 to increase to \$74.7 million after five years. Additionally, the bill would afford new benefits for participants such as providing voluntary security training to industry participants, increased sharing with Tier 3 members and other parties with appropriate clearances of classified and unclassified information on supply chain threats and vulnerabilities and creation of guidelines for reporting of potential and actual security breaches. The bill would also require that CBP provide advance notice to Congress of any planned mutual recognition arrangements.

CBP itself is also looking at ways to address the challenges of expansion. During his keynote speech at the 2011 Trade Symposium, Commissioner Bersin stated that he is “not afraid of the ‘B’ word” (‘B’ as in benefits) and that the agency needed to hear from trade what those benefits are to grow membership in the program. This is a welcome opportunity as the trade has been asking CBP for a robust discussion about additional benefits for years.

Other signs of CBP thinking outside the box when it comes to C-TPAT include the following:

- Outreach to Top 100 importers that are not yet C-TPAT members to help overcome factors that are preventing them from applying.
- Consideration of third parties (such as customs brokers) as certified parties to vet security processes of small businesses on behalf of CBP.

On Point

Commissioner Bersin stated that he is not afraid of the ‘B’ word (‘B’ as in benefits) and that the agency needed to hear from the trade what those benefits are to grow membership in the program.

- Sharing of additional information with certified shippers about possible threats and vulnerabilities in the global supply chain.
- Encouraging existing members of C-TPAT to reach out to more of their business partners to persuade them to participate in the program.
- Potential synchronization of trusted shipper programs with other U.S. government agencies. Recently DHS Secretary Napolitano instructed CBP and TSA to integrate their industry partnership programs.³ Other opportunities for harmonization exist with CBP and CPSC teaming up in late 2008 to conduct an ISA-Product Safety Pilot program and the Food Safety Modernization Act enacted in January requires the FDA to set up a voluntary qualified importer program.
- The potential movement towards Management by Account (MBA) which would allow trusted partners (e.g., C-TPAT and ISA members) to move from processing their imports on a transactional basis to an account-based system, including providing minimal data before filing deadlines and potentially providing pre-arrival release for trusted partners. This approach is also more in line with World Customs Organization (WCO) standards under the SAFE Framework AEO programs which also incorporate financial stability and customs compliance with certification.
- A proposed next generation of C-TPAT IT Portal that would integrate information with other government agencies and countries at a partner level. This industry partnership management system would provide a single window for trade into all client programs and easy account maintenance of industry partnership programs across multiple agencies and countries.

These new approaches to the program are signs that C-TPAT is evolving into not only a more robust program with respect to accountability, but also that CBP's desire to continue to grow membership will require the agency to look at things from a different perspective. One thing is for certain, CBP is intent on using trusted shipper programs for risk segmentation. As CBP pushes to "reduce the haystack" for targeting high risk cargo, companies will need to decide whether refraining from participation could result in their cargo being deemed high risk and therefore receiving more scrutiny.

The Time is Right to Consider C-TPAT Membership

With CBP's current emphasis to expand the C-TPAT program to 40,000 members, combined with the agency's more creative approach to doing so, now is the time for companies who have been sitting on the sidelines to reconsider.

For those companies that wish to become members of the C-TPAT program, there are a number of steps that must be taken to achieve certification.

Step 1: Review the C-TPAT eligibility requirements (by entity) to ensure that your company is qualified. The following business types may be eligible to apply:

- U.S. Importers of record
- U.S./Canada Highway Carriers
- U.S./Mexico Highway Carriers

- Sea Carriers
- Air Carriers
- Rail Carriers
- U.S. Marine Port Authority/Terminal Operators
- U.S. Air Freight Consolidators, Ocean Transportation Intermediaries and Non-Vessel Operating Common Carriers (NVOCC)
- Mexican and Canadian Manufacturers
- Certain Invited Foreign Manufacturers
- Licensed U.S. Customs Brokers
- Third Party Logistics Providers (3PL)
- Long Haul Highway Carriers in Mexico

Step 2: **Appraise the C-TPAT Minimum Security Criteria for your entity.** The criteria will clearly define and establish the baseline security measures which must be employed by members of the program. Proper controls and procedures meeting the minimum requirements must be in place at the time the application is submitted, so it is important that companies conduct this review prior to applying to the program.

