



The Customs Trade Partnership Against Terrorism (C-TPAT)

I. WHAT IS C-TPAT?

C-TPAT is a voluntary government program run through the Bureau of Customs and Border Protection (CBP). Companies certified under this program must meet specific security criteria regarding their supply chains. It is primarily open to companies and other entities based in the United States including (but not necessarily limited to) shippers, carriers and third parties. Depending on the level of certification, participants will enjoy operating advantages over non-C-TPAT certified companies.

While some may view C-TPAT as just another governmental program/mandate there are tangible benefits derived from becoming C-TPAT certified:

- ✓ A more secure supply chain
- ✓ Reduced number of inspections for goods clearing American borders
- ✓ Assigned Supply Chain Specialist and Account Manager
- ✓ Eligibility for Importer Self Assessment Program

II. SHOULD MY COMPANY BECOME C-TPAT CERTIFIED?

The answer to this question is: “It depends.” When we meet with companies to discuss the merits of participation in the C-TPAT program, we typically ask the following types of questions:

- Are you directly, or indirectly, sourcing components, raw materials, or finished goods from off-shore locations?

In answering this question, we encourage companies to look at what they are directly or indirectly importing from around the globe. We encourage them to consider whether any of their suppliers of critical parts source those parts off-shore. This will help you understand how your company’s operations would be impacted by any disruption at the ports or borders. If the answer to this question is “yes,” then you should continue reading.

- What will happen to your supply chain performance if/when there is a security/terrorist incident at one of our ports and the ports/borders are/were shut down for two to four weeks?

If there is a security incident at one of our ports, no one knows exactly what would happen. But here are some interesting things to consider. There are more than 300 air, land and seaports in the U.S.

Some government officials have stated that all the ports and borders would be shut down until they (the government) could determine if it was safe to reopen. Other officials from the Department of Homeland Security (DHS) have stated that they could close selected ports and borders depending on whether their threat assessment viewed it as a “localized” threat, or a threat to our entire nation. Since there is some uncertainty about what would happen, we encourage CEO’s, Presidents and the appropriate senior level management executives to do a scenario planning exercise that includes this scenario/question. If all the ports and borders, or the port and borders where your company receives the bulk of its imports, were **shut down for two to four weeks what would happen to your company?** In other words if, you can’t get any of your imported products for two to four weeks, or even longer, how will your company function? Obviously this is not a pretty picture to consider, but practically speaking you have to ask if this scenario could occur.

- Does my company have a Supply Chain Disaster Interruption Plan which includes a program/process for tightening supply chain security and reducing the risk of service interruption?

No one wants to see, or for that matter, contemplate what would occur if there were a security/terrorist incident. But, prudence dictates that any company that relies on import or export activity should have a contingency plan that deals with significant disruptions, or the complete shut down of our ports and borders.

Ideally, this plan should delineate responsibilities (who does what and when) as well as identify how/where your company would get the inventory/products/parts it needs to stay in business.

C-TPAT can be an integral part of the program to secure your supply chain. The reason for this is twofold. First, the C-TPAT assessment process can be used to address weaknesses in your company’s overall supply chain security areas. Second, companies who are C-TPAT certified will experience significant benefits in terms of how their goods/shipments pass through America’s ports and borders. (See Exhibits A and B for the Benefits of C-TPAT Certification at the end of this document.)

For the CBP's list of frequently asked question, click on this link
http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ctpat/ctpat_faq.xml

- My company is primarily export oriented. Should we still invest in C-PAT?

The answer is yes. The reason is that countries that you export to may adopt certain C-TPAT standards, or adopt a program very similar to C-TPAT.

III. HOW TO GET STARTED WITH C-TPAT CERTIFICATION

- C-TPAT is currently a voluntary program.

- Who is eligible for Certification?

Importers	Licensed U.S. Customhouse Brokers
Air Freight Providers	Ocean Carriers
Railroads	Air Consolidators
NVOCCs	Freight Forwarders
Terminal Operators	Motor Carriers
Foreign Manufacturers	

- Best source for C-TPAT information is:

- ✓ www.cbp.gov – The CBP website contains an extensive list of what is involved in the C-TPAT certification process.

