

IMPORT TRADE TRENDS

FISCAL YEAR 2012, MID-YEAR REPORT



Turning the Dial from ACS to ACE

U.S. CUSTOMS AND BORDER PROTECTION

MESSAGE FROM THE DEPUTY COMMISSIONER



David V. Aguilar
Deputy Commissioner

As fiscal year 2012 has progressed, import levels have been steadily rising – a promising economic indicator. By mid-year, U.S. Customs and Border Protection processed imports valued at nearly \$1.2 trillion, a 10 percent increase over import values a year earlier. This year's increase is more than \$100 billion over the value of merchandise shipped into the U.S. during the first half of 2011. It also is the second year in a row that mid-year figures have exceeded a trillion dollars.

Likewise, there are other encouraging signs. Mid-year revenue collections increased by almost \$1.5 billion. We've also seen an increase in the number of importers, lines of merchandise, and the amount of products contained in shipments. These are all strong indications that importers have confidence in consumer spending and expect to be able to sell additional merchandise.

While these statistics are major highlights of this report, there's another important story in this

issue of Import Trade Trends that's worth noting. This is a story about how CBP's cargo processing modernization program, the Automated Commercial Environment, or ACE, is moving forward and making progress.

During the last two years we've made some tremendous strides with ACE. Working closely with the trade community, we have been able to accomplish more during the last two years than the previous five. This is of utmost importance for CBP and for our nation.

CBP is charged with some of the most critical parts of America's economic and physical security. With that comes the requirement that we stay agile by modernizing our processes and methodologies, especially as we face a world of increased trade volumes and the rapidly escalating complexity of modern trade. In doing so, we contribute to the nation's security, prosperity, and economic competitiveness in the work we perform each day.

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From a trade operations perspective, it was a major breakthrough. In May, while a shipment of newly manufactured Nike running shorts were still in Vietnam waiting to be loaded on a plane bound for the United States via Hong Kong, the athletic shoe and apparel firm received a green light that the goods would be admissible into the U.S.

“We had an indication that those goods were going to be cleared by U.S. Customs and Border Protection five days prior to arrival,” said Matt Varner, director of trade operations for Nike. “Normally we wouldn’t have known that information until the day the shipment arrived.”

Although this news might seem minor, it has major significance for importers whose livelihoods depend on how quickly their merchandise gets to market. It also has major significance for CBP, the federal agency responsible for facilitating the flow of America’s legitimate trade, which is integrally tied to the nation’s economy.

Nike’s shipment was part of an agency test pilot designed to simplify the document filing process

for goods entering the country. It is one of several positive developments that have recently occurred with CBP’s cargo processing modernization program, the Automated Commercial Environment or ACE.

By submitting a simplified version of the required entry information to CBP earlier in the importing process, Nike received a quicker response. “We got an immediate message back from CBP saying the goods were conditionally cleared,” said Varner. As part of the test pilot, goods are issued a notice of conditional release or additional information is requested. “The early notification gave us the ability to communicate with the agency in advance and resolve any discrepancies, issues, or answer any questions they may have, which significantly reduces the likelihood that the shipment is going to be held when it gets here,” said Varner.

In the event that a shipment is held, the new “simplified entry” process would give indications of that too. “If we know that the goods are going to be held by CBP for examination, we can make accommodations. We can either expedite the goods

after they've arrived and completed the exam or notify the customer of the delay," said Varner. "The simplified entry process gives us a greater degree of predictability with our supply chain, which is absolutely critical to the success of our company."

After a decade of false starts and costly expenditures, the disappointments of ACE have subsided. Even the program's biggest skeptics have conceded that ACE is no longer stagnant. The program is moving forward and has accomplished more during the last two years than the previous five, giving both government agencies and the trade community renewed hope that the much needed program is finally on a pathway to success.

When ACE was initially conceived in 1993, it was an outgrowth of the Customs Modernization Act, which gave the U.S. Customs Service, one of CBP's legacy agencies, authorization to modernize its practices. This was done so that the agency could operate more effectively with businesses that had already automated and modernized their importing processes. The new program was intended to help the U.S. government collect, analyze, assign risk, and process international shipments coming in and out of the country. The agency, however, didn't receive any funding until 2000, so plans for the new ACE system were stymied.