Step 3: **Conduct a comprehensive international supply chain security risk assessment of the Company's supply chain in accordance with the minimum security criteria.** The risk assessment should include mapping cargo flow and identifying business partners; conducting a threat assessment focusing on terrorism, contraband, smuggling, organized crime and conditions in a country/region that foster such threats; conducting a vulnerability assessment; preparing an action plan and documenting how the risk assessment was conducted. CBP provides a 5-Step Risk Assessment Process on its website⁴ as a guide to assist applicants and members, however the guide is not mandatory and other methods may also be acceptable.

Step 4: **Draft the company's supply chain security profile based on the C-TPAT criteria for the respective entity.** This step should be completed *prior* to submitting the application itself as once the applicant completes the company profile and agrees to the terms and conditions, they will have 60 days to complete the application and security profile through the online portal. Completion of the supply chain security risk assessment and security profile can be time consuming, especially for large global organizations. Additionally, should gaps be identified during this process, it is likely that additional time may be needed to close those gaps prior to submission of the application.

Step 5: **Complete the online application, including company profile, agreement to terms and conditions and the structured supply chain security profile.** For the security profile, applicants will be required to provide a narrative description of the procedures and controls used by the company to meet the minimum criteria as applicable for their enrollment category.

Step 6: Once the application process has been completed, the security profile will be assigned to a CBP C-TPAT Supply Chain Security Specialist at one of the seven C-TPAT offices for review. CBP will make a determination within 90 days as to whether the submission is sufficient to meet the program requirements – if it does, the applicant will be notified that they have achieved certification as a Tier 1 member of the program.

Although companies may wish to give a sigh of relief once certification is achieved, it is important to remember that certification is only the first step. The SAFE Port Act mandates that companies must be validated within one year of certification. Subsequent revalidations must be conducted within three years of the initial validation.⁵ Validations and revalidations, unlike the initial certification, will involve physical site visits by CBP to both U.S. and foreign locations to confirm that evidence of implementation exists for the written practices and procedures submitted in the profile. Successful validations will result in Tier 2 status, which will provide additional benefits. Companies exhibiting “best practices” may achieve Tier 3 status with the highest level of benefits.⁶ Unsuccessful (re)validations can result in suspension or removal from the program, and loss of all benefits.

Best Practices for Achieving C-TPAT Certification

Although many companies feel that undertaking the application process of the C-TPAT program can be overwhelming, there are practices that should be considered which will make the process more manageable.

- Take the time to review the requirements of the program upfront and understand the obligations involved.
- Secure senior management buy-in. Successful participation in the C-TPAT program is directly linked to support by senior management. CBP has stated that a corporate governance structure that supports supply chain security is essential and must be embraced at the highest level of the company (e.g., CEO, COO, and CFO). This support will ensure that the necessary resources are provided for ongoing management of the program.
- Assemble a C-TPAT team that is cross-functional. C-TPAT requirements touch on all aspects of a company’s business (e.g., personnel, IT, procurement, logistics, risk management, access controls, import compliance, etc.). Having solid representation from the appropriate departments will ensure information provided to CBP is accurate and that possible enhancement to various procedures is realistic. Additionally, a team will spread the work load of managing the program – a daunting task if assigned to a single individual.
- Consider use of third party resources to assist with the process. Although every company is different, use of third parties to assist with the risk assessment process can be beneficial. There are numerous options available at varying price points (e.g., trade consultants, law firms, customs brokers, etc.). Many offer customized services working in conjunction with a company’s own internal management team and can help streamline the process. These resources can be used at any stage of C-TPAT program implementation, including providing assistance for future (re)validations.

