

EFFECTIVENESS OF THE EXPORT  
PROMOTION POLICIES AND PROGRAMS OF  
THE DEPARTMENTS OF COMMERCE  
AND STATE

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SEVENTH REPORT

BY THE

COMMITTEE ON GOVERNMENT  
OPERATIONS

together with  
ADDITIONAL VIEWS



AUGUST 5, 1977.—Committed to the Committee of the Whole House  
on the State of the Union and ordered to be printed

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## LETTER OF TRANSMITTAL

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HOUSE OF REPRESENTATIVES,  
*Washington, D.C., August 5, 1977.*

HON. THOMAS P. O'NEILL, JR.,  
*Speaker of the House of Representatives,*  
*Washington, D.C.*

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's seventh report to the 95th Congress. The committee's report is based on a study made by its Commerce, Consumer, and Monetary Affairs Subcommittee.

JACK BROOKS, *Chairman.*

(III)



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# Union Calendar No. 295

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## EFFECTIVENESS OF THE EXPORT PROMOTION POLICIES AND PROGRAMS OF THE DEPARTMENTS OF COMMERCE AND STATE

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AUGUST 5, 1977.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. BROOKS, from the Committee on Government Operations, submitted the following

### SEVENTH REPORT

together with

### ADDITIONAL VIEWS

BASED ON A STUDY BY THE COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE

On August 2, 1977, the Committee on Government Operations approved and adopted a report entitled "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State." The chairman was directed to transmit a copy to the Speaker of the House.

### I. INTRODUCTION

On March 22 and 23, 1977, the Commerce, Consumer, and Monetary Affairs Subcommittee held hearings into the efficiency, economy and effectiveness of the U.S. Government's export promotion programs, which are jointly administered by the Departments of Commerce and State. The program's objective is to encourage and assist U.S. firms—particularly those with little or no export experience—to sell their goods and services abroad. One of the prominently advertised purposes of the program is to increase the number and amount of exports from small businesses without previous export experience. Because of inadequate accounting procedures at Commerce and State the full costs of these programs cannot be gauged. It is estimated, however, that the

combined expenditure for all export promotion and assistance efforts by the two departments was \$50 million in 1976.<sup>1</sup>

The Domestic and International Business Administration (DIBA) is responsible for these programs within Commerce and approximately two-thirds of its 2,000 employees are engaged in operating and administering them. DIBA's Bureau of International Commerce (BIC) formulates and operates the programs in Washington and abroad (together with State) and its Office of Field Operations (OFO) serves as liaison to the U.S. business community for the programs.<sup>2</sup> State Department personnel assigned to our embassies are primarily responsible for operating and servicing the programs in the respective foreign countries.

Although a wide variety of programs are offered to assist firms in exporting,<sup>3</sup> the export promotion effort is centered around 15 foreign trade centers leased by Commerce and operated by Commerce and State in the following major foreign commercial markets: London, Milan, Paris, Stockholm, Tokyo, Sydney, Taipei, Tehran, Singapore, Mexico, Athens, Sao Paulo,<sup>4</sup> Moscow, Warsaw and Vienna.<sup>5</sup> These centers are located in prime commercial districts<sup>6</sup> and consist of large, fixed facilities with ground floor exhibition space<sup>7</sup> and office space for personnel and services supporting the trade center operation.

Trade centers were first utilized in the nineteen fifties and early sixties at the request of State as a public relations response to anti-American propaganda. When the public relations need abated, Commerce urged that they be continued as a vehicle to increase U.S. exports. Presently, the primary function of the centers is to house and stage exhibition and promotional events for American products and services. For example, a trade center may stage a show where U.S. manufacturers of computers and related equipment will display their products. Other popular items for display include: pollution control equipment, business equipment and systems, health and industries equipment and industrial production and testing equipment.

According to a Joint Evaluation Report by the Departments of State and Commerce published in February 1977 ("Joint Evaluation"), Commerce spent \$7.3 million in fiscal year 1976 to operate and

<sup>1</sup> "Departments of State, Justice, and Commerce, the Judiciary, and Related Agencies, Appropriations for 1977," hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 94th Congress, 2nd Session, Part 2, pp. 546, 551, 573, 586, 593, 606 and 613. For Commerce export promotion costs, the following DIBA "1976 Appropriations Enacted to Date" are included: (1) International economic policy and research (excluding foreign investment in the United States)—\$6,396,000, (2) International marketing—\$15,753,000, (3) Export development—\$3,463,000, (4) East-West trade—\$3,838,000, (5) Field operations (export development)—\$3,613,000, and (6) Administration (international economic policy and research; international marketing; export development; and East-West trade)—\$3,737,000; therefore, total Commerce export promotion costs are estimated to be \$36,860,000. The total State international commercial budget for fiscal year 1976 was estimated to be \$13.8 million. See "Commerce and State Departments Export Promotion Programs" hearings held before the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Government Operations Committee, March 22 and 23, 1977, p. 95. (Hereinafter referred to as Hearings.)

<sup>2</sup> See appendix 1 to the Hearings.

<sup>3</sup> See appendix 1 for a listing and brief description of all export promotion and assistance programs discussed in this report.

<sup>4</sup> The Sao Paulo trade center is scheduled to open September 1977.

<sup>5</sup> The Bureau of East-West Trade (BEWT) is responsible for the Moscow, Warsaw and Vienna trade facilities and they will not be discussed in this report. The other trade centers are BIC's responsibility. A trade center in Frankfurt was closed in January 1977 (Hearings, p. 5).

<sup>6</sup> In addition, small merchandise display centers are maintained in Kobe/Osaka, Japan and Seoul, Korea.

<sup>7</sup> Except for the Athens center which has no exhibition space. (Vienna, Warsaw, and Moscow are smaller centers with limited display space.)

staff its trade centers—more than one quarter of BIC's total export promotion budget. But because a substantial portion of Commerce's other export services, personnel and overhead support the trade center program, trade centers occupy a greater portion of BIC's budget than the \$7.3 million figure indicates. In addition, other funds were spent on trade exhibit functions outside official U.S. facilities.

As a part of its study, the subcommittee examined whether the trade center and other export promotion programs have been effective in increasing U.S. exports. It sought to identify the actual beneficiaries of these programs and determine whether firms utilizing the programs would be unlikely to export or increase exports without them. The subcommittee also studied whether alternative programs could be more cost effective in increasing exports and whether conflicts and problems between the Commerce and State Departments might be undermining the program's effectiveness.

## II. FINDINGS AND CONCLUSIONS

1. (a) Only a small fraction of the participants in trade center events are inexperienced exporters. This is contrary to the purpose of the export promotion program which is to encourage exports by inexperienced firms.

The Joint Evaluation report indicated that from 1974-76 only 7 percent of the participants in trade center events were new-to-export (NTE), and in 1976 over half the events failed to attract even a single NTE firm. Fifty-two percent of the participants were experienced exporters who had been selling the exhibited products in the affected trade center market for over 1 year (old-to-market—OTM) and a significant portion of the remaining 40 percent were experienced exporters who were merely introducing a new product to a trade center market in which they were already established (old-to-export—OTE).

(b) Certain trade centers and other export promotion programs subsidize and benefit large and multinational corporations much more than small business.

2. Despite criticism from GAO, the Office of Management and Budget (OMB) and its own Joint Evaluation, Commerce continues to charge OTE firms the same low fees as NTE firms for participation in trade center events. In reporting to congressional committees, Commerce treats both NTE and OTE firms as new exporters.<sup>8</sup>

3. (a) Because of the large staffs and fixed costs associated with the centers, "they must be fed, the trade centers get trade promotional resources whether or not that is viewed by program planners as best. In many cases the result is a use of excessive resources by trade centers at the expense of other programs in trade center countries and of all programs in countries where there are no centers."<sup>9</sup>

(b) According to Commerce's own studies, trade center exhibitions often do more to improve a center's institutional image than to expand U.S. exports.

<sup>8</sup> Commerce refers to OTE firms as "new-to-market" because they haven't previously exhibited a given product in a given market. This term, however, is a misnomer which will not be used in this report.

<sup>9</sup> See Joint Evaluation appearing in appendix 2 to Hearings at p. 170.

(c) It has been established that a trade center's ability to generate foreign sales decreases annually after its opening. Nevertheless, it has been almost impossible, for diplomatic and bureaucratic reasons, to close a single trade center even after it no longer effectively serves the function for which it was established.

4. (a) Many of the programs which are sacrificed to feed trade centers are the so-called discretionary programs that have proven particularly helpful to small business' export efforts. These include the Foreign Buyer Program (FBP), Agent/Distributor Service (A/DS), Catalogue Exhibits Program, In-Store Promotions, Business Counseling Services and Trade Opportunities Program (TOP).<sup>10</sup>

(b) A recent survey of firms replying to a Commerce "offer of export information" rated trade shows of less importance than 11 other categories of assistance. Only 8 percent of the respondents rated trade shows of special importance as compared to 52 percent who rated "specific trade leads" and "evaluation and selection of potential distributors" of special importance.

5. (a) Numerous private sector agencies provide many of the services presently provided in Commerce's export promotion programs. There is evidence that these services consume considerably less resources and are performed in a more effective manner than their counterpart Commerce programs.

For example, in many countries where Commerce has located a trade center, there exist well established private facilities for trade fairs and exhibitions serving the same function; Dun and Bradstreet (D&B) and other credit reporting agencies are expanding their foreign operations and providing services available heretofore only through World Trade Data Reports (WTDRs); there is a growing network of banks, accounting firms, airlines, business information agencies (such as D&B), and trade associations (such as State trade associations and The World Trade Center Association) providing foreign trade leads and agent contacts similar to those provided by TOPS, A/DS, Major Products and Major Projects programs.

(b) According to Commerce's own statistics, private trade fair events produce 5.5 times more immediate sales and 63 percent more expected sales per exhibitor than U.S. trade center events. Furthermore, although Commerce's trade missions program receives far less resources than trade centers, NTE/OTE and OTM trade mission exhibitors expected 19 percent and 49 percent more sales respectively per exhibitor than trade center exhibitors.

(c) A Commerce Department survey of participants in Government-sponsored exhibitions found that 72 percent of NTE and 84 percent of OTE participants would have attempted exporting or penetration of new markets without the inducement of Government operations.

6. (a) Commerce's method of determining the increase in export sales resulting from its promotion programs is unrealistic and invalid. It measures sales benefits from its programs by asking participants for the amount of sales and orders placed during the trade event and for an estimate of sales of that product in the trade center market for

<sup>10</sup> See appendix 1 for description of these programs.

the succeeding 12 months. Since most exhibiting firms are established exporters in the affected trade center market with full-time foreign sales agents or subsidiaries who utilize advertising and a myriad of other promotional devices, it is unrealistic to attribute sales to participation in a trade center event. In actuality, participants achieve considerably less than 40 percent of their sales projection.

(b) A significant portion of the components of products displayed at trade centers are produced and/or assembled in foreign countries. As a consequence, in some instances U.S. taxpayers are subsidizing the sale abroad of products substantially made abroad.

Commerce regulations, which require that 51 percent of the value of the components of a product eligible for export promotion be produced in the United States (only 33 percent if the product is exhibited in an emergent market trade center), are inadequate for two reasons: First, because "51 percent" falls far short of what should constitute eligibility for an export subsidy program. Second, because a "value of components" test ignores the fact that for many products, the value of components comprises only a fraction of the total value of the product.

7. In staging trade center events, Commerce often fails to follow its own polling and market research guidelines established to assure a successful event. Furthermore, Commerce does not maintain adequate records of polling, soliciting or research for events so that a show's success or failure can be evaluated.

8. Neither Commerce nor State have an effective cost accounting procedure, on a program-by-program basis, so that export promotion programs can be evaluated in their entirety on the basis of sufficient program cost information.

9. A principal finding of the Joint Evaluation was that "*There is at this time no generally agreed or widely understood U.S. policy on the extent of need for or the purposes of official export promotion.*" (Italics original.)<sup>11</sup> Without such policy guidelines the effectiveness or appropriateness of programs cannot be fully evaluated; resource allocation among programs cannot be properly determined; the question of which industries to assist cannot be answered, and old programs that have outlived their usefulness tend to continue while new ones are not initiated.

10. The President's Export Council (PEC), which is the Government's principal advisory committee for export promotion programs, is comprised exclusively of representatives of large corporations: 20 of its 22 members represent Fortune 500 companies and none represents a small or even a medium-sized firm.

11. (a) Chronic conflicts and problems between Commerce and State seriously undermine the effectiveness of export promotion programs. Failures and delays in communications are common between the two Departments. A common mistrust exists between the two Departments which prevents an effective resolution of their problems. For example, State fears that Commerce is attempting to operate its own foreign service (such as the Department of Agriculture's Foreign Agricultural Service) independent of State's Foreign Service;

<sup>11</sup> See appendix 2 to Hearings at p. 168.

on the other hand, Commerce desires greater control over promotion and utilization of State employees engaged in commercial work to assure that State devotes sufficient resources and priority to commercial matters.

(b) Serious deficiencies affecting the Trade Opportunities Program exemplify the conflicts and lack of coordination between Commerce and State. Over half the subscribers to the TOP program rated it as "poor" or "very poor" and the program has suffered a net loss of subscribers. Almost half of the trade leads sent to subscribers were unusable because of miscoding or mismatching; in addition, the leads most collected by the Foreign Service were not the ones most demanded by subscribers. Meanwhile, Commerce blames its problems on an inappropriate coding system and State's unwillingness to change it, and Commerce and State agree that Commerce's field offices oversold the program, promised more than could be delivered and failed to inform State of subscribers' expectations.

(c) The State Department traditionally places less priority on and devotes fewer resources to commercial matters, than other functions. State has failed to recruit employees with strong commercial experience to perform its commercial functions; employees engaged in commercial activities suffer from lower career status and fewer promotions within the Department; they are often encouraged to work on noncommercial matters; and the Department's rotation policy prevents them from operating effectively at any one post.

### III. RECOMMENDATIONS

1. The present trade center exhibition program should be terminated and the Commerce and State Departments should close all existing trade center exhibition facilities as soon as practical. Existing leases for trade center exhibition facilities should not be renewed and facilities owned by the U.S. Government should be sold as soon as possible.

2. The Commerce Department should immediately analyze, survey, and catalogue all existing or planned private sector export assistance programs and services. Commerce's export promotion efforts should encourage expansion of these private export assistance services and its own programs should be restructured to supplement rather than compete with and duplicate them. Thus, if it is decided that inexperienced exporters need assistance or encouragement to export, Commerce's programs can be adapted to meet their specific needs within, or as a supplement to the framework of available private services.<sup>12</sup>

3. (a) Commerce should restructure its export assistance programs so that they benefit principally small business firms without export experience.