The Customs Service did have another automated system already in place. But the Automated Commercial System, or ACS, which is still operating today, was not capable of handling many of the new streamlined procedures called for in the Modernization Act. "At that time, the decades old ACS system was nearing collapse due to the sheer volume of trade," testified former U.S. Customs Service Commissioner George J. Weise at a May 17, 2012 hearing before the House Ways and Means Subcommittee on Trade. Weise was the agency's commissioner from 1993-1997.

In 2009, after years of encountering numerous hurdles, the ACE program was put on hold. The Department of Homeland Security, or DHS, and

CBP realized that the program was not working and decided to take a strategic pause to refresh their approach to building the system. Several studies were conducted to determine what went wrong with ACE and how to get the program back on track. The studies revealed three key findings. First, the ACE program needed to focus on what end users or customers needed from the system. From the beginning, the design approach had always been from a technical perspective. Second, the architects of the program needed to fine-tune what actually needed to be built and determine what pieces of information needed to be collected. They also needed to decide when the information should be collected and from whom. Third, the ACE program needed to have better oversight and a higher level of CBP leadership needed to be involved in decision making.

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– Matt Varner, director of trade operations, Nike

As a result, in 2010, an executive steering committee was established for ACE to ensure the involvement of CBP's senior leadership. At the same time, an ACE Business Office was formed to get a better understanding of the system's users. The ACE Business Office was also responsible for coordinating and prioritizing the business needs of these customers, who included approximately 32,000 users at CBP, hundreds of thousands of users in the trade community, and anywhere from 10,000 to 100,000 potential users from other government agencies.

As part of the new strategy, the agency also hired an expert from the trade community to bring an outside perspective to the project and manage it.

Cindy Allen, a customs broker from Detroit, had worked in the field for 20 years, and had experience in every transportation environment—air, rail, truck and sea. She had worked closely with importers and carriers and understood their processes. Allen joined CBP in August 2010 as the executive director of ACE.

When Allen first arrived at CBP, the agency was still trying to get its footing and engage the ACE customers. “We had not communicated effectively to anyone internally at CBP or to the external trade users, the Hill, DHS, or our government oversight entities,” explained Allen. “There wasn’t enough information out there. As a result, there was a lot of wasted effort, a lot of misunderstandings, and a lack of engagement by everyone. I like to call it ACE fatigue,” she said. “The program had gone on for so long, people were saying, ‘Yeah, yeah, yeah. So what’s different now?’”

Allen and her team confronted the situation head-on. “We went to the trade community, CBP, and the other government agencies and asked, ‘What do you need us to build?’” she said. “These are three vastly different groups with vastly different requirements.”

Then the ACE team compared the new requirements with what they were replacing. “We needed to know what our customers’ true business needs were,” said Allen. “In order to replace the old system, we needed to understand what we had currently and then find out what more they would like. Did the process require all of the steps we were taking? We wanted to find out if there were any steps in the process that could be eliminated.”

Instead, what the team found was that some of the steps in the ACE process had been overlooked. In building the program, 30 percent of the users’ requirements had been missed. “We found areas where there was no underlying support. We had built the base steps, but we had missed the backend processes that weren’t visible,” Allen explained. “This was one of the reasons that things were not working in the past. It was also one of the major reasons for

the cost overruns.”

The ACE team made sure that the requirements were documented for each of the missing steps and built them into the system. “This will give us cost savings in the future,” she said. “It will enable us to be on-time, within budget, and have more accuracy in what we build.”

The team also looked at ways to simplify processes and reduce redundancies. “If we’re getting data elements with shipping information from one entity of the trade community, do we need to get it from another? There were some cases where we were getting the same data elements from multiple parties,” said Allen. “We just need the information once. Basically, we’re modernizing our business practices by simplifying where we can. Over the years, it’s become more complicated with more processes and more regulations piled on top of each other. We need to get back to the basics,” she said. “We need to ask, ‘What’s really required here? Are we doing this because it’s just the way we’ve always done it or can we simplify the process?’”

One of the major accomplishments of the ACE team this year was creating a cargo processing software application called “M1” that enables rail and sea carriers to transmit their manifest or shipment information prior to arrival in the U.S. “It provides greater security and facilitates the movement of cargo into the country,” said Allen.