- Investigate software solutions that can provide the necessary ongoing support for the program. As the C-TPAT program has become more robust, many companies find it challenging to manage aspects of the program that are administratively intensive. A perfect example is conducting risk assessments of all business partners in the supply chain. This is especially time consuming for global companies with hundreds or even thousands of business partners. Furthermore, CBP's desire for the use of more complex weighted risk scoring methods makes the simple survey format less effective.

Software Advantages

Software solutions are a realistic option to help manage this requirement. An effective solution will provide electronic collection; risk scoring, standardization and organization of supplier data. Profile-driven workflow technology enables users to electronically route requests and reminders across companies, departments and individuals - reducing the cost and burden of maintaining a paper trail. A more robust solution will provide the user with a certain level of customization to ensure that risk assessments not only meet minimum government agency requirements, but also will take into consideration differences that exist with company size, industry and countries of operation.

Moreover, as more companies look to conduct comprehensive risk assessments of their suppliers on areas beyond security (e.g., product safety and social responsibility), systems that provide solutions for these aspects as well will provide added benefit. This will become more important should CBP integrate C-TPAT with other industry/agency partnership programs.

Conclusion

Security threats continue to be a major concern, and despite lack of success by terrorist organizations since 9/11, the number of attempts has continued to increase. It is estimated that between 2001- 2011 there have been approximately 70 terrorist attempts on the U.S. with 54 of those attempts taking place in 2009-2010.⁷ These attempts highlight that methods continue to change with a more decentralized approach, greater use of the internet and more creative techniques resulting in "low cost/high impact attacks."⁸ In scenarios such as this, soft targets (e.g., the private sector) are most vulnerable. The foiled Yemen air cargo plot – using basic printer cartridges – is yet another example.

CBP, as well as other government agencies and the Customs administrations for our trading partners, continue to look for ways to focus limited resources on the highest risk shipments crossing international borders. Partnership programs such as C-TPAT will continue to play a key role. Facilitation of trade will be directly related to the level of risk presented by an importer/exporter. With the ongoing terrorism threat, it is wise for companies operating across borders to consider what steps they can take to minimize risk and position themselves to be deemed a "trusted trader."

With a renewed emphasis by CBP on the C-TPAT program, along with fresh approach to benefits and interagency cooperation, now is the time to rethink past hesitations to participate.

About Integration Point®

A leading provider of global trade management solutions, Integration Point, Inc. assists international companies by providing import and export visibility globally, delivering up-to-date global regulatory information and facilitating connectivity to supply chain partners and government agencies around the world. Built on a single, web-based platform, Integration Point allows organizations to secure their supply chain and comply with global regulatory requirements while improving visibility and realizing savings opportunities. The Integration Point Global Trade Management suite of products includes solutions for: import/export management, supply chain security, entry validation, restricted party screening, product classification, free trade agreement qualification and duty deferral program management (US FTZ, Mexico Maquiladora, EU Customs Warehousing, etc.) For more information, visit the website at www.IntegrationPoint.com

References

1. Data Source: "CBP Trade Strategy, Fiscal Years 2009-2013"
2. Data Source: Presentation by CBP at the 2011 annual C-TPAT Security Training Seminar
3. American Shipper article, "Simplify, or Perish?" published 4/25/2011
4. CBP 5-Step Risk Assessment Process:
www.cbp.gov/xp/cgov/trade/cargo_security/ctpat/supply_chain/
5. For Mexican Highway Carriers, revalidations are conducted on an annual basis. For Tier 3 Importers, revalidations are now conducted every four years
6. As of March 2011, there were 326 Importers that achieved Tier 3 status in the program
7. Comments from the presentation by John Miller, Deputy Director for Analysis in the office of the Deputy Director of National Intelligence for Intelligence Integration, during the 2011 CBP C-TPAT Conference
8. The foiled UK plane plot involved the potential use of liquid explosives disguised as a standard drink bottle – the components being a camera, battery and the powdered drink itself