(b) In the meantime, Commerce should increase funding and resources for the Foreign Buyers Program and study ways in which

<sup>12</sup> The survey of export services and any other necessary evaluation leading to recommendations for the restructuring of Commerce programs should be conducted principally by the Office of Budget and Program Evaluation under the Assistant Secretary for Administration with assistance from the programs planning and analysis division of the DIBA Office of Budget and the Small Business Administration.

The various offices within BIC, including OIM, Office of Export Development, Office of Market Planning and the Commerce Action Group for the Near East, should be reorganized to coincide with the restructured program mix as discussed in recommendations 3 and 4.

this program may be expanded. With assistance from the State Department, Commerce should devise a new coding system to make leads generated from the Trade Opportunities Program more useful to the program's subscribers.

4. As an alternative to the existing trade center program, Commerce should consider the establishment, where there is sufficient demand, of a movable exhibit staff to support and assist participation by U.S. firms in privately-sponsored trade fairs and occasional solo exhibitions conducted in local facilities. The Commerce trade exhibit staff in Cologne, Germany might provide a model for such a program.

Furthermore, Commerce independently, or in conjunction with embassy facilities provided by State (whichever proves most feasible and economical), could provide office, telephone, duplicating and library facilities and secretarial, translation and answering services to visiting businessmen charging fees to cover operating expenses. These services, however, unless provided on a full cost recovery basis, should only be provided if they fit within the context of the restructuring objectives referred to in recommendation 3.

5. The composition of the membership of the President's Export Council should be changed to decrease representation from large corporations and increase representation among small businessmen, export oriented trade associations, export service associations and State agencies.

6. In reporting export program benefits, Commerce should discontinue the use of unreliable sales estimates and devise a system that more realistically reflects achievement goals.

7. (a) In establishing a fee schedule for its export service, Commerce should be guided by the following considerations:

The financial resources of the business enterprise;

The export experience of the business enterprise; and

Whether the firm is genuinely unfamiliar with an export market as opposed to its merely introducing a new product in an old market or expanding their current market position (i.e., a company successfully exporting in one common market country should not be regarded as "new" merely because it attempts to enter another common market country).

(b) Commerce fees to business enterprises with great financial resources should match, on a dollar-for-dollar basis, Commerce's actual costs.

8. In accounting for and reporting costs of export promotion programs, BIC should take into account all overhead and administrative costs attributable to the program. This would include the cost of resources used to support a program whether or not they are provided by the office with principal responsibility over the program (e.g., field officers' efforts to recruit for trade center events should be reflected in the overall cost of the trade center program).

9. (a) In an adequately restructured Commerce Department export promotion effort, State should devote adequate resources to properly service Commerce's programs abroad.

(b) In consultation with Commerce, State should draft Country Commercial Programs (CCPS) which realistically reflect anticipated expenditures and available resources for commercial activities and programs for the succeeding year.

10. State should adopt a uniform accounting system for commercial activities which accurately reflects expenditures and resources for all commercial activities and programs. This system should be approved by the General Accounting Office.

11. Commerce should report to the appropriate congressional committees (including Government Operations and Appropriations) on whether State's expenditures and resources for commercial activities and programs follows the budgetary guidelines of the CCPs.

12. The performance of commercial activities of foreign service officers located abroad should be primarily reviewed by a Commerce foreign service reservist at the respective embassy or commercial post.

13. State should continue to upgrade positions and promotion opportunities for personnel engaged exclusively in commercial activities. State Department personnel who perform commercial functions under the direction of Commerce should be allowed full credit in terms of the State promotion process.

14. A joint Commerce-State committee should be established and empowered to resolve disputes arising between Commerce and State as they pertain to foreign commercial activities of the Departments and the formulation and operation of export promotion programs and policies.

15. Commerce should be permitted to carry on the commercial functions with its own personnel at one reasonably active foreign service post on an experimental basis. The duration and terms of this experiment should be sufficient (i) to determine the efficiency, effectiveness and feasibility of granting Commerce its own foreign service in the commercial area but under policy guidelines agreed to by State; and (ii) to provide a benchmark against which to measure State's discharge of its commercial responsibilities.

Recommendations 9 through 15 are conditioned on Commerce adequately fulfilling recommendations 1 through 4.

16. (a) Commerce and State should implement a policy of denying export assistance to a firm or individual in any market where they have engaged in what the United States deems to be questionable or illegal payments or practices.

(b) Commerce and State should cease immediately to recommend in trade leads, as agents or distributors, in credit or other reports individuals or firms engaged in questionable or illegal payments or practices. In this regard, State and Commerce should establish a liaison with the SEC, Treasury Department and the Justice Department and other Government agencies involved in investigating and reviewing questionable and illegal payments and practices.

#### IV. COMMERCE PROGRAMS LACK PROPER OBJECTIVE AND DO NOT EFFECTIVELY INCREASE EXPORTS

The Joint Evaluation stated that there are no clearly enunciated or understood policy objectives "on the need for or the purpose of official export promotion."<sup>13</sup> While the general goal is to increase the level of U.S. exports by encouraging and assisting U.S. businesses,

<sup>13</sup> See appendix 2 to Hearings at p. 168.

there is little direction as to the manner in which that goal will be achieved. Although the advertised purpose of the programs is to increase the number and amounts of exports from businesses which are inexperienced exporters, the Commerce programs are directed at short term increases in exports regardless of the size and experience of the exporter or degree of development of the export market. Only 6 to 8 percent of all U.S. manufacturing firms<sup>14</sup> can be considered to have a steady export business although many goods produced by non-exporters could be sold competitively abroad. Only about half of the 40,000 firms thought to be potential exporters have been engaged in foreign trade.<sup>15</sup> Furthermore, over 80 percent of U.S. exports of manufactured goods are concentrated within 200 of the U.S. largest manufacturers.<sup>16</sup>

U.S. firms traditionally have not been export minded. Because they have not participated within regional economic communities, such as the EEC, or have not been dependent on exports for a major portion of their business, such as the Japanese, they have had insufficient exposure to international trade experiences. Furthermore, the U.S. market is so large that many smaller manufacturers have little incentive to expand abroad other than during a domestic recession causing weak demand.

#### A. TRADE CENTERS PRINCIPALLY BENEFIT EXPERIENCED EXPORTERS

It is widely believed that the most cost-effective way to increase our overall level of exports is to increase nonexporting firms' awareness of business possibilities to be found in exporting,<sup>17</sup> and to assist them in their initial export ventures so they can decide whether exporting is worthwhile. Similar assistance given to experienced exporters will not increase the number or overall level of exports since most of these firms are already promoting their products in foreign markets as vigorously and effectively as possible. Assistance given to them will merely duplicate and confirm their current efforts and add only an incremental amount to our export totals.

Nevertheless, the trade center program which comprises the greatest portion of BIC's resources and activities does not benefit nonexporters. The Joint Evaluation indicated that only 7 percent of the participants in trade center events from (Exhibitions, JEEPs and BSPs) 1974-76 were NTE. Fifty-two percent of the participants were OTM firms and of the remaining OTE participants, a sizable portion included firms established in the market and merely introducing a new product to that market.<sup>18</sup> The GAO reported similar results: for fiscal year 1976 it found ". . . only 11 percent of the participants were in the primary target category of inexperienced firms in the exporting field";<sup>19</sup> previously, it found that ". . . more than 70 percent of the exhibitors at trade center shows were already exporting to the countries where the

<sup>14</sup> Hearings, p. 66, also appendix 2 to Hearings, p. 164.

<sup>15</sup> Appendix 2 to Hearings, p. 166. Some experts claim that as few as 10 percent of U.S. firms that could be exporting are presently doing so. See James E. McConnell and Donald R. Hoyte, "Exporting, Business Decision Making, and Trade Policy," Buffalo, N.Y., The Institute for Public Policy Alternatives, July 1975 (McConnell Report, p. 6.)

<sup>16</sup> Hearings, p. 66. See also McConnell Report.

<sup>17</sup> Lack of information and misconceptions about exporting are both cited as major issues in Part IV of McConnell Report.

<sup>18</sup> Appendix 2 to Hearings, pp. 154 and 183.

<sup>19</sup> Hearings, p. 5.

events were held".<sup>20</sup> In summary, Commerce's export promotion efforts do not effectively stimulate non-exporters because they are generally focused on large manufacturing enterprises already exporting.<sup>21</sup>

One reason trade centers are not an appropriate vehicle to induce non-exporters, particularly small and medium-sized firms, into foreign trade is the time and money involved. An experienced exporter with an established foreign agent or sales force has to pay only the participation fee and other minor expenses associated with attending a trade center event. The experienced exporter's foreign agent does not require a per diem if he is on a retainer and/or fully paid on a commission basis; if he is not a resident of the city where the event is held, his travel expenses are less than for a U.S. visitor; and the exhibited merchandise only has to be shipped from its foreign distribution or warehousing point to the trade center and need not pass through customs. On the other hand, the non-exporter has no foreign agent or large sales force to rely on. One of its executives must travel overseas to the exhibit; pay lodging expenses for a week; and transport and insure the exhibited product from the United States to the trade center. Furthermore, a small firm cannot afford to be without the services of one of its top executives for approximately 10 days to explore sales possibilities in unchartered markets. Consequently, the non-exporter, and particularly the small business with limited promotional funds, will opt to participate in private domestic promotional events where it costs less to attend and the territory is familiar.

A survey prepared by the Advertising Council last year of firms replying to a Commerce offer of export information rated "opportunities to exhibit (their) products overseas" of less interest and importance than any of the 11 other categories of export assistance referred to. Only 8 percent (out of 100 percent) rated exhibition opportunities of special importance as compared to 26 percent who rated each of "specific trade leads" and "evaluation and selection of potential distributors" of special importance. Similarly, in a Harvard University School of Business Administration survey in May 1974 (Harvard Survey) of trade center participants, 38.7 percent of the respondents, rated trade shows of little or no value while only 29.6 percent rated them "helpful".<sup>22</sup>

Commerce's field office experience reflects the lack of interest in trade center event participation. In the past, DIBA field offices were actively engaged in recruiting for these events, but their efforts were frustrated because domestic non-exporters were not interested and an experienced exporter's decision to participate in an event was usually made by its foreign office or sales agent. Commerce has recognized its field offices difficulties, and today most recruiting for trade center events is performed in BIC's Washington office or from trade centers and Foreign Service posts. For example, 28 of 38 signed participation agreements for a May 1977 Milan trade center show were obtained by the trade center staff from overseas agents while only 10 participants were obtained by Washington's project office and none by

<sup>20</sup> Ibid., p. 72; one witness commented that "I think that even the low 7 percent figure is very inflated".

<sup>21</sup> "On Creating a More Effective Communication System Between Government and Business to Promote U.S. Exports" by James E. McConnell, forthcoming in Journal of Business Communications.

<sup>22</sup> "Merchandising Strategy for Bureau of International Commerce" by Mark L. Arnold, Victor DeJong, John J. Feehan, Jr., Toshio Gotoh, James D. O'Connell and Gerrit J. Van Zyl; Harvard University Graduate School of Business Administration, May 1974, p. 97.

field offices. Nineteen of the 28 participants contacted through the trade center were OTM.

Consequently, as Commerce looks abroad for trade center event participants, it will attract even fewer non-exporting firms. Indeed, comments in a "final report" to BIC's offices on a show held in the London Trade Center last year underscored this problem:

The only disappointing factor in this show was exhibitor recruitment. Of the exhibition's 42 participants, 8 were signed up in Washington, and the Participation Agreements and checks for the remaining 34 were obtained in London. . . . The Trade Center procurement pattern has steadily become worse over the last six months to the sacrifice of the OIM program objective of introducing new firms to export markets. This growing trend toward increased overseas procurement greatly reduces future prospects for introducing new U.S. companies to the marketplace.

On the more positive side, this exhibition made an excellent contribution to the Trade Center's institutional image. . . .<sup>23</sup>

Similar market research comments on a May 1977 Milan trade center show stated that "large American multinational firms" controlled almost the total market:

. . . the U.S. suppliers (IBM, Honeywell, Univac, etc.) cover at least 95 percent of the value of the installed computer population in Italy.<sup>24</sup>

#### B. REPETITION OF TRADE CENTER THEMES AND PARTICIPANTS

Rental, utilities, maintenance and local employee salaries attributable to each trade center represent sizable fixed costs that pressure a trade center director to stage as many shows as possible. To recover a maximum amount of the fixed costs, directors will target shows to attract the largest number of participants with little regard to the goal of attracting new, inexperienced exporters. A review of Commerce's participants' lists for fiscal year 1976 reveals that many firms participated in more than one trade center event during that year. As the Joint Evaluation pointed out:

Trade Centers were also found to be inflexible and preemptive in their use of available promotional resources. On the one hand, inflexibility stems from the fact that trade centers take personal and financial resources at a high fixed rate, whether or not they are used. The drive, therefore, is to program events into an established trade center without necessary reference to whether the center is the best available trade promotional device for that market at that time. Such a drive to feed the centers has predictable side effects in a growing problem of recruiting exhibitors who either fit the theme of given exhibits or who meet the present criteria of focus on a new-to-market/new-to-export.<sup>25</sup>

<sup>23</sup> London Trade Center's final show report, "Summary and Evaluation" section.

<sup>24</sup> *Survey of World Markets for Computers and Peripheral Equipment*, performed for the Milan Trade Center, May 1976.

<sup>25</sup> See Joint Evaluation, Evaluation Memorandum, (EM) #B-8, p. 4.

Frequently, trade center show themes are selected because that trade center or another had previously used that or a similar theme. Commerce personnel have continually commented that exhibitions are often staged to utilize the trade center although there is no real demand from business for such a show. Consequently, the trade center recruits from the list of firms participating in the previous events to insure that its event will be well attended, but such practices assure a lower attendance from firms unfamiliar with export markets: ". . . to keep the centers full, efforts to recruit participants are focused on firms willing to exhibit rather than on the development of a broader pool of exporters."<sup>26</sup>

### C. COMMERCE DOES NOT DISTINGUISH BETWEEN EXPERIENCED EXPORTERS AND FIRMS INEXPERIENCED IN EXPORTING

In reporting to Appropriations Committee and other inquiring entities, Commerce distorts its results by treating both NTE and OTE firms as new exporters. Furthermore, Commerce charges OTE firms the same low fees as NTE firms for participation in trade center events. Both the Joint Evaluation and GAO have criticized Commerce for failing to adequately distinguish between new exporters and old exporters in charging and reporting for NTE and OTE firms.

Commerce charges OTE and NTE participants \$900 for participation in trade center events, \$25 per day for BSP's and \$300 for trade missions, while it charges OTM's \$2,000, \$50 and \$600 respectively for these services.