M1, which debuted in April 2012, took five years to build. “We aren’t developing software applications in this manner anymore,” said Allen. “M1 required a million lines of code and was a huge undertaking. It was like building an apartment building that no one could move into until it was completely finished,” she said. “It was a huge capital investment for CBP without any return for five years.”

Moreover, there was little incentive for the trade community to get onboard. “Why spend money preparing for something that’s not going to be ready for years?” said Allen. “So we’ve moved away from that approach, and instead we’re building a house



The ACE M1 release enables rail and sea carriers to transmit manifest and shipment data electronically prior to arrival in the U.S., facilitating the movement of cargo while providing increased security.

one room at a time, so that people can move in and use that room immediately,” she said.

Part of the beauty of M1 is that it was designed to allow the trade community to communicate with other government agencies. In May, a series of successful operational trials were held in Charleston, South Carolina with the U.S. Coast Guard and three major ocean carriers. “The testing was done to see if the Coast Guard could send a message to the trade, if we could receive it, and then respond back,” said Tim Perry, the director of trade and regulatory affairs for APL Limited, one of the carriers that participated in the trials. “We talked about it for a couple of months, did the outlines, and then we actually did the online real-world test, and it works.”

The ability to share manifest information electronically is a tremendous step according to Perry. “M1 will allow all of the different segments on the trade side and the government side to transact whatever their concerns are in a seamless, timely way that will keep cargo moving,” he said. “In the past, we had to pick up the phone and call somebody or

send a fax. Now everyone will see information right off the bat. As soon as the message goes out, it will go to all pertinent parties.”

The key, however, is that the trade community needs to fully embrace M1. “So many entities on the trade side are not yet on M1,” said Perry. Many are still straddling the fence between the old system and the new M1 capability, which was developed as part of ACE.

“Those of us who have both feet in M1 would really like the old system to be turned off,” said Perry. “There are millions and billions of data elements that CBP has to share between the two systems and if something glitches, it just snowballs the whole effect,” he said. “It holds up the shipment if there is any confusion whatsoever.”

That day is coming. In March, CBP announced that the old system will be shut off on September 29, 2012. “At the end of this fiscal year, all sea and rail manifest carriers will have to transmit in ACE,” said Allen. “We are shutting off the ACS system for those capabilities.”

Another accomplishment was industry driven. While ocean carriers have been electronically filing shipping information for imported goods for more than 20 years in the old ACS system, there hasn't been a comparable program for exports. The only automated program available was in a different processing system that was difficult to operate. As a consequence, most ocean carriers filed their export shipping information in a paper format.

"On average, an ocean carrier export manifest runs 1000 pages per exporting vessel," said Doug Schneider, the vice president of the World Shipping Council, whose members carry more than 90 percent of the United States' containerized ocean commerce. "They're large ships and they have lots of containers onboard. All of those shipments have to be listed in the manifest," he said. "If you stacked all of the paper that ocean carriers present to CBP in their export manifests in a given year, the stack of paper would be more than one mile high and that's a conservative estimate," he said.

The costs for filing export manifests are also unwieldy. According to one estimate by three CBP Trade Support Network committees, which were created to provide feedback on the agency's modernization practices, the cost for ocean carriers

to print, prepare, and courier paper export manifests to CBP exceeds \$2 million per year.

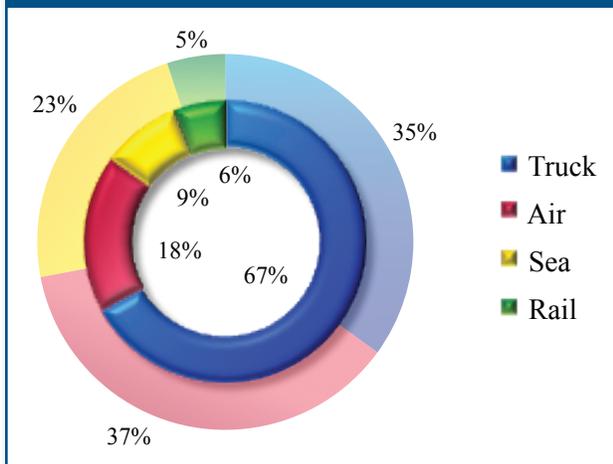
"Automating export manifests is a pain point. It is an issue that ocean carriers have cared about for a long time," said Schneider. "We've been working actively to try to get that issue elevated in ACE so that it was moved up the priority list."

