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Thank you for that introduction. Let me also thank Director General Chavalit and the Royal Thai Government for co-sponsoring this conference with the U.S. Government, and for the tremendous hospitality that has been shown to the conference participants. On behalf of my own government, I should mention that Secretary of Commerce Don Evans and Under Secretary of Commerce Ken Juster asked that I convey their greetings and best wishes for a successful conference. Both are paying close attention to this forum and to the issues being addressed here today, and look forward to hearing of a successful outcome.

I personally am delighted to be here with you today, and pleased and impressed that such a distinguished and diverse group could be assembled. We have here in this room many of the top trade security officials from every major transshipment country in East and Southeast Asia. We also have many of the top trade security officials from over 35 companies and trade associations representing all parts and phases of the global supply chain – exporters, importers, shipping lines, airlines, port operators, brokers, forwarders, and integrators, just to name a few. Simply gathering together this group of the leading regional public and private sector players in the trade and security arena for an off-the-record dialogue is a significant accomplishment in itself.

I hope, however, that this is only the first of a number of accomplishments that will result from this conference. I readily acknowledge that the subject before us is not an easy one. This conference seeks to address a topic that is both complex and challenging: namely, how to improve trade security – in its many forms, but particularly in the area of nonproliferation export controls – at the world's key transshipment hubs in the way that most effectively facilitates global commerce. A while back this might have been an arcane subject, but, frankly, in the post-September 11 world, trade security and export controls are no longer arcane. Rather, they are the stuff of presidential summits and cover stories in major news magazines.

Which, I would submit, makes our task all the more pressing and important. In today's world, the public will have no tolerance for the country, hub port or company that facilitates or allows, even unwittingly, the shipment of an item that enables the next attack on civilians or the proliferation of weapons of mass destruction.

With a topic as multifaceted as this, I thought it was best to keep my remarks today simple. And, so, I am going focus on the essentials – the why, the where, the who, the what, and the how. First, let me discuss why – why are we here? What is the problem that we seek to confront? Second, where – where are the transshipment countries and what makes them a special focus? Third, who – who are the key players who must be part of this discussion? Fourth, what – what is to be done? – what are our goals? and Fifth, how – how do we get to where we want to be?

Why are we here? So let me turn first to why we are here and the challenge that we confront. At the most fundamental level, we – representatives of governments and industry alike – are all here because we share a common interest in global commerce and free trade. Certainly, I can assure you, that this is a key commitment of President Bush and Secretary Evans. Those of you who follow such things may be aware that President Bush and Secretary Evans have pushed a free trade agenda very hard, including, in the last year, launching the Doha Round of Trade Negotiations and securing Trade Promotion Authority from the U.S. Congress to negotiate trade liberalizing agreements. The Bush Administration believes deeply that expanded and efficient global trade, unconstrained by artificial barriers, is not only good economic and foreign policy, but indeed a moral imperative.

A critical element – in fact, I would call it a fundamental precondition – to facilitating global commerce is protecting it from those who would seek to weaken or threaten it. In the post-September 11 environment, we are all aware that there are those who have targeted international

commerce as part of their campaigns of terror and extremism. In their eyes, damaging global commerce is a weapon of mass disruption. And, sadly, they are right.

September 11 caused a broad reevaluation of the vulnerabilities of global commerce. A number of weaknesses became apparent. The integrity of multi-modal shipping containers was one issue that immediately became a focus. Many of you may be familiar with the Container Security Initiative that the U.S. Customs Service launched to seek to address this issue in cooperation with major trading partners. Patricia McCauley – who directs that initiative for the Customs Service – will be here later today to discuss it. The security of the world's major ports and shipping lanes was another area of concern. This issue is also being addressed by a number of government agencies, including the U.S. Coast Guard and the U.S. Department of Transportation, working again with their counterparts from other countries. The process of screening air cargo was also an area of concern. There have been a number of international initiatives to address this concern, including the Transportation Security Agency's Known Shippers Program. A number of these and other initiatives were endorsed last October by APEC's leaders as part of the Secure Trade in the APEC Region (STAR) Initiative. STAR is a set of specific actions and explicit deadlines for strengthening the security of movement of goods and people within the region.

All of these are important cooperative steps designed to address concerns about the security of international trade flows, based on the recognition that a significant disruption of those trade flows could have profound international political and economic consequences.

However, there's another vulnerability of global commerce that I'd like to discuss. That's the vulnerability that certain sensitive items, controlled under the export control laws of the producing countries, could be circumvented, resulting in those items going to end-users of concern, including terrorists or the countries that support them. As many of you may know, items ranging from arms, to chemical agents and biological toxins, to machine tools that can be used to manufacture missile parts, are controlled for export. Countries, including

the United States, employ licensing and regulatory schemes to scrutinize international transactions in these commodities and to ensure that they end up where they are supposed to. The problem arises when these items, which can be extremely dangerous in the wrong hands, don't end up where they are supposed to.

