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Four Steps: Eight Consequences

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Stimulus packages, bailouts, and increased government spending on new programs may not be the answer. Some believe they are clearly not the answer. But we all believe that we have an economic mess. In addition to our economy's problems, there are the prevailing concerns over terrorism. So what can government and the private sector accomplish to help improve the economy and provide protection to the homeland simultaneously?

I think there are four clear steps to do both. Each is distinct but related, and each will be treated here in the order of least difficult to most difficult. The first, and probably easiest step, is to provide a tax credit for industry to use existing smart container systems that monitor the path and integrity of the container from origin to destination to reduce significant logistics costs and provide intelligence on inbound transport containers.

The second, like the first step, seems easy. Congress simply has to define land ports-of-entry as critical infrastructure which would make them and their local environment eligible for federal grant funds which are already set aside in the existing federal budget.

Taking the third step probably takes a little more courage on the part of Congress. It is to mandate container security technology use for all in-bond shipments through the United States, which have no commercial value to U.S. commerce and often have negative tax consequences. The use of container security systems can also protect us from an in-bond threat of in-transit containers of unknown contents while simultaneously stimulating the utilization of U.S. technology to reduce the vulnerability they pose.

The fourth and most difficult step, because of variances in business culture around the world, is one for the sector take. The private sector should develop a global supply chain standard. This standard would optimize and make transparent the international supply chain, thereby improving inventory-control, speed, monitoring, and better decision making, thus reducing or eliminating multiple supply chain costs.

•Step One: Give Tax Credits for Security

The problem is that unless government mandates the use of security technology in the global supply chain, the private sector considers spending money on it an unnecessary expense. Although all available studies like Bearing Point's and Stanford University's, show otherwise, the private sector does not have the encouragement to move to these container security technologies. Therefore, to get them to spend money on supply chain security, they must see an immediate benefit that a tax credit would offer.

A tax credit is a dollar-for-dollar reduction in one's tax liability for each dollar allowed as a tax credit. This is as opposed to an expense deduction which reduces your taxable income for every dollar spent on a qualifying deduction. The impact of an expense deduction depends on the marginal tax rate of the taxpayer. Assume a relatively high 36% tax bracket, and a low 15% tax bracket. As an example, a tax credit of \$100 is worth the same to both the high bracket and low bracket taxpayer since it reduces the tax liability of each by \$100. On the other hand, a deduction of \$100 provides a different benefit for each: \$36 ($36\% \times \100) for the higher bracket, and only \$15 ($15\% \times \100) for the lower-bracket taxpayer.

Thus, the tax implications of a business expense alone are not sufficient to induce the private sector to invest in the security area. While it may be patriotic to make outlays for improving the security of our country, it is unfair to place that burden on just one sector. What the private sector needs is an additional tax credit for investments in container and other security-related systems and products. There are tax credits for just about everything: home improvements, cars, solar energy; building contractors, appliance manufacturers, and commercial buildings. There are credits for empowerment zone employment, for Indian employment, employer social security, railroad track maintenance, distilled spirits, mine rescue team training and even the orphan drug credit, whatever that is.

Providing tax credits has two consequences: an economic benefit to the business entity; and improvement of our security, one step, two results. The granting of a tax credit for the purchase and use of security technology which also improves the bottom line of the global supply chain while making us safer, would take a simple act of Congress void of additional government spending.

•Step Two: Designate Land Ports as Critical Infrastructure

The problem is that the closing of our international commercial ports-of-entry because of

a terrorist event in one or more of them would have a devastating impact on our economy, and the loss of human life at these ports. Because of the economic and security role of our international ports of entry, the federal government allocates funds to help protect them. Unfortunately, land ports-of-entry are not included as a class of critical infrastructure and, therefore, not eligible for funding.

On September 25, 2006 the U.S. Department of Homeland Security (DHS) released its “Fiscal Year 2006 Infrastructure Protection Program” (IPP) “...an important component of Administration’s larger, coordinated effort to strengthen the security of America’s critical infrastructure.” The IPP is awarding \$400 million to protect this critical infrastructure. The \$400 million is divided into seven programs of which one is for the improvement of port protection – the Port Security Grant Program. Incredibly, the Port Security Grant Program did not include land ports. Then on May 16, 2008 came the latest FY 2008 Infrastructure Protection Activities Overview, citing appropriate programs for funding, including, once again, the Port Security Grant Program. Like fiscal 2006, the Port Security Grant Program failed to include land ports. Yet, in the first seven months of 2006, surface transportation through our land ports-of-entry carried goods valued at \$55.9 billion. On November 19, 2008, the U.S. Department of Transportation (USDOT) released statistics revealing that NAFTA partner trade reached \$909 billion in 2007 with truck and rail with truck and rail combining for 76% of the movements.