Although the ACE team was working on a solution, the project was not scheduled to be completed for another two to three years. The World Shipping Council's members didn't want to wait that long, so they collaborated with CBP on an interim plan. "We knew from Cindy Allen and her team's frequent briefings that they had designed a document imaging system capability in ACE that could upload scanned images or live documents that CBP officers could review," said Schneider. "We found that every carrier was able to create a readable document with the export data."

Schneider suggested the interim plan to Allen and she was receptive. CBP tested the concept and found that the ACE document imaging system could process the electronic files sent by the ocean carriers. In March 2012, a pilot was launched with 17 participants, which included all of the largest ocean carriers. Based on estimates from the pilot participants, on average an ocean carrier will save approximately \$50,000 per year using the document imaging system process. According to Schneider, when the pilot goes national this fall, approximately 80 percent of all containerized export manifests will be filed electronically.

"Filing such large volumes of paper was costly and time consuming for us, but it also was burdensome to the government," said Schneider. "CBP has to handle and store literally miles of paper filings. Can you imagine being an export officer and having to scroll through a thousand pages for every departing ship? How do you find information in that manifest that you want to evaluate? It's impractical," he said. "The other problem is that the agency doesn't act alone. There are other federal agencies that have an

Figure 1 – Entry Summary Filing for ACE (inner ring) and ACS (outer ring)



Rail and sea entry summaries filed in ACE are expected to increase since ACE M1 functionality has been deployed.



Deputy Commissioner David V. Aguilar addresses attendees at the 2012 West Coast Trade Symposium in Long Beach, Calif. (Photo courtesy of Jaime Ruiz)

interest and a responsibility to regulate U.S. exports, and they can do that more effectively with CBP sharing electronic data.”

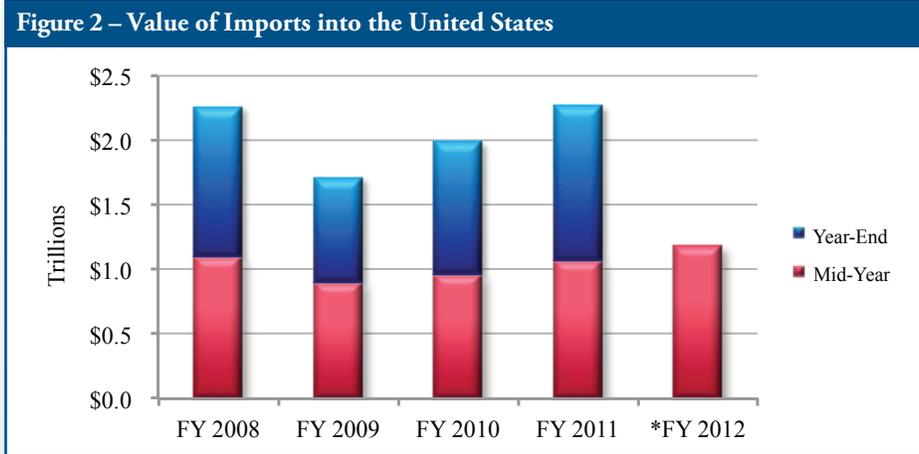
One of the reasons there has been so much forward movement with ACE is the level of support the program has received from CBP’s leadership. “CBP leadership has become engaged in a way that it never has before,” said Allen. “During the last two years, we have had a proponent in the commissioner for this program. Although the value of ACE has always been recognized, it was essentially seen as replacing one computer system for another. But Commissioner Bersin and Deputy Commissioner Aguilar really understood that this is the key to modernizing our business practices overall.”