The threat to global commerce here is not that a container will blow up, or that a port will be attacked. Rather, it is the more insidious threat that through normal channels of global commerce, end-users of concern will be able to acquire illicitly the most dangerous of items needed to build weapons of mass destruction or perpetrate acts of violence. And in so doing, they threaten the public's confidence and trust in international trade generally, and specifically in the commercial hubs that facilitate such traffic.

To be sure, noncompliance with export controls has been a problem for as long as such controls have existed. However, the problem has recently taken on a new urgency – both because the threat is greater, and because there is increasing evidence that illicit diversion of these items is being attempted and is occurring.

Where is the risk of diversion? Which brings us to the second question – where are the risks of diversion? The short and accurate answer is, quite simply, everywhere. Last year, the U.S. Commerce Department issued licenses for exports to more than 140 countries. We closed enforcement cases dealing with diversion of controlled items through countries ranging from the United Kingdom to Venezuela. We recognize that each licensed export necessarily carries some risk of diversion, and each such risk concerns us.

However, among the destinations that concern us most are the group of what we call "transshipment countries." This is quite simply a group of countries that function as major hubs for the trading and shipment of cargo, including controlled cargo. They include many of the countries represented at this conference, as well as others that are not here.

I should note, as a preliminary matter, that these transshipment countries are almost universally close friends of the United States, diplomatically and economically. Almost all have been strong

allies historically, and, most recently, in the war against terrorism. Most are democracies, with strong commitments to free market economies. Indeed, it is that very commitment that, to some extent, makes transshipment hubs targets of those who would seek to use them for illicit diversion purposes.

For a number of reasons, the “transshipment” countries pose special risks in the export control area:

- First, the sheer volume of trade – including controlled items – that flow through these countries, makes them attractive targets. In recent years, for example, the equivalent of more than 50 million containers annually have gone through the major ports of South East Asia alone. Volumes of trade so substantial can help camouflage illicit shipments of diverted controlled goods.
- Second, the transshipment countries tend to have substantial infrastructures that terrorists and others can exploit to facilitate diversion. For example, these countries tend to be home to numerous export/import businesses, brokerages, trading houses, free trade zones, reprocessing zones, and other institutions that can be used by those seeking to acquire controlled items illegally.
- Third, the transshipment countries often tend to be physically proximate to countries or end-users of concern.
- Fourth, because transshipment countries themselves are not countries of concern themselves, they tend to enjoy very liberal export licensing treatment, which makes them attractive locations for those who seek to obtain controlled goods illicitly. To take the U.S. licensing regime as an example, we treat almost all of the transshipment countries as part of our most favored tier of countries for export licensing purposes. This makes sense if we can be assured that controlled goods exported to

such countries will remain in these countries. Without such controls, however, transshipment countries can function in effect as a loophole in export control regimes.

The concern about diversion through transshipment countries is not an academic one. A variety of evidence suggests that these countries are in fact being used by those who seek to evade export control laws to obtain illicit items. That evidence includes intelligence, the outcome of export verification visits, and legal cases brought by those agencies charged with enforcing export control laws. As a former Chief Counsel for Export Administration, I’m particularly familiar with evidence of the latter variety.

Let me give you an example. One of the first cases I oversaw when I became Chief Counsel was against a trading company located in a transshipment hub. Which hub isn’t particularly important, but I will note, for the record, that it is not one of the countries represented here today. The entity had procured a U.S.-manufactured device, which requires a license under our export control laws for export to certain countries, but not to most of the transshipment countries. Approximately five months after it had been shipped, the U.S. exporter received a call from the end-user of the item, complaining that it was malfunctioning. After a fairly lengthy question and answer process, it became clear to the technician on the phone that the item – which had been calibrated for operating at sea level (the altitude of the transshipment hub) – was no longer at sea level. Rather, the questions and answers suggested that the machine was at the altitude of the capital city of a nearby country, which is a well-known state sponsor of terrorism. Piecing together a chain of evidence, including shipping records from the forwarders and shipping companies involved in the transaction along with information supplied by the transshipment country government, we were able to obtain a judgment against the trading company, which is now barred from participating in any transaction involving U.S.-manufactured goods. That company may also be subject to penalty under the law of the transshipment country.

This was only one of a number of such diversion cases that I oversaw. Others

followed slightly different patterns – for example, controlled goods that, according to the shipping documents, were slated to go to a legitimate end-user that somehow ended up in the hands of an illegitimate end-user. I believe that the case I just described is, however, important for a couple of reasons. It illustrates how those who seek to avoid export control laws can do so using transshipment hubs. More importantly, it shows how addressing the problem of diversion depends upon the cooperation and participation of a number of actors, in both the public and private sectors.

