

Committee on Resources

Full Committee

Witness Statement

Statement of

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Committee on Resources

on

Enforcement of Federal Laws and the Use of Federal Funds in the

Northern Mariana Islands

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Good morning Mr. Chairman and Members of the Committee. I am pleased to be here today to discuss the responsibilities of the U.S. Customs Service in enforcing laws in the Northern Mariana Islands. We share the concerns of this Committee that the relationship between the Commonwealth of the Northern Mariana Islands (CNMI) and the United States not create an opportunity for violations of U.S. laws, particularly regarding the importation of goods.

First let me explain the relationship the Customs Service has with CNMI. The agreement by which the CNMI joined the U.S., provided that the islands would be outside the Customs territory of the U.S. -- as are smaller territories --but their products would be able to enter the U.S. Customs territory duty free. This enables the goods of nearby foreign countries to enter the islands at lower cost but the islands also have the benefit of having the U.S. effectively be the islands' market. With the signing of Presidential Proclamation #4534, the CNMI is considered, for U.S. Customs Service purposes, to have the same relationship with the U.S. as Guam. In fact, the agreement mirrors Customs law for Guam in the CNMI. That means that the U.S. Customs Service does not have Title 19 authority relating to Customs duties. This means that tariff laws do not apply in CNMI. We do have Title 18 authority for criminal investigations with a few exceptions to include, Section 545 dealing with the smuggling of merchandise and Section 542 dealing with the entry of

merchandise through false statements. The U.S. Customs Service conducts criminal investigations and can make arrests in CNMI as it does in Guam.

The U. S. Customs Service participates as a member of a joint federal working group for the Federal/CNMI Initiative on Labor, Immigration, and Law Enforcement. Our Resident Agent in Charge in Honolulu, Hawaii (RAIC, Honolulu) is the regional representative of the Customs Service for the Commonwealth of the Northern Mariana Islands. Investigations are conducted by agents from the Resident Agent Office in Guam and the RAIC, Honolulu office. In addition to textile transshipment investigations, we also conduct narcotics smuggling investigations and other investigative case categories enforced by U.S. Customs. As we work with CNMI Customs, we provide training on; customs interdictions, contraband enforcement, money laundering, textile transshipment and narcotics control. Based on recommendations made by U.S. Customs to the CNMI Customs during an on-site assessment, the CNMI Customs recently relocated its office space adjacent to the area utilized to off-load inbound container shipments. Further, facilities have been established at that location to allow for conducting intensive container examinations. At the suggestion of the U.S. Customs, the CNMI Customs has begun to conduct container examinations without the consignee/importer present. Prior to this, most container examinations were conducted in the presence of the consignee/importer and at the importer's premise. CNMI Customs collects a 3.7% excise tax on garments produced in CNMI and exported. There are no excise taxes levied on imported material used in the textile manufacturing process. Therefore, CNMI Customs concentrates on exports as opposed to imports.

U.S. Customs Service conducts investigations and enforcement initiatives on CNMI, in conjunction with CNMI Customs with existing authority however, we do not have the authority to examine containers without prior notification to CNMI Customs. To that end the following are U.S. Customs enforcement initiatives conducted in the CNMI:

TEXTILES

The most significant U.S. Customs Service enforcement initiative involves textile transshipment. Given that merchandise that originates in CNMI enters the United States duty free, and that wages there can be lower than the minimum wage in the United States, many overseas garment manufacturers have opened plants in CNMI in the past 10 years. These manufacturers typically use all Asian equipment, materials, management, and workers. These workers are primarily from the People's Republic of China, the Phillippines, and Bangladesh.

The CNMI garment industry can legally produce goods with the "Made in USA" label. In July 1997, the country of origin regulations changed to make the origin of the goods the country where the apparel was assembled. Prior to July 1997, the country in which "cutting" of the material took place constituted the country of origin of the merchandise. Fabric therefore had to be cut in CNMI in order to shipped to the U.S. duty or quota free. Presently, the country in which the merchandise is assembled constitutes the country of origin for duty and quota purposes. If components are imported and assembled in CNMI, they will be quota free. However, concerning duty, if the components are from a third country and only assembly costs are added in CNMI, the cost of the assembly must be more than 50 percent of the value of the imported product to qualify for duty free treatment.