Commerce defines an OTE firm as:

A company which has not successfully marketed the product line to be exhibited, in the country where the event is to be held within the twelve-month period immediately preceding the signing of the Participation Agreement; and either is unrepresented or has an inactive representative in that country.<sup>27</sup>

Consequently, a firm well established in a given market can qualify for the reduced rates of an OTE if it is merely introducing a new product in that market.<sup>28</sup>

A survey of all trade center event participants during the month of September 1976, indicated numerous firms that were experienced exporters in the respective exhibition market but nevertheless were charged lower rates and reported OTE. For example, General Electric Co., and Hewlett-Packard exhibited in Singapore at reduced rates. However, in the Singapore and South East Asia market, GE employed 24 sales people, had 70 agents and/or distributors, and reported \$170 million in sales for 1976. Similarly, Hewlett-Packard employed 60 sales people, had 7 agents/distributors and reported \$8 million in sales for 1975-76 in the Singapore, Malaysia, Indonesia, Thailand and Philippines market. General Electric and Honeywell exhibited at reduced rates in Mexico City and Rockwell International in Tokyo although each of these firms had active subsidiaries, sales agents and/

<sup>26</sup> Ibid., p. 5.

<sup>27</sup> See appendix 6 to Hearings, p. 254. (Note: Commerce refers to OTE firms as "new-to-market" or NTM.)

<sup>28</sup> See appendix 2 to Hearings, p. 183.

or manufacturing subsidiaries in the respective markets. For example, in the Mexico and Central American markets, GE employed 24 sales personnel, 54 agents and/or representatives and had approximately \$60 million in 1976 sales and \$85 million in 1975 sales; in the same markets, Honeywell had a constant sales force of 35 people, 6 sales subsidiaries and 1975-76 sales of \$17.9 million. Although it exhibited at reduced rates in Tokyo, Rockwell International ranked Japan its second (fy '75) and third (fy '76) largest export market where it has 12 to 15 sales personnel, 27 agents/distributors, 20 licensing agreements, two joint ventures, one joint developing program, one 10-percent minority-owned affiliate and sales of \$61.9 million for fy 1975 and 1976.

Other examples of experienced exporters being reported as OTE's and receiving a reduced rate in September 1976 included: Babcock and Wilcox, Rawlings Sporting Goods, Ampex, MTS Systems, Motorola, Eaton Corp., Memorex, Wang Laboratories, Singer, Borden, the Stanley Works, F. Schumacker and Co., United Coatings, Ingersoll Rand, Johns Manville, 3M, Royal Industries, Litton Industries, Emery Air Freight, Hobart Corp., and others.

In addition to maintaining loose guidelines for defining OTE firms, Commerce does not even conduct a cursory check to see whether a firm reporting itself as NTE actually is one—some large firms report themselves as NTE merely by having a previously non-exporting subsidiary sign the Participation Agreement with Commerce.

#### D. LARGE FIRMS BENEFIT MORE THAN SMALL BUSINESS

In general, large business benefits much more than small business from trade center facilities. Interviews with U.S. businessmen and consultants engaged in foreign trade reveal that despite the proposed intentions of trade center operations to assist smaller companies, in practice larger firms have been reaping relatively more benefit. A survey of Commerce reports on trade center events for 1976 indicates that although numerically there are more potential small business exporters than large, almost 2½ times as many large firms (\$50 million or more annual sales according to Commerce's definition) participate in trade center exhibits than small firms (\$1 million or less annual sales).<sup>29</sup> Over half the exhibitors in the Taipei, Milan, Sydney and Singapore trade centers were large firms and every trade center was utilized by more large exhibitors than small. The shift in trade center event recruitment from field offices to BIC headquarters in Washington and the foreign posts will probably accelerate the lower proportion of small business participation in trade center events.

Other Commerce/State programs also favor the large, experienced exporters over the small firms trying to enter export markets. The Major Export Projects Division (MEPD) receives reports on construction projects individually valued at \$5 million or more through

<sup>29</sup> See appendix 1 to Hearings, p. 155. These figures understate the involvement of large firms vis-a-vis medium and small firms. Often, an agent, subsidiary or division of a large firm participating as an exhibitor is listed as a small or medium-size firm. The subcommittee discovered that at least 10 percent of the firms listed as medium and small size were actually "Fortune 1000" companies.

The Joint Evaluation reported 18 percent of OIM 1974-1976 event participants were small firms (\$1 million or less annual sales), 59 percent were medium-size firms (\$1 million to \$20 million annual sales) and 23 percent were large firms (\$10 million or more annual sales.) See Joint Evaluation EM #A-4, pp. 9-10.

TOPs and directly from Foreign Service posts and transmits this information to approximately 300 large U.S. firms actively involved in international contracting. It then assists interested U.S. firms to improve their chances of getting an important contract. By limiting their services to a list of no more than 300 major contractors experienced in export work, MEPD is excluding many smaller specialized firms (such as architectural and engineering firms which tend to have smaller staffs than general contracting or development firms), which can easily handle a modest-sized project of \$5 million or more, from receiving its services. Commerce's patronizing position that "smaller companies with limited experience and resources consider associating themselves with larger American companies . . ." if they want to take advantage of major overseas projects<sup>30</sup> is totally inappropriate for a Government agency. While it is clearly recognized that some small firms are not capable of handling a large international contracting operation, the current attitudes at Commerce and State tend to exclude and discourage firms inexperienced in exporting from testing any export opportunities<sup>31</sup> and developing the necessary expertise to compete against the larger construction consortiums.

Commerce has adopted a similar attitude in regards to its Strategic and Industrial Product Sales program (SIPS) which disseminates leads on large purchases of sophisticated, high technology equipment having an export value of \$1 million or more. For any given lead, anywhere from 2 to 15 suppliers may be contacted. Commerce, however, does not aim the program at small companies or inexperienced exporters.<sup>32</sup>

Commerce's principal advisory group for export promotional issues is the President's Export Council (PEC) which reflects the general bias in favor of large corporations in our export promotion programs.<sup>33</sup> PEC which was established in 1973 to serve as a national advisory body on export expansion activities "consist(s) exclusively of large businessmen".<sup>34</sup> Twenty of PEC's 22 members were chairmen or presidents of "Fortune 500" companies, one is chairman of a company which would rank among the "Fortune 1000" and one is chairman of a major insurance company.<sup>35</sup> The consensus among small businessmen recently participating in a Small Business Assistance Conference held by Commerce was that they did not have an adequate voice in the formulation of Federal export promotion programs. Although it was recommended that an advisory committee of small businessmen be set up distinct from large firms represented by PSC, one has yet to be established. As one participant stated, the Government must decide if it wants to expand the number of small business exporters, not just the quantity of exports from those established in the field.

<sup>30</sup> See appendix 6 to Hearings, p. 268.

<sup>31</sup> See Hearings, pp. 108-109.

<sup>32</sup> See appendix 6 to Hearings, p. 266.

<sup>33</sup> The PEC was maintained at a cost to the Government of \$82,900 in FY 1976.

<sup>34</sup> See Hearings, p. 109.

<sup>35</sup> Corporations represented in PEC: Koppers Co., Inc. Union Carbide Corp., Armstrong Cork Co., Hercules Inc., Chatham Mfg. Co., Cook Industries, Inc., Ralston Purina Co., Eaton Corp., Flour Corp., Brunswick Corp., Monsanto Co., Aluminum Co. of America, The Continental Group, Inc., Carrier Corp., Dresser Industries, Inc., General Electric Corp., Sperry Rand Corp., Allis-Chalmers Corp., Texas Instruments, Inc., Chrysler Corp., Arco Steel Corp., and Boeing Co.

## E. ALTERNATIVE SERVICES ARE MORE BENEFICIAL

## TRADE CENTERS

Many of the Government export promotion programs, particularly those involving trade centers, are duplicative and inferior to those offered by the private sector. In many trade center markets ". . . there is a well developed structure of trade fairs, including permanent exhibit facilities. . . ." <sup>36</sup> Indeed, since Commerce began its trade center program, a number of trade promotion companies and trade associations have begun staging their own shows in competition with trade centers.

Trade centers compete directly with these private trade fairs for both visitors and participants by offering the same products in their shows in the same country during a 12-month period as did trade center shows. As the GAO discovered :

In fiscal year 1975, for example, 35 of the 48 shows held in Commerce's Western Europe and Japan facilities, featured products similar to those exhibited at trade fairs in the same country during calendar years 1974 and 1975.

The pattern was similar in fiscal year 1976, when 28 of 46 trade center shows featured products similar to those in trade fairs. <sup>37</sup>

Frequently, Commerce's own shows are cancelled because of competition for U.S. exhibitors from private trade fairs. For example, Industrial Training Aids/Audio Visual Equipment (ITAAVE) shows scheduled for the Paris and Milan trade centers in June 1977 were cancelled due partly to conflicts with at least three private and one other trade center shows covering similar themes. <sup>38</sup> These other shows ". . . drew off a considerable number of export-minded participation prospects" according to a Commerce memorandum. It should be noted that the Milan ITAAVE show replaced a proposed pharmaceutical and cosmetics show which was previously cancelled when the theme proved negative. In other instances, scheduling conflicts which are ignored when planning a show make it extremely difficult to recruit quality exhibitors. A recent electronic producing and testing equipment show scheduled in the Stockholm trade center ran into such problems because of conflicts with four other trade fair and trade center shows using similar themes.

Exhibitors favor trade fairs over U.S. trade center events because they enjoy better exposure and sales results at trade fairs. Commerce's own comparative data indicate that fiscal year 1976 trade center events produce dramatically lower sales per exhibitor than private trade fairs. On average all U.S. trade center exhibitors enjoyed off-the-floor sales of only \$16,101 per exhibitor and anticipated sales during the 12 months succeeding the events of \$326,954 per exhibitor. On the

<sup>36</sup> Hearings, p. 4.

<sup>37</sup> *Ibid.*, p. 5 and 22.

<sup>38</sup> Private shows were being held in Montreux, Switzerland (June 1977) Biennial; Dusseldorf, Germany (June 1977) Annual; Milan, Italy (May 1977) Annual; Netherlands (May 1977).

other hand, Commerce-sponsored U.S. exhibitors in private international trade fairs had averaged off-the-floor sales of \$89,155 per exhibitor and anticipated sales during the succeeding 12 months of \$532,926 per exhibitor. In other words, trade fair exhibitors averaged 550 percent more in achieved sales and expected 63 percent more in future sales than trade center exhibitors. Furthermore, there was little difference in the sales leads, sales agents and business partners found by trade center exhibitors and those found in private trade fairs.<sup>39</sup>

Similarly, Commerce-sponsored trade missions, which receive far less resources than trade centers, produce more average sales per exhibitor than trade center events. In fiscal year 1976 BIC allocated only eight positions to handle trade missions while 133 positions were allocated to serve trade center events.<sup>40</sup> But NTE/OTE and OTM trade mission exhibitors expected 19 percent and 49 percent more sales respectively than trade center exhibitors; and although trade missions are not geared for producing immediate sales, IOGA initiated trade missions<sup>41</sup> produced average off-the-floor sales of \$11,849 per exhibitor—over 70 percent of trade center off-the-floor sales per exhibitor.

Trade fairs are also favored by exhibitors because they feel that they receive a better mix of attendees at fairs and that fairs are better timed to meet customers' buying cycles than trade center exhibitions. Furthermore, because many agent-exhibitors represent clients from several countries (especially if they specialize in representing smaller firms), trade center shows are less desirable because agents can only represent certain U.S. clients thereat, whereas at trade fairs, they can service all of their clients in a single show.

The Harvard Survey indicated that more trade center participants rated both trade center shows and trade missions of little or no value than rated them as helpful. Only 29.6 percent rated trade center events as helpful while 38.7 percent rated them of little or no value. Comparable results for trade missions were 29 percent and 48 percent.

Both GAO and the Joint Evaluation have concluded that private trade fairs are as good as or better than trade center shows and question the utility of trade centers as “. . . the most effective use of available resources for promoting exports. . . .”<sup>42</sup> GAO reported:

In fiscal year 1976, participants in developed country trade center shows averaged sales of \$315,000, whereas participants in Commerce-sponsored trade fairs averaged sales of \$998,000.

Participants in trade center shows and trade fairs averaged about the same number of trade leads and agents obtained.<sup>43</sup>

Furthermore, many products or services do not lend themselves to display events in trade centers and are ignored by Commerce's export promotion efforts. For example, the National Machine Tool Builders Association, as well as manufacturers of construction and

<sup>39</sup> See appendix 1 to Hearings, p. 157; also Hearings, pp. 5 & 8 (for developed markets only).

<sup>40</sup> See House Appropriations Hearings, p. 573.

<sup>41</sup> IOGA initiated trade missions are those missions initiated and sponsored by trade associations, industrial groups and regional or state commercial agencies.

<sup>42</sup> Hearings, pp. 4-5; also, Joint Evaluation, EM # B-8, p. 4.

<sup>43</sup> Hearings, p. 5.

mining equipment, energy generating equipment and pleasure boats,<sup>44</sup> cannot utilize U.S. facilities for promotional events because most of their products are too big to display in trade centers; and a firm providing services, such as computer programming, engineering or architectural services, is selling pure talent and has no product to display at a trade center. As a result, with the exception of the MEPD and SIPS programs which are oriented only to large, established contractors and manufacturers, these industries and professions are usually ignored by the Commerce/State export promotion programs.<sup>45</sup>

It is clear that there are viable alternatives to trade center events for U.S. firms wishing to display products abroad through exhibitions. Although trade fairs tend to be slightly more expensive for participants than trade centers, when other expenses associated with attending a trade show are figured in, the cost differential is minimal. The Joint Evaluation recommends that:

*. . . future trade exhibit activities on use of U.S. sponsored solo events or on participation in local trade fairs rather than on exhibits in U.S.-owned or leased trade centers (EM B-8); all existing trade centers should be reviewed with a view to phasing out those in all locations where a moveable staff, e.g., the Cologne model, and local facilities can provide exhibited support . . . (Italics original)<sup>46</sup>*

Because of the proliferation of private export promotional vehicles, it is questionable whether Commerce can claim credit for introducing its participants to exporting. A Commerce survey indicated that most firms that began exporting through Commerce "exhibition programs would have entered the export market anyway . . . if Government assistance was unavailable."<sup>47</sup> The survey of participants in Commerce exhibition programs found that 80 percent of NTE and 50 percent of OTE participants became successful exporters. Of these firms, 53 percent of NTE firms and 71 percent of OTE firms stated that even without the inducement from government programs they would have attempted exporting or penetration of new markets immediately; and an additional 19 percent of NTE and 18 percent of OTE stated that they would have attempted exporting at a later time. Agent-representatives in Milan and London also said that most new companies entering those markets would have done so without Commerce's prodding. A discussion with certain field office directors confirmed these findings. One regional director, indicating that a field office would be fortunate to claim assistance for 10 NTE firms per year, said that most of these firms would have exported without DIBA's assistance.