Who are the Key Players? Which leads us to the third question -- who are the key players that need to be involved in addressing the issue of diversion through transshipment hubs. The answer, I would submit, is quite simple: everyone here. It is a challenge that requires the active participation of both governments and the private sector. And, within the private sector, it requires the participation of all parts of the transshipment business and supply chain.

There is a critical role to be played by governments in addressing this challenge. Transshipment country governments must have strong indigenous trade and export control regimes. Resources must be devoted to the administration and enforcement of those regimes. An exquisite export control system on paper means nothing if there are no penalties, no seizures, no convictions. The United States and other exporter countries have a responsibility as well – to assist and support the efforts of the transshipment countries, including in sharing relevant information, and, if necessary, considering regulatory steps that might assist in the prevention of diversion.

But governments are only part of the picture – especially when one considers that much of what really constitutes a "transshipment hub" are private sector entities – forwarders, integrators, airlines, shipping lines, airport and port facilities, trucking companies, brokers, warehouses, and, of course, the exporters, importers, and consignees.

I should mention that before coming to this conference, I asked how long it had been since we had hosted a major conference on trade security and export controls, like this, at which both governments

and the private sector participated jointly. To my surprise, I was told that, to the best of anyone's recollection, this was the first time there had been such a conference, let alone one attended by representatives of those industries most intimately familiar with transshipment of goods.

In my view, this must be the first of many more such exchanges. Having now spent time on both sides of the equation – first representing companies in the private sector and, now, in government – I have discovered that there is much to be gained when governments and industry consult with and listen to each other; in short, when government and industry partner to address a problem such as this. Such a partnership is important for a number of reasons. First, the trade security and export control regulators and policymakers need to get the benefit of the expertise of the private sector, including experience in dealing with cargo security, supply chain management, logistics, legal documentation, and data mining. Second, the limitation on government resources means that government must foster and depend upon cooperation with the private sector to design, administer and enforce an export control system capable of meeting the challenges posed by transshipment economies.

I believe that such a partnership is possible. The fact is that government and industry share a common interest here. No responsible government or company wants to see or be involved in the illegal diversion of controlled goods. As one executive of a major integrator commented soon after September 11 last year: "The thing that keeps me lying awake at night is the fear of the newspaper headline that terrorists used my company to transport key weapons. I don't know how we'd ever live that down."

What is to Be Done? So we know why we are here, we know why we are focused on transshipment countries, we know who must be involved in addressing the problem. Let us now turn to what needs to be done.

Let me start out by noting again a few of the international trade security initiatives that are already underway that play important roles in addressing parts of the diversion problem, and more generally, are critical to enhanced trade security generally.

- Container Security Initiative, which is a multi-prong program predicated on obtaining advance information to perform sophisticated targeting. To achieve this and other aspects of the program, the U.S. Customs Service has initiated agreements with several major transshipment countries, including in this region, Singapore and Hong Kong.
- Customs-Trade Partnership Against Terrorism, which is a joint-business government initiative to provide guidance in establishing, improving, or amending security procedures to each segment of the supply chain.
- The Secure Trade in the APEC Region (STAR) Initiative, under which the APEC governments have committed to a series of measures, including sharing of customs data, ship and port safety plans, and advanced passenger information systems. I understand that implementation of the STAR Initiative will be addressed in an important inter-governmental conference in February in Bangkok.
- The Export Control and Border Security (EXBS) program, whereby the U.S. Government has worked with foreign governments, in particular those of the former Soviet states, to strengthen indigenous export control and border security programs.
- The publication of a series of lists published by U.S. and foreign government agencies advising exporters of persons or entities of concern.

Let me also highlight a new Commerce Department initiative specifically focused on the problem of diversion of controlled items through transshipment countries – the Transshipment Country Export Control Initiative (TECI). As described by Under Secretary Juster in a major policy address in Washington, D.C. in October, the TECI is a targeted initiative to combat illicit

diversion of controlled items through the world's major transshipment hubs.

The TECI has two principal prongs:

- First, a government-to-government prong, whereby the U.S. Government will work with its counterpart trade and export control agencies in key transshipment countries to assist them in the adoption of export and trade control regimes tailored to their transshipment-oriented economies, exchange data to facilitate more effective administration of U.S. and transshipment country trade controls, and encourage them to adopt certain other measures to facilitate better enforcement of trade and export control laws.
- Second, a government-to-private sector prong, whereby government will look to work with industry – in particular, companies involved in the transportation of goods through transshipment country hubs, and major consignees and end-users of goods located in those hubs – to enlist their support in preventing illicit transshipments.

The first prong has been the subject of discussion over the past 1½ days, and has included, I understand, discussions of legal and regulatory issues and enforcement issues specific to transshipment countries, as well as delegation presentations on what they are doing and will do to combat illicit transshipments. I'm pleased to hear that the discussions have gone well.