Working in close cooperation with the trade

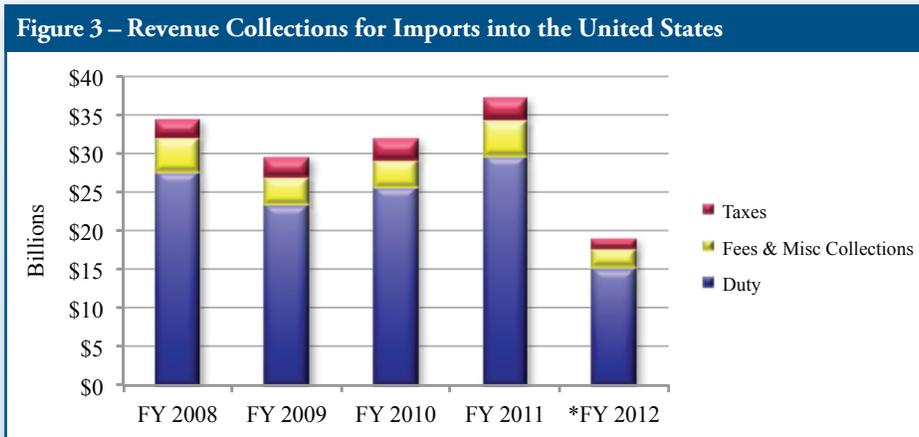
community has also bolstered ACE’s success. In June 2011, the agency assembled a working group to focus on the simplified entry process. Members of the group were tapped from the trade community as well as CBP. “This was probably the best example of co-creation between CBP and the trade that I’ve seen in my career,” said Matt Varner from Nike, who was a member of the working group.

“The biggest benefit we realized was an ability to bring the concept to execution in less than a year. Normally a new process like this could take years to develop and implement,” he said. “A working group was assembled to create a solution and we did that,” said Varner. “Our business is ultimately going to be more efficient because we understand how all the parties are interconnected.”

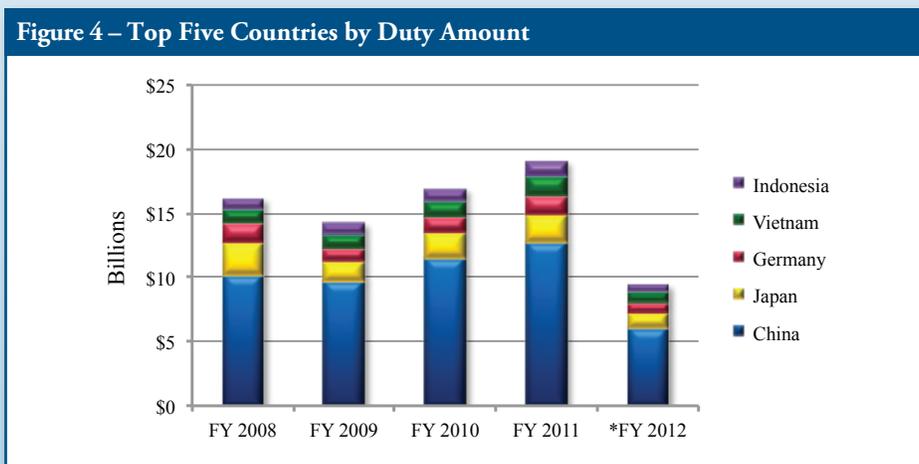
IMPORT VALUE AND COLLECTIONS



CBP processed imports valued at \$1.2 trillion during the first half of fiscal year 2012, a 10 percent increase over import value processed during the same time period in 2011.



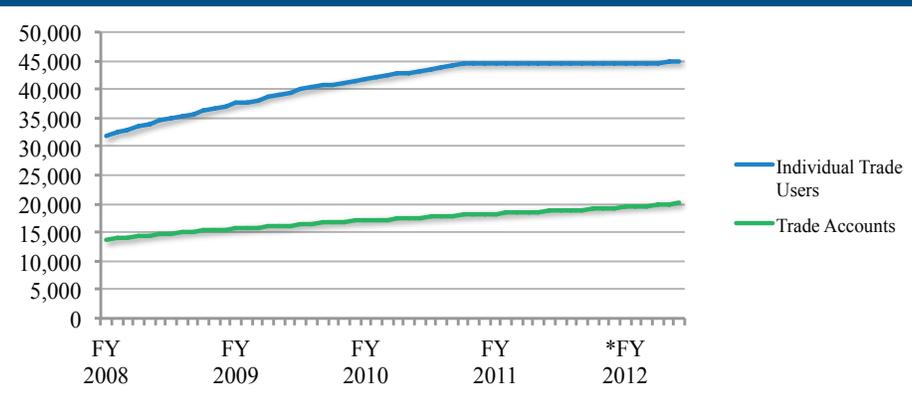
An increased value of importations has contributed to a 7.3 percent increase in duties, taxes and fees collected by CBP through mid-year.



China remained the top country of origin in the amount of duties paid, accounting for 39 percent of duties collected by CBP.