U.S.'s competing trading partners have recognized that trade centers are not a cost-effective means of promoting exports in other developed countries, and none of the U.S.'s competing trading partners presently have established trade centers similar to Commerce's. While England and Japan experimented with trade centers in New York and France

<sup>44</sup> Hearings, p. 5. GAO reported that manufacturers of these products couldn't display them at the Paris Trade Center, but did participate in numerous trade fairs in France.

<sup>45</sup> See appendix 4 to Hearings, pp. 217-220.

<sup>46</sup> See appendix 2 to Hearings, p. 175.

<sup>47</sup> See appendix 3 to Hearings, p. 204.

in Tokyo, they failed to meet their export promotion objectives and were abandoned within a couple of years. Presently, these and other countries only maintain trade promotion offices and minor consumer product and travel display facilities.<sup>48</sup>

In most freeworld markets where trade center facilities exist, if no trade fair is serving a particular market or product with high potential for U.S. exports, Commerce can sponsor a solo U.S. exhibition in hotels, exhibition halls and other private facilities existing in all current trade center markets. Therefore, in light of NTE's limited use of trade centers and other evidence discussed, a phaseout of the trade center facilities would have negligible impact on our export expansion efforts.

#### MAJOR EXPORT PROJECTS DIVISION (MEPD)

As previously discussed, one of the two primary goals of MEPD's program is to provide its clients with an early warning notice of pending projects. Most of MEPD's clients were large firms experienced with international contracting and development. The Joint Evaluation contacted these firms and reported that they all "had other sources for getting early warnings of major international projects." Such sources include trade associations, their own foreign agents, trade journals, subcontractors, suppliers and other firms they do business with and their own informational system. A prerequisite to these firms' successful international operations is an efficient information and intelligence gathering system. The Joint Evaluation stated:

As a result, firms generally are aware of major projects some time before they receive MEPD's early warning notice. (One representative estimated the average lag to be about 30 days).<sup>49</sup>

Because of the Government's mechanism and system for obtaining information on major projects from foreign service posts, transmitting it to Washington and selecting clients to receive the "early warning notice", one source informed the subcommittee that it usually took 30 to 60 days to learn of major project leads. Thus, the MEPD's program appears to be little more than a backup for information gathering systems of the larger experienced international contracting and development firms.

#### WORLD TRADE DATA REPORTS

World Trade Data Reports (WTDR) provide specific information useful in evaluating the credit worthiness and general reputation of a foreign firm, such as size, growth, employment, activities, product lines and officers. Information for most WTDR's are gathered in response to specific requests and sold to subscribers for \$15 each.

The WTDR program was commenced while there was a shortage of private reports and sources of credit information; however, more recently as levels of international trade expanded, banks, D&B and other

<sup>48</sup> Hearings, p. 27.

<sup>49</sup> See Joint Evaluation, EM #B-7, p. 4.

similar credit agencies have also expanded the credit information available on foreign firms. A survey of WTDR users found that they did not find WTDRs as valuable a source on credit worthiness as the private reports and sources.<sup>50</sup> In some instances it was found that foreign posts merely based the WTDR on the available D&B and foreign local secretaries were responsible for compiling WTDR's with little or no supervision from the posts' professional staff. While WTDR's may still serve a valuable function in those markets where there is an absence of private reports and reliable sources of credit information, Commerce should re-evaluate the program in developed markets where private alternatives exist.

#### TRADE LEADS

A growing list of State departments of commerce, trade organizations, banks, accounting firms, transportation companies and business service organizations are providing information on doing business abroad, foreign trade leads and foreign agents and distributors in various formats. D&B is one of the leaders in providing information on international business conditions, regulations, customs and transportation, communications, insurance and other requirements. In addition to providing credit, marketing and purchasing information on over 50,000 leading firms, D&B provides detailed information on specific geographic and product markets, and its 5,000 employees, working exclusively on commercial and financial matters in 23 foreign offices, are in a better position than State and Commerce's 270 commercial personnel stationed abroad to gather such information.

Airlines, such as Pan Am, have published bi-monthly marketing letters with an extensive listing of worldwide marketing opportunities while banks with international operations provide lists of foreign business opportunities to their clients and correspondent banks. For example, Citibank's monthly Foreign Business Opportunities Bulletin, containing export and import sales leads, is distributed to the bank's customers as well as a network of 250 correspondent banks in the United States. Accounting firms, such as Price, Waterhouse and Co. and Arthur Anderson and Co. provide tax and trade guides on particular countries which are geared to give businessmen a layman's view of economic data concerning a country, methods of organizing and conducting business within a country, and an overview of the country's tax structure and related matters. A subsidiary of Chase Manhattan Bank offers a "Chase World Guide for Exporters" which provides worldwide information on import and export policies and services and assistance available to exporters, and "Export Credit Report" which provide data on credit terms and collection experiences in different countries and categories of products and commodities. Chase provides these services to subscriber as well as its customers. Newsweek magazine has commenced a monthly publication of new products and processes with information on trade fairs, manufacturing, sales and licensing arrangements. Finally, the growing network of private and quasi-government supported world trade centers, such as the World Trade Center of the Port Authority of New York and New Jersey, have

<sup>50</sup> See Joint Evaluation, EM #B-10, p. 2.

formed into a World Trade Center Association<sup>51</sup> (WTCA) which has devoted considerable resources to develop an international computerized network of up-to-date information on trade leads, contacts, agents and distributors, markets, government regulations, tariffs and other matters.<sup>52</sup> In comparison, Commerce's market, trade lead and credit information is sometimes 1 to 4 years old.

#### BUSINESS COUNSELING AND MISCELLANEOUS SERVICES

In addition to the aforementioned examples of private sources of trade leads and other export related information, universities, State departments of commerce, trade associations, banks, market research firms, export counseling firms, accounting firms and other business entities also provide numerous seminars and courses on export awareness and all aspects of export trade and business in foreign countries. While businessmen expressed a belief that Commerce's export awareness and other informational services can serve as a backup to privately provided services, it was felt that the private services were in general more detailed, up to date and better suited to the businessman's particular needs than those provided by Commerce.<sup>53</sup>

It is felt that much of the market information compiled by Commerce is at such a macro level as to be of marginal value to user firms. The Harvard Survey reported that exporters using Commerce's service evaluated Commerce "significantly lower in all categories" of export assistance than private sources and that "there appears to be little difference between categories in DOC evaluation."<sup>54</sup> For example, 74.2 percent of these using Commerce's business export counseling services found them of little or no value while only 14.4 percent rated it as helpful; 43.9 percent found export seminars of little or no value, while only 39.3 percent rated it as helpful; and 49.4 percent, 51.3 percent and 40.5 percent respectively found A/DS, TOP and the Global Market Survey of little or no value as opposed to only 29.6 percent, 33.5 percent and 40.8 percent who found these services helpful.

DIBA's field offices are the primary vehicle through which Commerce disseminates export information and counseling. There are currently 43 field offices and 20 "satellite" offices staffed by 204 "professionals" and 120 "staff personnel." The salaries and expenditures for these offices in fy 1977 is over \$9 million. The field offices principally provide assistance by disseminating literature and written material which could also be (and often is) handled by individual state commerce departments, trade associations, banks and universities.<sup>55</sup> The Joint Evaluation criticized field office personnel for their lack of "spe-

<sup>51</sup> Other regular member locations include: Brussels, Belgium; Tamuning, Guam; Kobe, Japan; Seoul, Korea; Wellington, New Zealand; Madrid, Spain; Gothenburg, Sweden; London, U.K.; Dallas, Houston, New Orleans, Indianapolis, Los Angeles and San Francisco. World Trade Centers under construction include: Copenhagen, Denmark; Hong Kong; Singapore; Bombay, India; Moscow, U.S.S.R.; Kinshasa, Zaire and Baltimore, Md. In addition, there are over 102 members at world trade posts in 42 countries.

<sup>52</sup> In regard to requests for specific information not within its information bank, WTCA through its affiliates will conduct research and charge the subscriber an hourly rate. WTCA expects to be self-supporting within 10 years.

<sup>53</sup> See McConnell, *Journal of Business Communication*, discussion that businessmen prefer information from their own industrial groups and business associates than from government.

<sup>54</sup> See Harvard Survey, n. 21.

<sup>55</sup> See "On Creating a More Effective Communications System Between Government and Business to Promote U.S. Exports," J. E. McConnell, State University of New York, *Journal of Business Communications*, \_\_\_\_\_ 1977.

cial expertise" in most domestic business areas, and that ". . . their prospective audience often knows more than they do."<sup>56</sup> Because trade specialists at field offices will cover as many as 200 accounts in various industries they cannot become expert or focus on the problems of any particular client. As the Harvard Survey stated:

Since the Trade Specialists have responsibility for promoting many programs sponsored by Bureaus (within DIBA) other than BIC, they are interested in selling BIC services as rapidly as possible rather than performing in-depth consulting for businesses.<sup>57</sup>

Furthermore, field offices do not inform their clientele of the full array of export assistance services available in both the private and non-Federal public sector. They view themselves as an outlet to promote the government's services, such as those provided by Commerce and State, the Export-Import Bank, FCIA, DISC programs, et cetera, and do not adequately inform clients of private alternatives to government export assistance programs. This same attitude is carried over to Commerce's foreign operations. Although no fewer than 18 States maintain foreign trade promotional offices which provide a variety of services, it is Commerce's policy to give "little or no direct assistance" to these offices.<sup>58</sup>

Presently, Commerce has not been able to indicate to the subcommittee any services provided in its programs which are not also provided by private or non-Federal governmental sources.<sup>59</sup> Commerce's first step in re-evaluating its export assistance efforts should be a survey of all such services presently available from private sources and those services which private sources are attempting to develop. Commerce's efforts should encourage the private development of these export assistance services and it should restructure its programs so as to supplement rather than compete with and duplicate such services. If it is then decided that inexperienced exporters need additional stimulus or encouragement to export, programs can be adopted to meet their specific needs within, or in addition to, the framework of available private services.

## V. COMMERCE/STATE PROGRAMS ARE INEFFICIENT

### A. TRADE CENTERS

As previously discussed, U.S. trade centers are large, fixed facilities having their greatest impact in their first year of operations, but their marginal utility decreases each year thereafter.<sup>60</sup> As successful product themes are exhibited and firms are introduced in a market, it becomes more difficult to find new products to promote which meet the trade centers' goal. The market becomes saturated with themes that the trade center is capable of promoting, but the center's inflexibility forces it to repeat previously successful themes with diminishing results. The repetition of computer shows at the

<sup>56</sup> See Joint Evaluation, EM #D-5, p. 3.

<sup>57</sup> See Harvard Survey, p. 11.

<sup>58</sup> See appendix 6 to Hearings, p. 255-256.

<sup>59</sup> See appendix 6 to Hearings, pp. 272-274.

<sup>60</sup> See Hearings, p. 22.

Milan trade center is one example of this problem—the center continues to stage its annual computer show because it is almost impossible to find new themes and firms to fill the trade center. Although a recent Commerce memorandum recommended against continued planning for “pollution control” equipment and processes because “we are in an ‘overkill’ situation on this theme . . .”; as of December 1976, there were worldwide no fewer than seven U.S. trade center exhibitions, two technical sales seminars and an alternative trade center event scheduled to use this theme. Other themes are also frequently repeated in trade center shows.

Trade center employees and Washington officials who favor the trade center concept admit that one problem plaguing the program is an inability to determine the point at which a trade center’s utility is no longer worth its cost. The Joint Evaluation supported this finding by stating:

The Team found that established trade centers tended to produce diminishing returns in markets where they have existed for a few years.<sup>61</sup>

It concluded that:

A basic problem with . . . the trade center is that few markets will take or merit the saturation involved in a continual display. . . .<sup>62</sup>

Experience to date suggests that no trade center should be founded with an initial lease contract or bilateral agreement life exceeding five years, and that any renewal should be avoided except on demonstration of very strong prospective trade need.<sup>63</sup>

Commerce recognized this problem in their attempt to close the Sydney trade center,<sup>64</sup> and in recently setting up the demountable facility in Venezuela.

The identified benefits of the Sydney trade center clearly do not justify its costs. The GAO found that “its operation primarily benefits firms already established in that market,” and that because of the distance, it has been difficult to attract new firms to Australia.<sup>65</sup> The Venezuela facility represents a maximum promotional effort made to saturate a particular market in a short period. After that time, the success of the saturation efforts will be assessed and a determination made to continue or close the facility, diminish the resources devoted to that market and concentrate on another market.

One problem with limiting the life of a trade center is the bureaucratic, political and diplomatic pressure preventing its closing. Recent efforts to close trade centers of questionable continued value were thwarted by political pressure brought by foreign chambers of commerce serving those markets and by diplomatic protests from the host country which claimed that closing the center would be viewed as a

<sup>61</sup> See Joint Evaluation, EM #B-8, p. 4.

<sup>62</sup> *Ibid.*, p. 6.

<sup>63</sup> *Ibid.*, p. 10.

<sup>64</sup> The Sydney Trade Center’s utility was further hampered by the small market it served.

<sup>65</sup> Hearings, p. 25.

U.S. vote of no confidence in their economy. The Joint Evaluation stated:

The centers develop lives of their own, quite apart from any utility they may have for U.S. trade promotion. . . . This makes it difficult to close a trade center even after its heyday has passed. At the same time, in some instances embassies have reacted quite negatively to efforts to close a trade center, predicting adverse local political responses.<sup>66</sup>

In addition, because Commerce lacks its own foreign service, trade centers represent a prestigious way for Commerce to establish its presence abroad in partial competition with State, and, therefore, it is reluctant to pressure for the closing of a center. Trade centers serve as vehicles for placing Commerce personnel abroad; without them, Commerce fears its export assistance and promotion activities would be totally dependent on State and it would have no physical involvement in the foreign activities of its export programs.