- Steps in the Process:

- ✓ File a C-TPAT application. (CBP only accepts on-line applications.)
- ✓ Submit an Importer Executive Summary and Security Profile following the guidelines outlined by U.S. CBP. This can be a daunting task for some companies, but can also be very helpful in assessing areas where your company can improve the security of its supply chain.
- ✓ Security reviews should include all parties in the supply chain. One of the interesting aspects of C-TPAT is its emphasis on looking at any party which has access to the goods and the security processes these entities rely upon in moving the goods.
- ✓ If partners in the supply chain cannot comply with reasonable security compliance, your company (the Importer) must take immediate corrective action. This action can include initiating corrective action to address the security violations, or absent that, terminating the business relationship with any company that is in

violation of accepted security practices. (We encourage companies to recognize that just as you are reviewing the security practices of your suppliers, your customers may also request to review your security practices.)

- ✓ Create documented Security Profiles that address the following elements:
 - Physical Security – Buildings, doors and locks that resist unlawful entry to premises.
 - Access Controls – Unauthorized personnel access must be prevented.
 - Procedure Security - Seal verification processes and the tight security of containers are important. Equally important is the procedure for reporting anomalies with regard to OS&D's and illegal activities.
 - Personnel - Strict employment screening and background checks are required.
 - Awareness and Training Programs - It is vitally important to keep security awareness and procedures on everyone's radar screen.
 - Information – Policies should be documented to protect all information and data regarding imports.

IV. WHAT CAN YOU EXPECT IF YOU IGNORE C-TPAT?

While C-TPAT is a voluntary program, CBP believes that it's a highly beneficial program, and that companies involved in the supply chain should be C-TPAT compliant. Yet, some companies will either ignore this program or conclude that: a) they don't want to spend the time and money on this initiative; or, b) it's not a priority matter and they can defer action. Having listened to numerous CBP personnel, one is struck by the fact that they have made it clear that companies who are C-TPAT compliant will be treated differently than companies who are not C-TPAT compliant. In fact, here is what companies who are not C-TPAT compliant can expect:

- **Delayed Shipments at U.S. Ports**
CBP has been very vocal in advising that if there is any incident which affects the borders or ports, companies who are not C-TPAT compliant can expect delays. When the borders and ports reopen, goods for C-TPAT compliant companies will, in essence, be moved to the front of the line to the detriment of non-C-TPAT compliant companies.
- **U.S. CBP Audits**
Companies who are not C-TPAT compliant can expect additional audit scrutiny from CBP. We thought it was interesting when a CBP official stated that since CBP has limited resources to conduct audits, they would

direct those resources towards companies who have elected to not participate in the C-TPAT program.

➤ **Unfavorable Customer Service Levels**

Once again, since CBP has limited resources, they have made it clear that companies who participate in the program will have the knowledge necessary to address issues and resolve problems as they occur. For non-compliant companies it may look more like a “take a number and we’ll get back to you when we can” environment.

Add it all up and it’s apparent that companies who choose not to participate in the C-TPAT program are looking at more paperwork, and longer lead times in getting imported products. This could mean having to carry additional “safety stock” inventory, or run the risk of lost sales because you don’t have the necessary products at the right time. Given **these undesirable consequences**, any company that relies on imported products **should seriously consider** participating in the **C-TPAT program**. If your company chooses to not participate then you are playing a form of border/port roulette: You are willing to risk that there won’t be any incidences affecting our borders and ports. If your company is not C-TPAT compliant, **the question is pretty simple: Is this a risk** (experiencing significant delays in getting your **products if the borders/ports** are disrupted or shut down) that you **feel comfortable taking?**

V. SUMMARY

Hopefully, this information has been helpful. Fortunately, the C-TPAT certification process is straightforward. Our sister company, Supply Chain Edge, has conducted numerous C-TPAT projects and they have created a C-TPAT checklist to get you started. Some of the steps from this checklist include:

- ✓ Make C-TPAT a Requirement - It is important that you **and any of your suppliers** who import products are C-TPAT compliant. This could potentially affect your procurement decisions. It is also important to clearly communicate your company’s policy to your suppliers regarding doing business with only C-TPAT compliant suppliers.
- ✓ Go the CBP website, www.cbp.gov, and download the information about the C-TPAT program.
- ✓ Internally begin by getting your supply chain security plans in order. It is also important that you consider your suppliers security initiatives.
- ✓ Ensure all procedures regarding supply chain security are written.
- ✓ Use U.S. CBP’s Security Recommendations as a benchmark.

- ✓ Develop a close working relationship with all parties in your supply chain. One of the interesting, and for some, beneficial aspects of the C-TPAT program has been the exchange of information between a company and its suppliers.
- ✓ **DO NOT PROCRASTINATE!** This program is voluntary today, but based on all of the security legislation being considered, this may become a mandatory program. If these things occur, it would be in your company's best interest to avoid the rush and get it taken care of in the near future. There is already about a one year backlog at the CBP.