It's the second prong – how governments can work with the private sector – that I'd like to focus on in the remainder of my remarks, and it's on that subject that I hope there is significant discussion over the next day and a half.

How Do We Get There? Which brings us to our final issue – how do we get where we all want to go. How do we get to a state of affairs where transshipment countries are not a principal source of leakage of controlled items to counties and end-users of concern. This is precisely the topic on which I hope the assembled minds here can focus. We in the Commerce Department have been thinking

about this issue for some time, and have developed several ideas, which I know my colleague Richard Cupitt will discuss with you tomorrow, but in a nutshell include the following.

- The first part of the solution is building awareness of the problem. This involves publicizing, within the transshipment countries and within the transshipment industry globally, that there is a problem with potentially dangerous, controlled goods going to the wrong places and the wrong people. Simply increasing awareness of the problem is a critical first step to helping to resolve it.
- Second is building channels of communication between industry and government. Industry is the front lines of the battle against diversion. It must have a means to communicate problems, dangers, or issues that it encounters. And industry must have incentives to do so, or at least assurances that doing so will not adversely affect them. Similarly, these channels of communication must exist so that government has a means of informing industry of information that may be critical to spotting and preventing diversion.
- Third may be the development of one or more sets of best practices. There already exists a set of basic best practices for governments – endorsed by a number of countries in 2000 and hopefully soon to be endorsed by additional countries. Consideration should be given to a similar set of best practices for private sector companies involved in the transshipment business. Hopefully, over the next day-and-a-half, you will all be able to consider and discuss what properly goes into such a set of best practices or at least a process for how such a set of best practices might be arrived at.

We look forward to the participation of everyone here to hone these ideas, to challenge them, and to come up with new and better ideas. We also look forward to continuing dialogue on these issues after this conference is concluded. I anticipate that in the next month or so, the Commerce Department will be issuing a notice inviting further, written comments on some of these issues.

The only things that we don't want are those who disclaim ownership of or involvement in the problem – because the effectiveness of trade security and nonproliferation export controls is all our problem.

Let me emphasize two things. First, we in the U.S. Government approach this challenge – the challenge of countering diversion of controlled items through transshipment hubs – with a strong commitment to internationalism and multilateralism. The most effective solution to this problem will be a cooperative and joint one. Second, we approach this challenge with a strong commitment to public-private cooperation. We believe that only with the benefit of the experiences of private industry – and with their vigorous cooperation – will we be successful in strengthening the effectiveness of export controls in transshipment countries. So, in short, we look forward to making real progress and achieving real goals in tackling this problem jointly, cooperatively, and on an international basis.

We recognize that – absent such progress – there will be pressure to act unilaterally or to act through regulation. Neither would be optimal. Whether by tightening export licensing policies or by imposing regulations governing shipments of goods to or through transshipment hubs, such actions would inevitably distort markets and weaken confidence in global trade flows.

Before I conclude, let me address one issue that I know will be raised over the next several days, and that is the question of whether measures taken to strengthen trade security will adversely affect our economy. It is an important issue. Rest assured, I think that none of us desires that the medicine kill the patient. To reemphasize the point I made earlier, the desire is to address the problem in order that – and in a way that – trade is facilitated and our economic welfare is

enhanced. I think you will see that the TECI is designed to this end.

In fact, I believe that the security of a country's, port's, or company's trade practices will ultimately turn out to be a positive competitive metric. Strong security practices will be a strategic advantage. I think history offers us some perspective. As many of you are aware, at the turn of the century in North America and Western Europe, there were those who argued that ensuring that workers had humane working conditions would prove too costly, and would vitiate many of the economic advantages accruing from industrialization and automation. Over time, of course, that concern dissipated – industrialization and automation proceeded quite nicely, and the economy continued to grow. Moreover, good working conditions became, for many companies, a strategic advantage in attracting human resources.

A similar story can be told about product safety in the 1950s, '60s and '70s. Again, there was widespread concern that economic efficiency and a public good – in this case, the safety of cars, pharmaceuticals, and other consumer products – were incompatible. Again, the concern proved to be ill-founded. Today, of course, product safety is a competitive metric and a strategic advantage for many companies.

I would submit that trade security is the working conditions or the product safety of the new century. I would venture that security is not only compatible with vigorous and growing trade flows, but that in a short period of time, countries and companies will view trade security as a strategic metric, and will seek to capitalize on it.

Conclusion. In conclusion, let me return to first principles. There may be no set of governments or industries in the world of controlled items.

I and my colleagues look forward to continuing this dialogue during this conference and thereafter, with the goal of arriving at and implementing, jointly, meaningful, concrete actions that will help ensure that this region's tremendous transshipment systems, with all the efficiencies and benefits they entail, flourish well into the future.

Thank you, and best wishes for a successful conference.