Underutilization of trade center exhibition space represents a tremendous waste of resources. The exhibition area alone of U.S. trade centers located in free-world countries averages over 4,700 square feet with some exhibition areas occupying as much as 7,600 square feet. This is prime commercial space located on the ground floor of buildings in central business districts, but most of the time these facilities remain unused. Each center schedules only five to eight major exhibitions per year. Since each exhibition runs for a maximum of 5 days, each center could be fully utilized (assuming the exhibition attracts enough participants to fill the entire trade center) for only 20 to 40 days per year. However, some exhibitions attributable to trade centers are actually "off-site" exhibitions; for example, U.S. participation in the event "PLAST '76" was managed by trade center staff, but the event was actually held on the Milan fairgrounds adjacent to the trade center.<sup>67</sup> Moreover, fiscal year 1978 Milan Trade Center schedule included (as of March 1977) two "off-site" exhibitions and only four major (full) exhibitions. Similarly, several events attributed to the Sidney Trade Center, including the largest event in 1976, have, in fact, been held in New Zealand or other Australian cities as "off-site" events.<sup>68</sup>

There are an average of over 90 between show promotions per year for each trade center. These promotions, however, last for only 1 or 2 days and occupy a fraction of the trade center's space—in fact, many BSP's don't utilize a trade center's exhibition facilities, but merely use a conference room at the center. Consequently, most of a trade center's exhibition space is usually vacant. Because of this low utilization rate, large, fixed facility trade centers are not an efficient means through which the United States should conduct a trade exhibition program.

<sup>66</sup> Joint Evaluation, EM #B-8, pp. 5 and 6.

<sup>67</sup> For example, the Milan trade Center was used only 28 days in calendar year 1976 (including the off-site exhibition noted above) for exhibition events.

<sup>68</sup> Hearings, p. 25.

## B. PARTICIPATION FEES DO NOT RECOVER FULL COSTS

Although experienced exporters are charged more for participating in trade center events than new exporters, experienced exporters are still subsidized by Commerce. GAO indicated that:

. . . according to Commerce's own studies, the fees for old to market firms were set to recover an estimated 62 to 77 percent of Commerce's costs. . . . Furthermore, the amount of the subsidy will probably increase since the fees were based on program costs in fiscal year 1975 and have not been adjusted to reflect rising operating costs.<sup>69</sup>

Cost data supplied by Commerce for each trade center indicates fiscal year 1976 obligations totaled \$5,323,700, but participation fees were only \$1,840,900. On this basis, only 35 percent of trade center fiscal year 1976 obligations were recovered by participation fees.<sup>70</sup> Moreover, the proportion recovered by fees is even less since the obligations above do not reflect other resources utilized by and supporting trade centers. The trade center obligations above include only Commerce's overseas salaries and compensation benefits, space rental, telephone and utilities. Not included, however are Washington staff costs of \$1,796,400 attributable to the trade center program for 1976;<sup>71</sup> marketing activities of Commerce's 43 field offices in support of trade centers; international economic research done at DIBA; Washington office space; and personnel used from the Secretary's, Assistant Secretary's and other support staff.

Recovery of trade center program costs is further understated since State's expenditures directly associated with trade centers are also not included in the above obligations. As GAO discovered:

. . . the basis used for determining costs (and fees) does not include expenditures by the State Department in support of Commerce trade centers. State estimated that these costs, mainly for personnel, amounted to about \$1.4 million in fiscal year 1976.<sup>72</sup>

According to State, the above costs are salaries and allowances for positions at trade centers that are funded by State, including those filled by foreign employees, but do not include overhead and administrative expenses as well as other incidental costs.

Thus, total trade center costs and participation fees are based on incomplete cost data. As discussed below, both Commerce and State's accounting systems exacerbate program cost determination difficulties.

## C. INADEQUATE ACCOUNTING PROCEDURES

Without adequate accounting procedures regarding the State/Commerce export promotion programs, they will continue to be inefficient and wasteful.

Despite the need for a good accounting system for any program to be cost-effective and efficient, State has absolutely no accounting

<sup>69</sup> Ibid., p. 7.

<sup>70</sup> Appendix 2 to this report.

<sup>71</sup> Commerce response to subcommittee inquiries (Nos. 1, 5 and 6).

<sup>72</sup> Hearings, p. 7.

system for resources spent on commercial programs and matters. The GAO, which has not granted its approval to State's general accounting system, pointed out:

The State Department does not have a cost accounting system to record accrued expenditures for such commercial activities as export promotion. Its budgeting and accounting is categorized by organization, not by function. Funds are allocated to the geographical bureaus, which reallocate them to the Foreign Service posts in their areas. Each Ambassador in turn decides the allocation of post resources among various functions, such as political and commercial activities.

Since the Department does not have a cost accounting system, whether its budget figures contain adequate provision for overhead and indirect costs cannot be determined.

In connection with this matter, we would like to point out that the Comptroller General has not approved the general accounting system of the Department of State.<sup>73</sup>

OMB has also indicated that ". . . State has no cost-accounting procedures on a program-by-program basis."<sup>74</sup> In reviewing the effectiveness and efficiency of the Commerce/State export promotion program, OMB sought to determine the costs incurred by State in administering these programs abroad:

The Department of State does not have an accounting system that can generate cost information on a program-by-program basis. The Department of State costs mentioned in the Interagency Report were compiled through a one-time survey of major overseas foreign service posts that took almost nine months. Since accounting systems and methods differ from post to post, the data received in response to this survey was judged to be reliable only in rough order of magnitude.<sup>75</sup>

State's fiscal year 1976 expenditures for commercial functions (\$13.8 million) and estimates for fiscal year 1977 budget expenditures (\$15.7 million) are rough estimates which cannot be verified by reference to State's overall budget since it does not identify expenditures by program or function. The estimates are derived from State's Country Commercial Programs (CCP) which are program documents submitted by 38 major foreign service posts<sup>76</sup> and contain the posts' chief commercial officer's most optimistic expectation of resources available for commercial activities. In reality, however, the CCPs are little more than written bids in the budgetary bargaining process for resources to devote to commercial functions and, manifestly, almost always overstate commercial expenditures; therefore, the CCPs cannot be relied on as accurate or reliable estimates of the posts' expenditures for commercial activities.<sup>77</sup>

<sup>73</sup> Ibid., p. 16.

<sup>74</sup> See appendix 4 to Hearings, p. 210.

<sup>75</sup> See Hearings, p. 43.

<sup>76</sup> The 38 reporting posts represent approximately 65-70 percent of State's total resources devoted to foreign economic and commercial functions (hearings, p. 133).

<sup>77</sup> See appendix 4 to Hearings, pp. 215-216, for a discussion by State of its CCP program and reporting of economic/commercial data.

Although State hopes to "be in a better position in future years to assess the totality of our (State's) commercial resource allocations,"<sup>78</sup> it has discontinued its unified statements of commercial program expenditures as of fiscal year 1977. Without such a unified statement, State will not even be in a position to know whether individual posts are using the same method in accounting for expenditures, and its cost estimates will be less reliable than in the past.

While Commerce maintains some accounting procedures for program costs, its system does not account for total program costs and "must rely on cost information provided by State, which does not have an (GAO) approved accounting system".<sup>79</sup> Furthermore, Commerce does not allocate to programs fixed costs, such as, office space occupied by BIC personnel, international economic research done at DIBA to support various programs and a share of the cost of personnel used from the Secretary's, Assistant Secretary's offices and other Washington support staff.<sup>80</sup>

OMB and GAO have criticized Commerce's accounting system for not including "... all the costs of providing each major commercial service. . . ." <sup>81</sup> While OMB stated that Commerce need not establish "... an extensive operational cost accounting system", it criticized Commerce for not including basic indirect costs in its accounting procedures.

The Department of Commerce does have a system that identifies cost incurred by account and by projects, subproject, cost center, and cost category. At present the Commerce System does not include indirect costs of programs, such as the costs of overhead and the marketing incurred by the Department's 42 field offices.<sup>82</sup>

The inadequacy of Commerce's and State's accounting procedures for their export promotional programs was pointed out by John Huhs who discussed the difficulties faced by OMB in preparing the 1975 Interagency Report in determining the actual cost of the Commerce/State programs:

... the accounting system in the Department of Commerce is not designed to accumulate costs on a program-by-program basis. Accordingly, the amount and types of overhead and other costs appropriate to allocate to any particular program are largely a matter of judgment in which reasonable men usually differ.

For example, our estimates of individual program costs do not include the costs of the Commerce field offices in the U.S. (Office of Field Operations), which are used to promote Commerce's domestic and international programs to recruit participants for trade center shows, trade fairs, and so forth. Clearly a portion of the field office costs are attributable to various international programs; but Commerce's accounting

<sup>78</sup> See Hearings, p. 134.

<sup>79</sup> See Hearings, p. 17. See also "Interagency Report on U.S. Government Export Promotion Policies and Programs" by OMB, April 1975, (Revised) Draft ("OMB Report"), Section V., p. 13.

<sup>80</sup> See Hearings, p. 42-43.

<sup>81</sup> See appendix 4 to Hearings, p. 210.

<sup>82</sup> Ibid.

records do not contain sufficient program information to enable anyone fairly to allocate field office costs among various programs, . . ." <sup>83</sup>

The Department of Commerce's accounting system is better than State's but it still is not possible to obtain timely, accurate program cost data from Commerce. The Department of Commerce cost data in the Interagency Report was compiled by the Department of Commerce through a one-time analysis of accounting records and program data that consumed many months. <sup>84</sup>

Without a decent cost accounting system the Commerce/State export promotion programs will always be hampered by inefficiency and never approach optimal cost-effectiveness. As Mr. Huhs added:

To the best of my knowledge, there is no company in the United States the size of the Department of State or of the Department of Commerce whose owners permit it to operate in ignorance of timely and accurate data on the cost of each of its products or services. It will not be possible to expect Government executives to engage in cost-conscious decision-making or to be sensitive to program costs and to cost-effectiveness considerations until departmental accounting systems are revised to generate timely and accurate cost data on a program-by-program basis. <sup>85</sup>

The failure of Commerce's and State's accounting procedures contributes to trade center inefficiency. Services provided from offices outside of OIM are focused on supporting the overall trade center efforts, but because these offices are not directly responsible for the trade center programs, resources they expend in support of trade center operations are not reflected in the total cost of trade center efforts. For example: Global Market Surveys and other economic research on individual markets are, in part, structured and directed to discover and justify product themes for trade center events; the Office of Marketing Planning devotes considerable resources to analyzing trade center operations, although most of these evaluations tend to be self-serving studies; <sup>86</sup> the Office of Field Operations still spends a portion of its effort recruiting trade center event participants, although most recruitment is now done through the trade center and foreign posts; State commercial and economic officers at various foreign posts also devote time and resources on research and recruiting efforts to support and find participants for trade center events. In fact, State estimates that it spends twice as much resources and manpower to support functions such as market research and promoting trade events than they do to the trade center staff itself. <sup>87</sup>

<sup>83</sup> See Hearings, p. 42.

<sup>84</sup> See Hearings, p. 44.

<sup>85</sup> *Ibid.*

<sup>86</sup> The Joint Evaluation commented: "The quality of these studies, however, varies greatly, with the worst being little more than assertions designed to support preconceptions or to justify ongoing activities." See EM# C-2, p. 4.

<sup>87</sup> See Hearing, p. 141, for fiscal year 1977 State estimates 12,760 person-days for "trade center staffing" in 38 CCP countries, and 26,380 person-days for "trade promotion event support" and "market research".

Because of the influence trade centers have on other DIBA activities, it is difficult to determine the extent of resources and personnel devoted to trade center activity. The poor accounting procedures of Commerce and State exacerbate this problem, and, consequently, the full cost of the trade center program is grossly understated.

#### D. BENEFITS CLAIMED NOT REALISTIC

While trade center costs tend to be understated, the benefits claimed to be derived from them are greatly overstated. Commerce cannot realistically measure the net incremental exports resulting from its programs.<sup>88</sup> While Commerce measures benefits from its programs in terms of sales allegedly attributable to trade promotional events, the GAO reported that "the use of sales as the primary measure and justification for certain programs" may not be justified. GAO recommended (a) number of agents obtained by U.S. firms participating in Commerce activities, or (b) number of NTE firms participating in Commerce events as better measurements of the long term effect of Commerce's efforts to increase the overall level of export trade.<sup>89</sup>

Despite a 1976 Commerce study which "also found shortcomings in the use of sales as a program objective and as a measure of program performance",<sup>90</sup> Commerce continues to use actual and projected sales as a measure of program benefits. Commerce measures sales benefits from its programs by asking participants for actual sales and orders placed during the events and an estimate of future sales of that product in the trade center market for the 12 months preceding the event. Since most exhibiting firms are established exporters in the respective trade center market with full time foreign sales agents or subsidiaries and utilize a myriad of other promotional devices, it is not realistic to attribute all sales of these firms to their participation in one trade center event. It is likely that most purchasers do not even attend the trade center event but are contacted directly by sales agents or view the product at other trade fairs or exhibitions; and for those that do attend, the trade center exhibition is merely one of several instances at which they are exposed to the products displayed. Such a broad claim of benefits derived from trade center events ignores the fact that private trade fairs and other alternative means for promoting products exist and that the trade center, at best, plays only an incremental role in a successful promotion effort. In summary, if a trade center were closed, the impact on most participants sales in that market would be minimal.<sup>91</sup>

Furthermore, participants' estimates of projected sales upon which Commerce measures and reports trade center benefits have proved to be highly optimistic, resulting in additional overstatement of the alleged trade center benefits. GAO also stated that:

<sup>88</sup> OMB concurred in this finding; see appendix 3 to Hearings at p. 204.

<sup>89</sup> See Hearings, p. 21.

<sup>90</sup> See Hearings, p. 21. (See also OMB Report in appendix 3 to Hearings at p. 204.)

<sup>91</sup> See Hearings, p. 6. GAO concurred and stated that "... Commerce exhibitions in developed countries, while useful, could be reduced without adversely affecting their (the participants') sales."

"Since most of the companies participating in Commerce's developed country promotional events were already exporting to these markets, the sales they attributed to Commerce events were overstated because they included sales which would have been made in any case and sales which were made by their foreign subsidiaries."

Such sales figures are usually taken from written or oral statements on U.S. and foreign businessmen which reflect, in part, personal opinions and judgments. Therefore, sales figures are not fully objective, verifiable, or reliable.<sup>92</sup>

A Commerce survey of participants in fiscal year 1974 trade center<sup>93</sup> exhibitions in developed countries found that OTE and NTE participants actually achieved only 36.9 percent of their original 12-month projection of sales while OTM participants achieved only 40.1 percent (including sales at the events). In developing markets the figures are comparable: 38 percent for OTE and NTE participants and only 33.5 percent for OTM participants. In general, participants in trade center JEEP's and BSP's for fiscal year 1974 actually achieved only half to an eight of their original 12-month projection of sales (including sales at the events), and with the exception of Singapore, similar results were achieved for trade development and information centers<sup>94</sup> and trade missions.<sup>95</sup>

Finally, Commerce requires only 51 percent of the value of products exhibited in "developed market" trade centers be of U.S. manufacture, and only 33 percent for products displayed in "emergent markets". A product's assemblage is not included in Commerce's definition of value. Therefore, it is possible that less than half of an exhibited product's components could be U.S. made and all of its assemblage done abroad, but Commerce does not seek to accurately verify that the required percentages of exhibited products have been produced in the United States although most participants for an event are recruited directly from abroad (e.g., a foreign agent or subsidiary of the U.S. company is contacted).