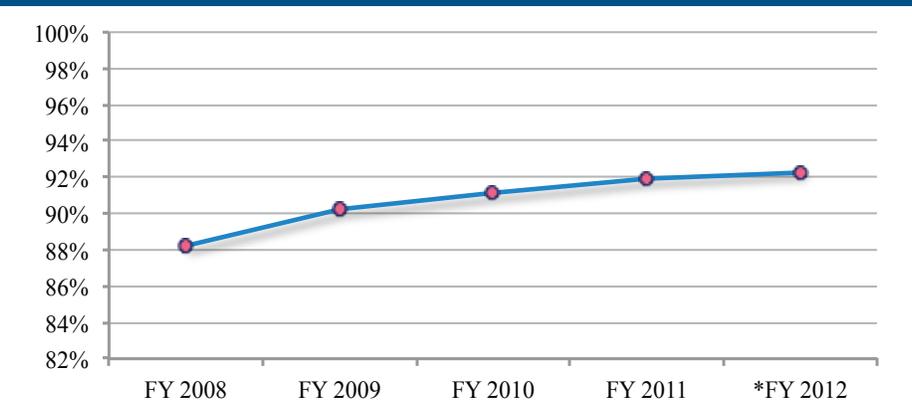
*Data through March 31, 2012

Figure 5 – ACE Trade Accounts



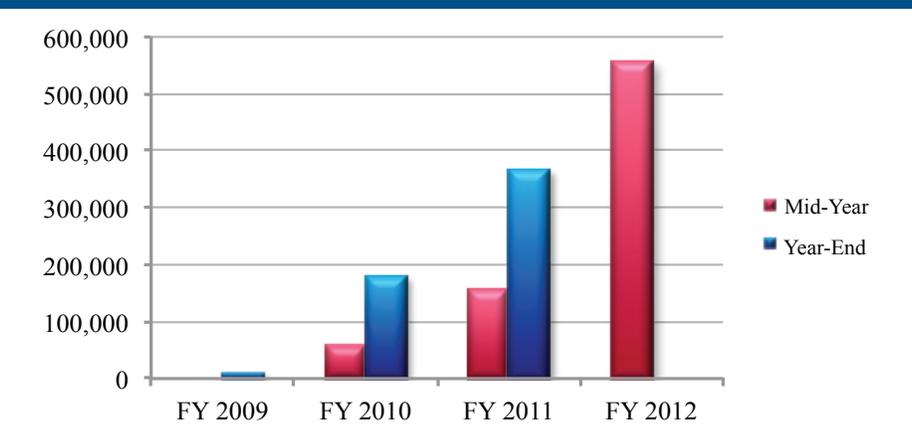
On average, CBP has created 97 trade company accounts and 22 individual trader user accounts per month during fiscal year 2012.

Figure 6 – Paperless Entry Summary Rate



The paperless entry summary rate continues to steadily rise year-over-year and has increased by 4.1 percent since fiscal year 2008.

Figure 7 – Number of Entry Summaries Filed in ACE



The percent of entry summaries filed in ACE has risen dramatically during fiscal year 2012; approximately one out of every 15 entry summaries is now filed in ACE.

**Data through March 31, 2012*

TRADE VISION

CBP TRADE STRATEGY

A swift flow of legitimate imports entering the U.S. marketplace, free from harm to the U.S. economy and consumers, where:

- U.S. trade laws are enforced, with harmful and non-compliant cargo intercepted and deterred
- Legitimate imports are identified and rapidly admitted to consumers and industry without disruption
- Compliant and secure trade is ensured and supported by mutually beneficial partnerships
- Modernized processes and technology enable a streamlined import process
- Emerging risks are mitigated through the development of a national trade policy