No matter how hard one searches, one cannot find land ports-of-entry in federal grant programs, nor are they defined as critical infrastructure in federal legislation. Like the tax credit, it takes a simple act of Congress to add land ports to the list of critical infrastructure which stimulates the economy and adds to our security at the same time. Thus, only one act of defining land ports as critical infrastructure would have two consequences: it would encourage greater infrastructure investment and efficiencies which reduce costs and optimize crossings while simultaneously improving security.

•Step Three: Mandate Smart Container Use for In-bond Shipments

In-bond shipments are a vulnerability to the security of our ports and other targets within the U.S. They are also a problem for the collection of taxes or duties if they enter the commerce of the United States. Congress is concerned about both: the loss of revenue and the security vulnerability they pose.

Since in-bond shipments from abroad are shipments not intended to enter the commerce of the United States but move through it in a special status, in-bonds do not generate tax revenue for the United States. To ensure the U.S. collects its duties in case an in-bond shipment does enter the commerce of the United States, U.S. Customs (Customs and Border Protection, or CBP) requires the posting of an import bond as security to guarantee payment. Bonded cargo is carried in sealed containers or trailers. Ordinarily, these conveyances with their cargo have a final destination outside the United States, but can transit through the United States to a border port of export or to a U.S. seaport for export. In-bonds also could have a temporary destination in the United States but not technically in the Customs territory of the United States, destinations like Foreign Trade

Zones, or bonded warehouses. As a result, these shipments have no recognized value to the United States.

The GAO (Government Accountability Office) has investigated the in-bond cargo system as one that allows importers to quickly record incoming cargo, pay a bond instead of the full duty, and finish the paperwork and payments later while shipments move on to other destinations. In its report GAO-07-561 of May 17, 2007, the GAO found that CBP frequently does not follow up on shipments processed through the in-bond system. This costs the U.S. hundreds of millions of dollars in revenue, and raises the possibility that contraband could move on to other U.S. destinations. The conclusion is obvious. The United States has and perpetuates an in-bond system that focuses on tax collection and not on security. GAO stated:

The limited information available on in-bond cargo also impedes CBP efforts to manage security risks and ensure proper targeting of inspections. In-bond goods transit the United States with a security score based on manifest information and do not use more accurate and detailed entry type information to re-score until and unless the cargo enters U.S. commerce. As a result, some higher risk cargo may not be identified for inspection, and scarce inspection resources may be used for some lower risk cargo.

Economic and security risks can be fixed at the same time. The Government could mandate the use of existing smart container technology which identifies the person who loads and verifies contents at the foreign origin, tracks the container through the supply chain, detects and reports any intrusion or change of condition within the container during its carriage and finally identified the authorized person opening the container at origin. Therefore, its use would solve the unknowns associated with these in-transit bonded containers. Use of that technology can satisfy Government security programs and require that foreign shippers certify at origin the contents of the container and that no breaches or diversion of that container have taken place prior to entry into the United States. Mandating its use also precludes in-bonds finding their way into the U.S. economy without paying duties, improving legitimate tax collection.

Thus the one act of mandating smart container technology use for in-bonds also has two consequences: it stimulates further development, refinement, and entry into the commercial market smart container systems and processes produced and sold by the private sector, creating jobs and it enhances our security.

•Step Four: Create a Commercial Global Supply Chain Standard

The problem is that there is no accepted universal practice or practices that can be called a global supply chain standard. Different governments require different information and practices, and consequently costs vary from nation-to-nation. However, because of the threat of terrorism, there is a certain level of mutual recognition and agreement on supply chain practices as they relate to security. Examples that focus on harmonizing the supply chain from origin to destination are: the use of electronic information instead of documents, the single window concept which promotes a single portal through which

information flows, security practices of government programs such as C-TPAT (Customs Trade Partnership Against Terrorism) and the EU's AEO (Authorized Economic Operator) and the CSI (Container Security Initiative) operational at 58 seaports around the world.

Perhaps the most important step in helping the ailing global economic condition is a standard that improves the efficiency of the supply chain, reduces costs, and improves the bottom line at a time when it is essential. However, global standards don't just happen.

For instance, for most of the world the metric system is dominant, but certainly not yet universal. Even the worldwide electronic interchange system is fundamentally divided between EDIFACT (Electronic Data Interchange For Administration, Commerce, and Transport) and ANSI (American National Standards Institute). To make things more confusing, EDIFACT has been adopted by the International Standards Organization, ISO 9735. Even with adoption by ISO, the United States clings to its ANSI standards. Add to this the differences in approved frequency usages for RFID (Radio Frequency Identification) around the world to include global differences in the transmission protocols of these systems or standards, and we seem to have no solution for the standardization dilemma.