A review of participants in a recent Milan trade center computer show revealed that a number of participants had foreign manufacturing plants and some of the exhibited products were manufactured overseas. In addition, a few firms introducing new product lines at the show, which they currently produce domestically, planned to manufacture the product overseas if foreign sales efforts proved successful. Consequently, not only are the reported benefits to U.S. exports and trade balances from Commerce's programs overstated, but U.S. taxpayers are subsidizing the sales of products that are actually manufactured and/or assembled by foreign subsidiaries of some U.S. companies.

#### E. COMPARATIVE COSTS OF PRIVATE SERVICES

Government is, in general, less efficient than the private sector when providing similar services. As one witness before the subcommittee testified:

In general, my acquaintance with the export promotion programs administered by the Department of State and the

<sup>92</sup> See Hearings, p. 21.

<sup>93</sup> Developed market trade centers, in fiscal year 1974 were located in Stockholm, Frankfurt, Paris, Milan, Sydney and Tokyo, while the developing market trade center was located in Mexico City.

<sup>94</sup> In fiscal year 1974 trade development centers were located in Buenos Aires, Singapore, Teheran, Beirut and Taipei, and one trade information center was located in Osaka, Japan.

<sup>95</sup> See appendix 1 to Hearings, p. 158.

Department of Commerce leads me to believe that these Departments devote substantially more manpower than would a cost-conscious private enterprise in executing a comparable program.<sup>96</sup>

The Commerce/State export promotion programs are no exception; private firms perform many of the same services provided in Commerce's and State's programs at far less cost.<sup>97</sup> For example, it takes an average of 7 to 10 days to set up for a major trade center exhibition and 3 to 5 days to break down. In comparison, hotels and private trade fairs usually provide little more than 1 to 1½ days each for setting up and breakdown of exhibits. An OMB survey of costs to produce an exhibit in Western Europe found that the average total cost (not including reimbursed user fees) of exhibiting products in a small booth (12 square meters) at a trade center in fiscal year 1974 was \$4,300 while at a private trade fair the cost of providing such space and a level of services for a new exporter comparable to those at a trade center ranged from \$1,313 to \$3,625.<sup>98</sup> The differential is more dramatic if all overhead and administrative costs which should be allocated to a trade center event were included in the cost. In addition, rent for a trade center event is based on a portion of the exhibit to the full year's rent and does not take into account the trade center's underutilization most of the year as previously discussed.

Similarly, the average cost to the Government for obtaining information for a WTDR substantially exceeds the cost of obtaining information for a D&B. An OMB report indicated that the average total cost of producing a WTDR (including State and Commerce expenses, but not overhead, before deducting user fee collections which covered only about ¼ of costs) was \$38, while the cost for a D&B standard international credit report ranged from \$9 to \$30 depending on country and annual volume of reports purchased by the user.<sup>99</sup>

## VI. MANAGERIAL SHORTCOMINGS

The inefficiency and ineffectiveness of Commerce's export promotion efforts are not just attributable to ill-conceived programs, but to managerial problems encountered in operating these programs as well. Within OIM, Commerce devotes considerable resources and manpower for planning unsupportable events many of which eventually are abandoned.

### A. EVENT POLLING AND MARKET RESEARCH DEFICIENCIES

One reason so many projects are abandoned is that OIM fails to meet or enforce its own guidelines and procedures in planning promotional events. Conversely, as a number of Commerce employees indicated, once an event is conceived and planning commences, the pressure is so great to proceed that the guidelines often are not followed. Commerce management would often prefer to ignore its guidelines and

<sup>96</sup> See Hearings, pp. 44-45.

<sup>97</sup> Commerce could not cite for the subcommittee a single example where it thought it performed services more efficiently than the private sector. See appendix 6 to Hearings at p. 275.

<sup>98</sup> See appendix 3 to Hearings at p. 200.

<sup>99</sup> *Ibid.*

stage a show with poor success indicators than to cancel the show at the outset because this leaves the center dark, disrupts trade center scheduling, and undercuts justifications for the programs.

As the Joint Evaluation pointed out:

. . . program officers are clearly in the spotlight if enough participants are not rounded up or if their project fails to come off in the first instance. Even if the reasons for aborting it are valid, it is often difficult for a program officer to recommend such action, since identification with too many "losers" may adversely affect his career.<sup>100</sup>

Because of their reluctance to admit mistakes by cancelling a show, Commerce staff frequently ignore OIM's own polling, market research and other guidelines in planning and staging events. For example, an Automotive Parts & Equipment Show at the Tokyo trade center was staged several years ago despite market research and polling results indicating weak demand and a soft market. Consequently, immediate sales for all exhibitors was only \$6,000 (\$250,000 immediate sales is a usual yardstick for such a show). In other shows held in Paris, London and Milan trade centers reviewed by the subcommittee, Commerce also tended to ignore polling and market research results and staged major events for which there was little demand; and in at least one instance involving an air show in the United Kingdom, the results reportedly were augmented six-fold to justify the decision to stage the show.

After conceiving a trade promotional event, OIM is required to conduct a telephone poll of at least 30 "qualified" executives (i.e., executives with international marketing decisionmaking responsibilities) of firms that manufacture the products to be featured in the event and are established in that market.

The primary purpose of this poll, currently required to be held approximately 63 weeks before the scheduled event, is to gauge the industries' interest in the event (its theme, location and timing) and to obtain information which may be useful in planning or modifying it.<sup>101</sup>

If the poll results are positive, OIM must conduct or have on hand market research (costing approximately \$5,000 per report) which justifies the need and timing for the planned event and indicates a high possibility that U.S. firms could successfully enter that market for all product categories to be exhibited.<sup>102</sup> If the market research also is positive, OIM is required to conduct a second poll (currently required to be performed at least 41 weeks before the event) of 30 "qualified" executives to discover the degree of U.S. industry interest in the show based on the specific market research results. The event should be firmly scheduled only if poll No. 2 results include at least 10 percent affirmative responses from qualified executives (e.g., that

<sup>100</sup> See Joint Evaluation: EM #D-1 at p. 10.

<sup>101</sup> OIM's guidelines for event poll #1 dated December 1974 indicate that the primary purposes are to:

Establish U.S. industry interest in the planned event's location, timing and product content:

Obtain individual experiences of companies that are established in the market place:  
Refine the product categories to be featured in the event in line with the market place; and

Establish questions or problems that need to be answered during a research of the market.

<sup>102</sup> \$753,800 was obligated in fiscal year 1976 (including the transition quarter) for market research: see appendix 6 to Hearings at p. 263.

they would be willing to participate in such an event) and no more than 20 percent negative responses (e.g., that they would not participate).

OIM planning procedures continually underscore the importance of U.S. industry polls:

To the degree Poll No. 1 (and Poll No. 2) is professionally structured and legitimately conducted, it provides critical evidence as to the acceptability or unacceptability of the event project.<sup>103</sup>

Furthermore, if either of the polls or market research is not timely, adequate or positive, the subsequent work and resources expended in planning the event, including costs of market research at \$5,000 per study, will be wasted. A recent Commerce memoranda, for example, indicated "a minimum of 1,000 man-days and other resources were lost when OIM was forced to cancel 8 major trade center shows because an inadequate number of companies were willing to participate. . . ." <sup>104</sup> From May 5, 1976, to April 10, 1977, the operational planning division of OIM was forced to cancel 36 <sup>105</sup> events which had actually been scheduled and reschedule an additional 42 events because of weak demand for the U.S. products, scheduling conflicts or lack of interest among U.S. participants.

Based on information supplied by Commerce, over half of fiscal year 1976 major trade center shows were not supported by a poll No. 1, but were supported by global market research (GMS). OIM's own guidelines, however, point out that ". . . GMS . . . only says there is a market for the products . . ." and that poll No. 1 is still necessary to assess potential U.S. industry participation for a specific exhibition; i.e., the acceptability of the exhibition's timing, location and product content. Furthermore, even where polls were performed, over 80 percent of poll No. 1 and 60 percent of poll No. 2 results supporting trade center shows were below OIM's own minimum requirements, and OIM did not have supporting records for well over half of the reported poll results.

The subcommittee's review of polling and market research conducted for only eight major exhibits planned in just two trade centers (London and Milan) last year indicated a gross failure to meet the guidelines established for planning an event. Poll No. 1 was not conducted for one London trade center exhibition and there is no evidence indicating that it was conducted for two Milan exhibitions. For the five events where a poll No. 1 was supported by available poll sheets, the poll results were invalid because a minimum number of qualified executives were not contacted. Pool contacts included firms not established in the market, executives with no marketing authority or responsibility, or firms which failed to respond to the inquiries. In addition, one poll for a Milan event was conducted over 2 years before the event which was about twice the maximum permitted time period, and, in general, the

<sup>103</sup> OIM's Trade Promotion Event Planning Review Procedures, January 1975; Section II.

<sup>104</sup> Memorandum for David S. Nathan, Director, Office of Budget & Program Analysis, dated Jan. 17, 1977.

<sup>105</sup> Eight of the events were cancelled because of the proposed closing of the Sydney trade center.

sheets for poll No. 1 do not indicate questions or problems that U.S. firms would like evaluated during research of the market.

Market research guidelines are also ignored and events are scheduled despite negative, outdated and inadequate research. In three of the eight events reviewed by the subcommittee, the market research proved negative.

In one Milan exhibition, research indicated that competition was considerable from other foreign countries, and that the economy of the country where the exhibition was to take place would have a negative influence on the exhibited products.

Market research used to support a London exhibition asserted that for standard items of products, ". . . it would be rather difficult for U.S.-designed equipment to improve its already dominant market position very significantly." The research also pointed out that established U.S. exporters would benefit most from the exhibition and that "The majority of . . . U.S.-designed equipment is wholly manufactured, or at least assembled by U.K. subsidiaries and licensees of the leading . . . suppliers." Contrary to the 1974 norms, the research study did not comment on the suitability of the event's timing and location. The event should have been cancelled since the research showed the market was already dominated by U.S. companies' subsidiaries. In fact, the final report on the show results complained that: "A greater USDOC effort to recruit new-to-market firms is essential. Most larger U.S. firms are already well-represented and well-known."

A research report used to support another London exhibition also noted negative circumstances similar to those above:

In most product areas competition is keen and imports small because foreign companies (including those in the U.S.) operate mainly through U.K.-based subsidiaries.

In nearly every case the import and export trade is very small, of the order of 3 to 5 percent of apparent consumption. This is mainly because foreign competition, notably from the U.S. operates through U.K. subsidiaries and is therefore statistically part of U.K. production.<sup>106</sup>

It would appear from the market research comments above that the exhibition would benefit mostly established firms in the United Kingdom. As a matter of fact, the final show report indicates that no NTE firms participated. Although 24 of the exhibitors were reported as OTE firms, it is not known how many of these firms were actually established and only exhibiting a new product line.

In other instances the quality of market research did not meet OIM's guidelines and was based on stale, outdated information. For example, one Milan exhibition's supportive market research was a foreign post update of an earlier post conducted study. The earlier study was older than guidelines permitted and the updated study was not based on full standard research specifications, as required by OIM guidelines, but on OIM verbal instructions. Research for another London exhibition was based on a foreign service post desk study update of research that was over 2 years old. The desk study did not use

<sup>106</sup> Automotive Diagnostic and Repair Equipment, market research performed for the London Trade Center; July 1975.

standard research specifications and updated only specific data. The Plans Officer's Guide warns against obtaining research under such circumstances because:

The advantages to be gained, if any, do not offset the real risk that the partial information obtained will not be sufficiently thorough or reliable to enable sound judgments regarding the viability of an event or the products which should be exhibited.

Results and guidelines for conducting poll No. 2 were also routinely ignored. Although no supporting records were maintained for seven of the eight polls reviewed by the subcommittee, the following observations resulted from limited information provided by OIM: (i) for one event poll No. 2 was never conducted; (ii) poll No. 2 results for three events indicated more than the maximum permissible number of negative responses or insufficient affirmative replies; (iii) insufficient number of executives were contacted for three events; and (iv) generally, individuals contacted were often not "qualified executives" according to polling guidelines. A review of executives contacted in other shows indicated affirmative responses are routinely accepted from individuals with no responsibility or knowledge relating to international marketing (in one instance an affirmative response to participate in a trade center event was accepted from a shipping clerk). In addition, poll results are overstated because noncommittal responses are often recorded as "affirmative", and there is a tendency to ignore legitimate negative responses by erroneously claiming that they result from firms which do not manufacture that product.

#### B. RECORDKEEPING DEFICIENCIES

Sloppy recordkeeping by OIM is one more example of poor management and hampers the ability to conduct a comprehensive evaluation of the agency's personnel and practices. For example, according to 1975 review procedures, OIM's Program Coordination Division evaluated the quality and progress of individual event planning, including poll results and market research. These internal evaluations, however, are no longer available because folders and files documenting work on each show were destroyed, even for events held as recently as 1976. Apparently, it is common practice within OIM to destroy all those working records on an event, including evaluations, soon after that event was either staged or cancelled. Moreover, the country groups responsible for performing the polls and obtaining market research did not have internal evaluations on file. Other supporting records were sparse because they were "cannibalized" by different country marketing staff to plan similar events, because records were "lost" when personnel were reassigned, or because records were "misplaced" during physical moves of country marketing staffs.

#### C. STAFF TURNOVERS AFFECT OPERATING EFFICIENCY AND EFFECTIVENESS

Frequent staff turnover is another management problem affecting the efficiency and effectiveness of OIM's operations. The deficiencies

found in U.S. industry polling and market research for 1976 exhibitions, for example, might be attributable in some degree to staff turnovers. Seventy-five percent of the staff who worked on Milan trade center exhibitions during the year have either been reassigned or left Commerce. In addition, the country marketing manager during most of the year was reassigned in November 1976 (eventually, to a different country group) and replaced by a manager from yet another country group. All of the staff who worked on the London exhibitions during 1976 also have been reassigned except for the country marketing manager and his deputy.

Other examples of major staff turnovers are revealed in changes in trade center deputy directors.<sup>107</sup> During 1976 and the first quarter of 1977 alone, deputy directors in Milan, Sydney, Singapore and Taipei (as well as Moscow) have been reassigned. These staff turnovers may result for appropriate reasons—staff promotions, personal desires, etc. Nevertheless, such staff turnovers may result in inconsistent management guidance and inefficient program performance. For example, OIM's current Assistant Director for Developed Markets left the Sydney trade center to fill the position which was vacant because the previous holder was assigned as Deputy Director of OIM. In addition, OIM's current Assistant Director for Emergent Markets was reassigned from the Moscow center in 1976, the previous holder of this position having been assigned to the Singapore trade center.