If you need help, you can always contact me at martranz@aol.com or contact Joe Brady, Partner of Supply Chain Edge, at Joe.Brady@SupplyChainEdge.com, or give him a call at 440-653-0352. Supply Chain Edge is an outstanding resource that has already helped several companies become C-TPAT compliant.

EXHIBIT A BENEFITS OF C-TPAT CERTIFICATION

In case you're wondering whether it is worth the time and effort to invest in these security initiatives, recently we came across a study that a company had undertaken. The study addressed the issue of these benefits associated with "Investing in Supply Chain Security" (available at www.businessofgovernment.org). You might find the following table of interest:

Security Investment	Direct Benefits	Collateral Benefits
Asset Visibility and Tracking	<ul style="list-style-type: none"> ▪ Provide positive location status, preventing excursions ▪ Provide time-definite and controlled chain of custody 	<ul style="list-style-type: none"> ▪ Lower theft and losses ▪ Faster recalls ▪ Fewer delayed shipments ▪ Better planning, enabling lower working capital for inventory ▪ Less Overages, Shortages, and Damages (OS&D) ▪ Protection of brand name
Personnel Security	<ul style="list-style-type: none"> ▪ Thorough background check eliminates "bad actors" from hiring pool ▪ Regular background checks provide early warning for employees operating under the influence 	<ul style="list-style-type: none"> ▪ Customer loyalty, increased sales revenues, higher market share ▪ Employee commitment and belief in company's concern for employee
Physical Security	<ul style="list-style-type: none"> ▪ Controlled access keeps out unauthorized personnel ▪ Protection of intellectual property ▪ Protection of capital equipment and personnel ▪ Protection of product integrity 	<ul style="list-style-type: none"> ▪ Customer recognition of firm's safe and secure environment as an expertise, increasing customer loyalty ▪ Fewer thefts and OS&D by virtue of having more secure facility ▪ Reduced equipment damage and operating costs (lower insurance rates) ▪ Fewer safety incidents and catastrophes
Standards Development	<ul style="list-style-type: none"> ▪ Facilitate coordination of multi-company security activities (initiatives, sting operations, incident investigations) ▪ Security breaches easier to spot with standard systems ▪ Higher levels of security with common procedures ▪ System-level and supplier security improvement 	<ul style="list-style-type: none"> ▪ Improve the efficiency of ship, train, truck, terminal operations; cuts international shipping times ▪ Platform for collaboration within an industry leading to standards that raise level of performance ▪ Process discipline enables compliance (quality, safety, process), higher performance ▪ Common processes reduce confusion, raise predictability, improve staff backup ▪ Reduce non-security losses

In addition to the benefits of the security assessment, the CBP has also listed other benefits of the C-TPAT program. These benefits emphasize the value of fewer inspections, and the expedited movement of your shipments through the ports and borders. Net result: Your inventory cycle times (and all the associated benefits) can be greatly enhanced by participation in the C-TPAT program.

EXHIBIT B CURRENT C-TPAT BENEFITS

- **Reduced Cargo Inspections**
 - ATS Score Reductions
 - Lowest Compliance Measurement
 - Negated ACS Selectivity
- **6 x fewer enforcement examinations /
4 x fewer trade inspections**
- **Tiered System - May '05**
- **Front of Line Inspections**
- **Expedited Cargo Processing**
 - FAST Lanes
- **Trade Act Penalty Mitigation**
 - Failure to File Electronically;
Untimely Filing
- **APIS Penalty Mitigation**
 - Same Parameters as Trade Act
- **Importer Self Assessment**
- **CBP Training Seminars**
- **Contingency Planning**
- **Best Practices Catalog**
 - In Development, release Nov 2005
- **Communications Portal**
 - In Development, early 2006



Potential Future Benefits

Requested by the Trade / COAC

Primarily under CBP control

- **Pure Paperless on All Entries**
- **Zero Inspections**
- **Rulings within 10 Days**
- **Remote File all Entry Types**
- **Expedited Drawback Claims**
- **Expedited Background Checks**
- **No/email CF 28's**
- **No Liquidated Damages on Late Duty Payments**
- **Penalty & Liq Damages Mitigation**
- **Pre-release to Post-release**



U.S. Customs and
Border Protection