However, there are three forces that can be brought together to develop a private sector commercial standard for a global supply chain: the trading community, itself; the current satellite and cell phone technology applicable to transport container monitoring; and the internet. Regardless, anyone of these technologies is usable in most cases around the world, and while technologically distinct, if combined, they can probably function de facto as a global standard of communications for use in a global supply chain. These are tools which can be used to optimize and secure the supply chain. Therefore, it is now left to the global commercial sector to standardize the supply chain links and needs without government intervention or mandates on how to do so. The links in the chain are information pieces and any alteration to that information as the container moves through the supply chain. The information or any change to it, can be seen by the shipper, consignee and appropriate government authorities in real time. By standardizing the chain, it could easily lower costs and improve the bottom line. Anybody involved in the supply chain would agree that if they knew from P.O. (purchase order) to arrival at destination that the goods ordered were the goods loaded, tracked and traced, not accessed during the voyage, and were the goods unloaded at destination, it would revolutionize the supply chain.

Everything is there to develop this standard. It merely takes the initiative of the private sector to adopt it. The private sector needs to use container security systems and methods that employ satellite, cellular and internet technology. The private sector should also examine those findings and technical processes coming out of the EU's Seventh Framework Program and out of China's move to support to encourage the private sector to adopt a visible supply chain which provides the traceability of products moving through the chain.

The one step of developing a standardized global supply chain has two consequences: a better bottom line and a more security from terrorist intervention into the supply chain. Again one step, two consequences.

•Conclusion

Tax credits, designating land ports as critical infrastructure, in-bond transit controls, and a global supply chain standard are all achievable. They are not bailouts, nor increased government spending. Yet, each single step will help not just the economy but also our homeland security. Four steps, eight consequences. Congressional and private-sector understanding of these two-for-one benefits is critical to their adoption. Combining and implementing them can provide a valuable act of leadership that benefits all of us. It's time.

About the Author: Dr. James R. Giermanski

A former Regents Professor at Texas A&M International University, Dr. Jim Giermanski is now Professor of International Business and Director of Centre for Global Commerce at Belmont Abbey College. He has been chosen as the International Educator of the Year by the National Association of Small Business International Trade Educators and has been appointed to the graduate faculty at the University of North Carolina at Charlotte. In conjunction with the Professional Examination Service (PES) and Bradley University, he was a member of the International Practice Analysis Committee of the NASBITE Task Force that developed the International Trade Specialist Certificate. He is also a reviewer for the Transportation Research Board, U.S. National Research Council. He served as Director of Transportation and Logistics Studies, Center for the Study of Western Hemispheric Trade at Texas A&M International University.

Dr. Giermanski is co-inventor and holds a patent in the U.S. and in the European Union on container security and consults often on international transportation and transportation security, border logistics, and trade matters involving Mexico. He has frequently given invited testimony on NAFTA, transportation, and other international business issues before the U.S. Senate and House, the Texas Senate and House, EPA, and the U.S. International Trade Commission. He served as the co-chairman of the Texas Transportation Committee of the Task Force to prepare for NAFTA, sat for 5 years on the Texas Office of the Attorney General's Trans-border Trucking International Working Group, and for three years as a member of the Research Advisory Committee on Management and Policy, Technical Advisory Panel, Texas Department of Transportation. He has been requested to serve as a border expert to assist the Arizona Department of Transportation in developing concepts and practices to improve the border crossing activities on the Arizona-Mexico border, and at the request of the White House, Council of Economic Advisors, he provided information on trade issues and barriers on the southern border.

He has authored over 100 articles, books, and monographs and has given over 100 presentations. He has been published extensively on transportation and trade issues and for five years wrote the International Insight column in Logistics Management. In addition to his scholarly writing, he has been published in the Journal of Commerce, El Financiero, Traffic World, Strategic Finance, Transport Topics, Tax Notes International, and Cargo Security International. He has been interviewed by and quoted in over 50 national and international publications such as the Wall

Street Journal, the New York Times, Forbes, the Financial Times, Christian Science Monitor, and has appeared nationally as a special guest on the FOX News Channel's Special Report with Brit Hume, CNN, NBC, CBS, NPR, BBC, Voice of America and the Canadian Broadcasting Corporation in addition to many local and regional affiliates.

Finally, with his background as a former FBI special agent, OSI special agent and a Colonel in the Office of Special Investigations where he handled counterintelligence matters, Dr. Giermanski is Chairman of the Board of Powers International, Inc., an international transportation security company. He currently provides transportation security lectures on C-TPAT, and other Customs and Border Protection (CBP) programs.

Dr. Giermanski has a Masters degree from the University of North Carolina in Charlotte, a Masters from Florida International University, and a Doctorate from the University of Miami. He is a graduate of Air Command and Staff College, and The Air War College while also serving as a visiting scholar at the Center of Aerospace Doctrine, Research, and Education, an Air Force think tank.