#### D. INEXPERIENCED PERSONNEL SENT ON TRADE MISSIONS

In assisting business officials participating in Commerce-sponsored or assisted trade missions, Commerce sends an advance person to the targeted countries who, working with the foreign service posts, identifies prospective buyers, arranges appointments and handles administrative details. Individuals at Commerce view this as an opportunity to gain trade promotional experience prior to assignment to a trade center, or as a reward for good work in other areas, such as working overtime on a special project for which the individual cannot receive extra compensation. Consequently, the trade missions assistants often have little or no experience in staging trade promotion events of this nature, and even the most competent make numerous errors in learning to handle a mission. Cost overruns are frequently cited as a problem facing such missions, while other problems include improper scheduling of appointments, failure to contact appropriate officials or firms in advance, and much greater lead time spent on advance work than is usually required by experienced personnel working in the private sector.<sup>108</sup>

The Joint Evaluation pointed out that:

. . . many advance officers were ineffective and did not seem to fully understand their role. In some cases posts felt they could accomplish the work of an advance officer themselves and considered the officer to be an unnecessary luxury.

<sup>107</sup> Trade center directors are all employees of the Department of State. Some of these, however, are Foreign Service Reserve Officers who were transferred to State from Commerce. At the end of fiscal year 1976, there were 8 directors in this category.

<sup>108</sup> See also Report of the President's Export Council Task Force on Export Promotion, December 1976 (PEC Task Force), p. 6.

These complaints have arisen from the practice of making advance work an employee reward. Officers often have been selected to give them overseas exposure, not because they were particularly well qualified to do the work. Inexperienced officers with limited Washington preparation have often performed less than satisfactorily, leaving posts to do most of the work themselves.<sup>109</sup>

Because of Commerce's staffing practices for trade mission advance work, the missions do not operate as efficiently and effectively as they could if properly staffed.

#### E. ASSISTANCE AT TRADE FAIRS

When giving its support to private trade fairs, Commerce also has favored fairs staged by former officials of BIC. In September 1976, Commerce supported an International Plant Engineering and Maintenance Exhibition being produced by Clapp and Polliak, a U.S. firm specializing in producing trade shows, in Birmingham, England although initial responses from industry for this show were "disappointing". Commerce's total budget for the exhibition exceeded \$150,000 of which it paid \$28,000 to Clapp and Polliak for rent and other services. The participation was arranged through a former director of OIM who had become Clapp and Polliak's Washington representative. The show was not a success. Immediate sales results for Commerce-sponsored participants in the show totaled less than \$800,000—50 percent less than the country marketing manager for the United Kingdom indicated would be an acceptable level, and one exhibitor responded with a four-letter word across his initial exhibitors report on the show.

Commerce has had a number of other dealings with Clapp and Polliak and in one instance there may have been a violation of Commerce's general regulations relating to conflict of interest.<sup>110</sup> After a series of negotiations commenced by Theodore Krause, a former director of OIM, BIC dropped plans to stage a "design engineering" show in its Frankfurt trade center in 1975 and instead purchased space in a design engineering exhibition sponsored by Clapp and Polliak held in February 1976. A contract was signed in June 1975 whereby OIM would rent 500 square meters from Clapp and Polliak at the exhibition for \$40,000 and the following month Mr. Krause left Commerce and joined Clapp and Polliak. Commerce, however, has failed to examine or question the propriety of any of these activities.

<sup>109</sup> Joint Evaluation, EM #B-11, p. 5.

<sup>110</sup> Title 15, subtitle A, Part 0, section 0.735-5 of General Regulation of the Department of Commerce states: "No public officer can lawfully engage in business activities which are incompatible with the duties of his office. He cannot, in his private or official character, enter into engagements in which he has, or can have, a conflicting personal interest." Section 0.735-10a states: "An employee shall avoid any action, whether or not specifically prohibited by this subpart, which might result in, or create the appearance of: (a) Using public office for private gain; (b) giving preferential treatment to any person. . . ." Section 0.735-13(b) states: "No employee shall participate in any manner on behalf of the United States in negotiation of contracts, . . . or in the transaction of any other official business, which affects chiefly a person . . . (2) with whom he has any economic interest on any pending negotiations concerning a prospective economic interest, except with express prior authorization as provided for in subpart G of this part."

## F. TREATMENT OF BUSINESS ETHICS

Former Secretary Richardson was co-chairman of the Steering Committee of the President's Task Force on Questionable Payments Abroad which studied the ramifications and possible corrective actions which could be taken in connection with "practices which violated ethical and in some cases legal standards of both the United States and foreign countries."<sup>111</sup> In 1976 Commerce's General Counsel stated that it would be appropriate for such agencies as the Export-Import Bank, Agency for International Development and State (under the Foreign Military Sales Act) not to aid or assist transactions involving questionable payments abroad. Secretary Kreps continues to announce the Department's concern about encouraging business to maintain a high degree of ethical conduct in the face of recent revelations of illegal or questionable domestic and foreign payments and other corporate activities. Commerce has failed, however, to take action to implement this concern in its export promotion programs and, in fact, has assisted firms exporting in the very markets where they have been reported to have made such payments.

Commerce's fiscal year 1976 participants' lists for trade centers, for example, include at least 27 firms that have made disclosures with the Securities and Exchange Commission regarding illegal or questionable payments. The disclosures of 10 firms included payments made (a) by a number of foreign subsidiaries located throughout the world to foreign governmental officials and/or employees of foreign government-owned companies or of governmental agencies in connection with sales to such agencies and companies; (b) by a number of domestic divisions to foreign distributors, sales agents or sales companies in connection with questionable sales commissions; and (c) by certain foreign subsidiaries to employees of privately-owned customers to induce sales of products. Many payments were illegal in the countries where made.

Meanwhile, Commerce has had no liaison or communication with the SEC to discover those firms reporting questionable or illegal payments.

Similarly, in its WTDR's Commerce has recommended foreign businessmen who have been involved in illegal or questionable foreign payments and are fugitives from U.S. governmental subpoenas. Indeed, in justifying the continuation of its WTDR program in light of private sector competition from D&B, Commerce has claimed that comments and recommendations on a firm in a WTDR (which are usually not made in a D&B) carry the authority of Government approval and are more desirable to businessmen.<sup>112</sup> When asked why Commerce continued to recommend individuals with questionable ethical backgrounds, it first passed the blame on to State who, it claimed, was responsible for collecting information and comments and preparing the WTDR. Commerce claimed to be merely disseminating the data gathered by State:

This Department relies upon the Embassy's judgment on the fitness of a firm or an individual to represent U.S. firms.

<sup>111</sup> "Oversight Hearings Into the Operations of the IRS (Administration of Bank Secrecy and Reporting Act)", Hearings before a Subcommittee of the Government Operations Committee, House of Representatives, 94th Congress, 2nd Session, pp. 178 to 203.

<sup>112</sup> See April 1975 OMB Report, Section VI, pp. 32-40; July 1975 Program Descriptions Supplement to OMB Report, Section III, pp. 20-22; and appendix 6 to Hearings at p. 257.

It does not have the resources or the personnel to superimpose its judgment on that of the Embassy as reflected in the WTDRs.<sup>113</sup>

Commerce, however, admitted that it was its policy to recommend firms to be "considered a good contact" even if they were involved in questionable payments and other unethical business practices without even making any mention of these factors.<sup>114</sup> Not only does such a policy ignore the pious policy proclamations of the Secretary and place the authority of Commerce behind individuals and firms engaged in practices the Government is attempting to prevent, but it fails to appraise fully U.S. businessmen of the character or background of the individuals or firms with whom they may be doing business.

## VII. PROGRAMS OF OPTIMUM BENEFIT TO SMALL BUSINESS ARE CURTAILED

In fiscal year 1976, Commerce's export promotion programs cost at least \$30 million; however, only about 10 percent was spent on domestic programs to stimulate firms to begin exporting.<sup>115</sup> As noted above, although a substantial amount of Commerce's resources and efforts are used to support trade center facilities, ". . . most trade center participants continue to be experienced exporters."<sup>116</sup> GAO stated ". . . that a more focused effort is needed in overseas markets."<sup>117</sup> GAO also pointed out that:

Although Commerce has these (domestic) programs to stimulate firms to enter the export business when they are identified, it does not have a concentrated program for identifying capable but non-exporting firms and determining whether exporting is suitable for them.<sup>118</sup>

GAO concludes that:

. . . it is important to attract firms which do not export, thereby broadening the country's export base.<sup>119</sup>

What we need most is to get more U.S. firms into exporting through increased emphasis on domestic stimulus programs and through insuring that most of the program funds are used to assist firms new to the field.<sup>120</sup>

Because of BIC's desire and need to feed trade centers, far more commercial resources go to countries in which a trade center is located than to other equally promising markets; and within trade center countries commercial resources "are skewed excessively to support of Trade Center activities at the expense of other promotional efforts in the country that might have been more productive"<sup>121</sup> and beneficial

<sup>113</sup> See letter from Frank Well, Assistant Secretary for Domestic and International Business to Hon. Benjamin S. Rosenthal dated May 5, 1977; appendix 6 to Hearings at p. 279.

<sup>114</sup> *Ibid.*, pp. 277-280.

<sup>115</sup> Hearings, p. 3.

<sup>116</sup> *Ibid.*, p. 5.

<sup>117</sup> *Ibid.*, p. 8.

<sup>118</sup> *Ibid.*, p. 9.

<sup>119</sup> *Ibid.*

<sup>120</sup> *Ibid.*

<sup>121</sup> See Joint Evaluation, EM #C-1, p. 10. For a detailed analysis of distortions in commercial resources allocation abroad caused by the heavy emphasis on trade center programs, see Joint Evaluation EM #B-8.

to small business and inexperienced exporters desiring to export. In addition, certain prestigious "command performance" trade fairs and events, such as the Paris Air Show, for which participating U.S. business does not need Commerce's support, also consume an undue portion of commercial resources in relation to actual benefits derived from Commerce's and State's presence, and, according to the U.S. embassy staff in Paris, deprive other industries the support of U.S. participation in other trade shows. Consequently, resources devoted to other Commerce programs are deleted or cut back despite a greater need or demand for these programs among small businesses and inexperienced exporters.

For example, the Foreign Buyer Program (FBP) is set up to accommodate foreign buyer and industry groups traveling to the United States to seek products and attend selected U.S. domestic trade shows. The potential expansion of export opportunities for this program are great: foreign buyers traveling in the United States view U.S. products in their own setting which is the best marketplace for any product. Not only does he view U.S. products exclusively, but as with any junket whose principal objective is buying, there is built-in pressure to make a purchase and claim a successful excursion. Without incurring the time and expense involved in foreign travel and shipment, the small U.S. businessman and inexperienced exporter is exposed to foreign buyers or agents at local trade fairs where he speaks the language and knows the business customs.

Small businessmen, trade associations and BIC personnel who are familiar or experienced with this program uniformly rate it as one of Commerce's more beneficial export promotional devices.<sup>122</sup> A survey of foreign buyers attending six annual U.S. trade shows indicated that almost 2.5 times as many foreign buyers attended the shows receiving FBP support than the previous year's shows without FBP support;<sup>123</sup> and preliminary evaluation of the program conducted by Joint Evaluation indicates that the sales and trade contact results from the FBP may be equally impressive.<sup>124</sup>

Foreign Service posts in the more developed countries where the relative cost of travel to the United States is less ". . . say they could usefully devote more time to this program, if they were not locked into other programs, such as trade centers."<sup>125</sup> However, because of the trade centers' demands for resources and personnel and the fact that there was no strong bureaucratic interest in support of the FBP, the program was cut back by over 80 percent from \$380,000 to \$72,000 in the fiscal year 1978 budget.

Business counseling services have also been sacrificed to support the trade center programs. Until 1972 Commerce had an extensive network of individual country desk officers with strong economic backgrounds who were familiar with all matters of commercial interests within their jurisdiction. Each desk officer represented a single source that a businessman could turn to with questions about any aspect of his or her respective market. In 1972, however, these positions were

<sup>122</sup> See also PEC Task Force, p. 6 and letter from J. K. Fasick, Director, International Division, GAO, to Secretary of Commerce, dated March 8, 1974 (GAO ID#B-172255), p. 6.

<sup>123</sup> Appendix 1 to Hearings at p. 159.

<sup>124</sup> See Joint Evaluation EM#B-5, pp. 7-8.

<sup>125</sup> *Ibid.*, p. 4.

abolished and OIM inherited most of the former desk officers who were subsequently employed in planning and scheduling trade center events. Manifestly, these officers no longer serve their former function and suffer low morale because of a feeling of underutilization for their specialties. Some businessmen also complained that when traveling abroad they were ignored or received poor service because commercial staffs at the embassy or trade center were pre-occupied with conducting trade center exhibitions.

Other programs, such as the A/DS, Catalogue Exhibits, In-Store Promotion, and TOPs, which also receive lower priority and less resources because of the emphasis on trade center programs, are particularly valuable for small businessmen unfamiliar with a foreign market and with no funds or time to spare for attending foreign trade shows.<sup>126</sup> If functioning properly, these programs can provide small businesses with a limited network of foreign contacts, export trade leads and agents, needed sources of information and inexpensive ways of exhibiting and selling products.

Some of the non-trade event services offered at trade centers are very useful to small businessmen working in a foreign country. Businessmen cite as the most important aspect of the current trade center facilities and services the fact they provide a temporary outpost from which to conduct business while abroad. As shown below in testimony before the subcommittee, the use of an office; telephones; a commercial library; answering, secretarial and translative services are valued most by these businessmen and are services for which they are willing to pay full cost.

Top-level executives traveling overseas attempt to utilize their time in the most efficient manner possible. Consequently, rather than lose time on arrival scheduling appointments ourselves, we requested the U.S. Commercial Office to arrange our appointments.

This was done effectively and efficiently, in a way that only someone on the spot can do. In addition, the office services offered by the U.S. Commercial Office, such as message taking, translating, typing, Xeroxing, and the use of conference rooms are also extremely valuable in a market where such services are not available locally.

Accordingly, it is possible to justify strongly on practical as well as on economic grounds that an appropriate and important function of the U.S. Government is providing certain marketing assistance and information services to American exporters.

To the extent that these programs are cost effective, it is difficult to object to paying a fair charge for the services received, especially if the payment of such a fee is likely to result in greater effort by Government personnel to improve the services offered and to make them more responsive to exporter requirements.