The export of garments from CNMI reached 1 billion dollars last year and is expected to exceed that amount this year. Given that volume of exports, allegations of textile transshipment are expected to continue. At the present time, the CNMI Customs Service does not have the expertise or manpower to determine production capabilities in the factories. Instead, they review documents that are presented by the manufacturers as to the

production capabilities. We have and continue to work with the CNMI Customs officials on this issue in order for the U.S. to accept, as accurate, the import documents certified by CNMI for export.

In September, 1998, agents from the RAIC/Honolulu, inspectors from the Customs Area Port of Honolulu and a Customs Service Import Specialist from San Francisco conducted an on-site assessment of textile-related importations and exportations in CNMI. During this assessment, these U.S. Customs officers, working in conjunction with CNMI Customs officials, examined fifty-one inbound containers destined to textile manufacturing facilities. All of the examined shipments were found to contain fabric as had been manifested by the Asian suppliers.

The team also conducted an examination of the records being maintained at the CNMI Customs Garment Section. The export records were very detailed since they are the basis for the collection of the CNMI Government's 3.7% User Fee. However, all the production data was provided by the manufacturers with little verification being completed by the CNMI Customs officials. The CNMI Customs outbound inspectors were inundated with processing the paperwork generated by the \$1 billion-a-year export industry. The team we sent found no direct evidence of finished products being imported into the CNMI from Asia. The amount of textiles being produced in the area however, does make it easier for fraudulent activities to be commingled with legitimate activity. At present, the CNMI Customs has taken suggestions provided by the U.S. Customs Service to address these observed shortcomings. We expect to continue our efforts with the CNMI Customs on this issue over the next few of years.

NARCOTICS

The U.S. Customs Service is concerned about the possible trafficking of narcotics in and through the CNMI. Our agents based in Honolulu and Guam have been involved in several investigations involving the smuggling of narcotics into CNMI from Asia and other Pacific islands. Crystal methamphetamine ("ice"), heroin, and imported marijuana continue to be encountered in the CNMI.

The CNMI Customs Service has requested U.S. Customs assistance in identifying internal airline conspiracies involving the illegal importation of narcotics. In the past we have helped identify corruption within the confines of the international airport. We continue to work with CNMI Customs on narcotics investigations and on enhancing their investigative capabilities.

MONEY LAUNDERING

Another area of concern is money laundering. In the past few of years, Customs has investigated the possible laundering of money derived from drug trafficking and illegal weapon sales by Asian organized crime syndicates. The U.S. currency reporting requirements do apply in CNMI, however, enforcement by CNMI officials has been sporadic over the past years. The reporting requirements act as a trigger mechanism to identify other violations of law in CNMI. There is a growing concern that money from the legalized casino gambling industry on the island of Tinian will be moved internationally without compliance with the reporting requirements. It is suspected that Asian organized crime will move their money through Tinian.

PORNOGRAPHY AND INTELLECTUAL PROPERTY RIGHTS

There is anecdotal information that export violations and child pornography activity are occurring in the CNMI. We will analyze the intelligence regarding this information and develop a strategy to address these

concerns while seeking more solid evidence.

Finally, due the tourist trade in the CNMI, it has been alleged that many vendors have been selling counterfeit merchandise protected by trademark and copyright laws. Recent information suggests that Japanese organized crime members may be involved in the trafficking of such merchandise.

U.S. Customs will continue to do factory inspections in conjunction with CNMI Customs. We will also continue to work with and help them develop the capability to perform production verification visits to factories in CNMI. We also plan to continue to work with CNMI law enforcement personnel on conducting narcotics trafficking and money laundering investigations. We believe that the U.S. Customs Service has sufficient authority to address illegal activity coming out of CNMI and directed towards the United States.

As noted by the other Administration witnesses, the Administration will be submitting its proposed legislation on CNMI shortly. The proposed legislation will include additional investigative authority that will be useful for addressing illegal activity within CNMI itself through our offices in Guam and in Honolulu.

I can assure the Committee that enforcing the laws of the United States is the primary concern of the Customs Service. We will continue to work with the other agencies and the CNMI Customs Service to ensure that all applicable laws are enforced. Mr. Chairman, this completes my prepared remarks. I will be happy to answer any questions.

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