Goal 1: Facilitate Legitimate Trade and Ensure Compliance

Goal 2: Enforce Trade Laws and Collect Accurate Revenue

Goal 3: Advance National and Economic Security

Goal 4: Intensify Modernization of CBP's Trade Processes



Description of Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
VALUE						<i>*YTD</i>
Total Import Value (in trillions)	\$2.01	\$2.26	\$1.72	\$1.99	\$2.27	\$1.18
Percentage of Dutiable Value	30%	31%	30%	30%	31%	31%
Percentage of Conditionally Free Value	22%	23%	21%	22%	21%	21%
Percentage of Duty Free Value	48%	46%	49%	48%	48%	48%
REVENUE						
Total Revenue Collected (in billions)	\$33.2	\$34.5	\$29.5	\$32.0	\$37.2	\$19.1
Total Duty Collections (in billions)	\$26.7	\$27.8	\$23.4	\$25.6	\$29.8	\$15.3
Net Estimated Undercollections (in millions)	\$412	\$396	\$285	\$238	\$342	\$149
Projected Revenue Gap as a Percentage of all Duties and Fees	1.3%	1.1%	1.0%	0.7%	0.9%	0.8%
Overall Duty Rate on Imports	1.3%	1.2%	1.3%	1.2%	1.3%	1.2%
Total Antidumping Duty Deposits (in millions)	\$506	\$454	\$289	\$298	\$329	\$193
Total Countervailing Duty Deposits (in millions)	\$15	\$14	\$11	\$16	\$27	\$15
ENTRY SUMMARIES						
Total Entry Summaries (in millions)	31.5	30.8	25.8	28.4	29.5	14.8
Paperless Entry Summary Rate	86.7%	88.2%	90.2%	91.1%	91.9%	92.3%
Paperless Cargo Rate	46.8%	53.2%	54.6%	57.1%	57.8%	57.4%
CONSIGNEES						
Total Number of Consignees	809,621	777,328	711,335	701,814	728,651	513,144
COMPLIANCE RATE						
Major Transactional Discrepancy Trade Compliance Measurement Rate	97.8%	97.6%	98.5%	98.9%	96.7%	97.7%
TRADE PARTNERSHIPS (C-TPAT and ISA)						
ISA Entry Summaries (in millions)	2.5	2.7	2.1	2.8	3.1	1.6
ISA Percentage of Total Entry Summaries	8%	9%	8%	10%	10%	11%
ISA Import Value (in billions)	\$270	\$412	\$288	\$427	\$528	\$285
ISA Percentage of Total Import Value	13%	18%	17%	21%	23%	24%
C-TPAT Entry Summaries (in millions)	7.3	9.0	6.0	7.1	7.2	3.5
C-TPAT Percentage of Total Entry Summaries	23%	29%	23%	25%	24%	24%
C-TPAT Import Value (in billions)	\$737	\$793	\$600	\$636	\$710	\$361
C-TPAT Percentage of Total Import Value	37%	35%	35%	31%	31%	31%
COUNTRIES						
Total Import Value from Top Five Countries (in billions)	\$975	\$1,054	\$907	\$1,049	\$1,189	\$624
Percentage of Total Import Value from Top Five Countries	49%	47%	53%	51%	52%	53%
Total Duty for Top Five Duty Paying Countries (in billions)	\$15	\$15	\$14	\$17	\$19	\$9
Percentage of Total Duties for Top Five Countries	55%	55%	64%	67%	65%	65%

*Data through March 31, 2012



CBP



U.S. Customs and Border Protection
1300 Pennsylvania Avenue, NW
Washington, DC 20229

RESOURCES

NEED ANSWERS?

CBP has more than 600 answers to your most frequently asked questions, as well as a few that aren't so common. Please use this page to research the information you need. If you do not find it, or have additional questions, contact CBP at:

<https://help.cbp.gov> or call (877) 227-5511

ACE MODERNIZATION INFORMATION

CBP has established a web page to provide information on automated systems and modernization efforts. The latest news, policies, training and information on how to establish an ACE Portal account can be found at:

www.cbp.gov/xp/cgov/trade/automated/modernization/



TRADE INFORMATION

CBP provides information and resources to the trade community about basic importing and exporting, trade programs, priority trade issues, cargo security and more at:

www.cbp.gov/trade

ADDITIONAL CONTACTS

Still not satisfied? Additional CBP contact information can be found at:

www.cbp.gov/xp/cgov/toolbox/contacts/

OTHER HELPFUL SITES:

U.S. Department of Homeland Security:
www.dhs.gov

U.S. Customs and Border Protection:
www.cbp.gov

U.S. Ports of Entry:
www.cbp.gov/xp/cgov/toolbox/contacts/ports/

U.S. Department of Commerce:
www.commerce.gov

U.S. Census Bureau:
www.census.gov

T R E M B D D L K T O C
Q W E Z A X C N M P T H
L **P** E F W B T C I J G G
T **A** L M M B Y **C B P** D D
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U.S. Customs and
Border Protection

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