Mr. ROSENTHAL. Why shouldn't the corporation that is your client pay for these services?

<sup>126</sup> See Appendix 6 to Hearings at pp. 262-265. For example, over 60 percent of TOP subscribers have 100 or less employees and 40 percent have been exporting less than 2 years.

Mr. HUBS. We would have been glad to pay for them had they been billed to us.

Mr. ROSENTHAL. Is there no way to do it?

Mr. HUBS. As I understand it, that is not currently the policy of the Department of Commerce, which administers the trade centers.

Mr. ROSENTHAL. Would you and/or your client be offended if you had to pay for those services; you are just glad that somebody had made it accessible and easy to obtain?

Mr. HUBS. Absolutely not; it is difficult to object paying a fair price for a valuable service.<sup>127</sup>

These services, however, do not have to be provided in a large fixed facility over half of which is devoted to ground floor exhibition space, located in a prestigious, expensive commercial section of a city; rather, they can be in smaller, less expensive conveniently located office suites.

Even if Commerce desired to continue devoting resources to supporting participation of U.S. firms in foreign trade shows, there are more viable alternatives than the present trade center concept. In Germany, Commerce closed the Frankfurt trade center and in its place set up a trade exhibition staff in Cologne for mounting exhibits in private trade fairs throughout western Europe. Meanwhile, businessmen still have the valued office space and other support services in Cologne which they can utilize while doing business in Germany. Commerce points out that the Cologne staff has the exhibit skills and, backed up with Commerce/State's market research capabilities, the knowledge and experience with local business conditions and practices to mount a show anywhere in the region. They can also assist an exhibitor by identifying and inviting selected purchasers to an exhibition just as well as a trade center can identify and invite such high priority purchasers. Such a program could be more useful to the inexperienced exporter who often finds himself precluded from a trade fair because of a lack of space. Space in major trade fairs is sold out long in advance—in some instances within months of the closing of the previous year's event—and is often not available by the time a new exporter seeks to enter the market. Commerce could assist these firms in entering major fairs by advising them on when to apply for space and by renting a large area and subleasing it to inexperienced exporters seeking to enter the market.<sup>128</sup>

Thus, when opportunity costs are accounted for in analyzing the trade center program—lost opportunities to promote exports through alternative means, trade centers are even more difficult to justify as an effective and efficient means for promoting exports among small firms unfamiliar with foreign trade.

## VIII. COMMERCE AND STATE RELATIONS

Chronic conflicts and problems between Commerce and State seriously undermine the effectiveness of export promotion programs. Authority over international trade promotion was diffused by Reorganization Plan No. II of 1939; the Foreign Service Act of 1946; and

<sup>127</sup> Hearings, pp. 40-41.

<sup>128</sup> Joint Evaluation EM #B-8, p. 7.

Executive Order 10249 (June 4, 1951).<sup>129</sup> Presently, Commerce has general statutory authority and responsibility for domestic and international trade promotion, but State controls all overseas operations carrying out such functions. Commerce and State entered into numerous agreements in 1954, 1956, 1961, and 1967, attempting to allocate authority between the departments and clarify the role and position of commercial attaches in the Foreign Service, and of Commerce's role in selecting such attaches and controlling their work. The lack of coordination and "compartmentalization of program responsibilities",<sup>130</sup> however, persists between Commerce and State, and, in part, is responsible for the present lack of a "... *generally agreed or widely understood US policy on the extent of need for or the purposes of official export promotion.*"<sup>131</sup> (Italics original.)<sup>132</sup>

Failures and delays in communications at all levels between the two departments continue. At the top levels, State has failed to inform Commerce of changes in budgets and resources allocated to the programs and Commerce often fails to inform State of program changes.

The Joint Evaluation pointed out:

The fact that both departments undertake separate budget procedures, and neither as a practical matter takes the other fully into its confidence, has led occasionally to coordination lapses. For example: (a) State has not been informed of budget changes affecting key programs, such as trade centers and commercial presence fairs, until the changes had become formal parts of the Commerce budget. (b) Commerce has not been informed in advance of reprogramming actions by State, or, in some cases, of changes made in working level agreements on specific funding or staffing proposals.<sup>133</sup>

Because State has no effective way to account or budget for its support of commercial programs, Commerce cannot always rely on or monitor resources to be provided by State for its programs. Consequently, Commerce repeatedly complains that State diverts resources earmarked for commercial to political and other purposes and is not devoting sufficient resources to commercial matters.

Meanwhile businessmen commonly complain of receiving stale information as a result of delays in data transmittals between State employees and Commerce's Washington and field offices.<sup>134</sup>

The serious deficiencies affecting the Trade Opportunities Program (TOP) exemplify the conflicts and lack of coordination between Commerce and State. Over half the subscribers to TOP rated it as "poor" or "very poor", and the program has suffered a net outflow of subscribers.<sup>135</sup> Almost half of the trade leads sent to subscribers were unusable because of miscoding or mismatching. Because the Foreign Service staffs generally are unfamiliar with the cumbersome Standard Industrial Code (SIC) classification code, they make a considerable

<sup>129</sup> Title III CFR—The President, 1949–1953 Compilation, p. 755.

<sup>130</sup> See appendix 2 to Hearings, p. 169.

<sup>131</sup> See appendix 2 to Hearings, p. 168.

<sup>132</sup> Joint Evaluation, EM #A-2, p. 6

<sup>133</sup> Hearings, pp. 103–104.

<sup>134</sup> Appendix 4 to Hearings, p. 219; a small businessman discusses problems and attitudes between State and Commerce.

<sup>135</sup> See Hearings, p. 29.

number of reporting errors and, consequently, Commerce blames its problems with the program on an inappropriate coding system.

In administering its end of the program, State principally deals with foreign buyers and is isolated from subscriber dissatisfaction. Most foreign buyers receive at least one reply from a trade lead submitted to State and a number of transactions result. Consequently, State believes the program is effective and useful and has rejected several suggestions from Commerce and the GAO<sup>136</sup> to establish a new coding system. It should be noted that several States as well as the United Kingdom have adopted coding systems more useful than the SIC for a trade lead program.

Another problem with the program is that leads most collected by the Foreign Service were not the ones most demanded by subscribers.<sup>137</sup> At the program's outset, DIBA's field offices oversold TOP to rapidly build up a broad subscriber base by promising more than the program could deliver. Because of insufficient consultation and coordination between Commerce and State in developing the program, State's Foreign Service was unaware of subscribers' expectations and probably could not have realistically delivered the type of program many subscribers were promised by the field offices.

Businessmen also complain that delays frequently cause TOP subscribers to receive stale leads.<sup>138</sup> Although MEPD's and WTDR programs also suffer from delays and stale information, the average time from origination of a TOP lead with the Foreign Service, transmittal to Washington where it is processed and sent to subscribers takes approximately 12 days. During this time, "hot" leads can turn "cold" and injure the program objectives.

The A/DS program also suffers from poor communications between State and Commerce. Subscribers to the program complained that foreign service posts frequently submitted names of agents with improper expertise and specialties or who were not interested in the product line. At times the posts seemed to submit names of agents merely to meet a quota rather than carefully reviewing agents and responding that there are no appropriate agents in that country. For their part, foreign service posts indicated that Commerce's district offices did not screen requests for agents so that they received unsuitable or technically defective requests. Furthermore, they complained that subscribers were not properly counseled by district offices and did not satisfactorily follow up on agent names submitted—that would-be agents received no response, form letters or letters with conditions that were not appropriate for that market.<sup>139</sup>

The lack of coordination and cooperation between State and Commerce is exacerbated by a common mistrust between the departments and the low priority and status which State places on commercial matters. Certain sections within Commerce desire the department to have its own foreign service, such as the Department of Agriculture's For-

<sup>136</sup> GAO recommendation to change the coding system dates back to 1972.

<sup>137</sup> "Trade Opportunities: An Analysis and Evaluation of Program Effectiveness, February 4, 1977," prepared by BIC's Office of Market Planning (TOP Report, p. 9).

<sup>138</sup> Businessmen complain that the MEPD and WTDR programs also suffer from delays and stale information. See Hearings, p. 29. TOP Report, pp. 12-17; Joint Evaluation, EM #B-10, p. 3; and Joint Evaluation, EM #B-7, p. 4.

<sup>139</sup> See Joint Evaluation: EM #B-1.

eign Agricultural Service, but in lieu thereof, would settle for greater control over commercial activities abroad and control over State employees engaged in commercial work. Commerce feels that such control would enable it to more effectively monitor the operations of its programs and to improve the commercial services provided by State.

On the other hand, a basic tenet of State's philosophy is that the United States should have only one unified foreign service to carry out all U.S. governmental activities in foreign countries, regardless of the function. Although State fears that Commerce would like to have its own foreign service to handle commercial matters, State has traditionally put less employees on commercial matters than other functions and State officers engaged in only commercial activities have the lowest career status and fewest promotions within the Department. Each of the four prior working agreements between Commerce and State sought to coordinate Commerce's and State's objectives and to prescribe minimum resources and priority for State to devote to commercial functions. Each agreement, however, failed its objectives amidst accusations by Commerce that State did not make a good faith effort to comply and by State that Commerce sought to go beyond the objectives of the agreements. Consequently, cooperation between the departments is marred by differing objectives and priorities and an underlying struggle to dominate or maintain control of foreign commercial matters.

Economic and commercial matters for a long time have received a lower status at State than other functions. As the Commission on the Organization of the Government for the Conduct of Foreign Policy, June 1975 stated:

The evidence also seems compelling, as presented in virtually every case study, that the government-wide problem of non-communication—which is so severe that it might be termed cultural division—between “political” and “economic” specialists is even more serious in State than elsewhere, and that the professional caste to which the economist is relegated in that Department is generally and more systematically lower. Thus, State is almost never as deeply manned to analyze and debate any economic question as Defense, Treasury, or the major domestically-oriented Departments, and the State economists seem to encounter more difficulty in getting to and influencing top management. This problem, which is largely reflective of the traditions and incentive structure of the Foreign Service (about which more below) is highly debilitating for any participant and threatens to be fatal to a candidacy for “lead agency”.<sup>140</sup>

In 1972 State's Inspector General admitted that

Supporting services abroad are diffuse and relatively poorly targeting. . . . Commercial officers feel divorced from State, separated from the main stream of foreign affairs activity, and disadvantaged in terms of advancement to executive positions.

<sup>140</sup> See Edward K. Hamilton, Summary Report: “Principal Lessons of the Last Decade and Thoughts on the Next” (November 1974) in Appendices: Commission on the Organization of the Government for the Conduct of Foreign Policy, June 1975, Volume 3, Appendix H (Murphy Commission Report).

In response to efforts at that time to set up a separate foreign service for commercial affairs, in 1973 State instituted changes in their economic commercial cone.<sup>141</sup> Among these changes were: A commitment to designate 28 principal officer positions to commercial interest posts to be filled by personnel with significant economic commercial experience; provide Commerce greater participation in State's personnel promotional process; attempt to select Deputy Chiefs of Missions (DCM's) from the economic/commercial cone; and develop CCP's which set objectives, budgetary estimates and needs for commercial affairs at State's foreign posts.

A closer analysis of these changes by State reveals that the economic section, and not the commercial section, has been the principal beneficiary of measures taken to enhance the economic/commercial cone. The Joint Evaluation stated that despite efforts to improve the status of commercial work:

However, officers identified as primarily commercial because of the concentrated focus on their earlier assignments have probably gained less as a group than officers identified with economic work.<sup>142</sup>

It should be noted that because commercial skills are not even properly coded in State's personnel coding system, precise data on experience is unavailable in many areas.<sup>143</sup>

For example, a survey of 119 DCM positions as of August 1975 indicated that almost half had no commercial or economic experience whatsoever; while 38 percent had only economic experience, 9 percent had a mixture of economic and commercial experience but only 4 percent had principally commercial experience. Commercial personnel did not fair much better vying for principal officer positions earmarked for commercial interest posts: From October 1972 to October 1976 over half the appointments were made to individuals with no commercial or economic experience, and of 27 positions filled by people with commercial and/or economic backgrounds, only 16 had principally commercial experience. Presently, 4 of the 28 incumbents of such posts are not from the economic or commercial cone and have had no economic or commercial experience, while approximately half of the remaining incumbents have no commercial experience.<sup>144</sup> In 1974 State downgraded 145 economic/commercial positions despite Commerce's objections in at least 16 of those instances,<sup>145</sup> and less than 7 percent of the 1976 Foreign Service Selection Board's promotions to prestigious FSO one, two or three positions had principally a commercial background. Furthermore, State rejected Commerce's request to designate 11 other posts in commercially significant areas as commercial interest posts.<sup>146</sup>

The Joint Evaluation concludes:

An unfavorable bias toward commercial work persists among some senior officials in State and in the field. As a result able senior mid-level officers in the commercial field may

<sup>141</sup> These changes were instituted as a result of the Irwin Decision Memorandum of August 18, 1972.

<sup>142</sup> See Joint Evaluation, EM #E-1, p. 3.

<sup>143</sup> Ibid.

<sup>144</sup> See Joint Evaluation, EM #E-1, p. 9.

<sup>145</sup> See Joint Evaluation, EM #E-9, p. 1.

<sup>146</sup> See Joint Evaluation, EM #E-1, p. 8.

find it difficult to obtain assignments that would establish their competence to handle broader responsibilities.<sup>147</sup>

State personnel with principally commercial experience continue to have a difficult time being promoted to upper level positions at State and they lag behind promotions of economic personnel and the other three major cones.

Commercial personnel at State still complain of their status. As one embassy counsellor for Commercial Affairs stated, their role within State was "that of a second class citizen with respect to stature, prestige, etc. The degree 'fringes'<sup>148</sup> are apparently very important to one's role in life in an overseas post", and it is the fringes along with other promotional benefits, that are denied commercial personnel. According to independent commentaries, State has not adequately followed up on the changes instituted in 1973<sup>149</sup> and the department's efforts to date have failed to overcome the shortcomings in State's commercial effectiveness.<sup>150</sup>

Considering the attitudes at State regarding commercial matters, it is also not surprising that most foreign service officers in the economic/commercial cone have little or no commercial experience.<sup>151</sup> For example, of 150 foreign officers serving abroad in commercially designated positions, only 28 percent had some practical experience in private industry prior to entering the Foreign Service; while 46 percent do not have degrees in business administration or have not served on detail with Commerce. Foreign service officers' ability to operate effectively in commercial matters is further hampered by State's practices of rotating personnel among posts every couple of years. It is estimated that an individual with a reasonable commercial background would require between 6 to 12 months to learn the market, business organizations, and practices of the country in which he is stationed and become reasonably effective at his job. If he is at a post for only 2 or 3 years, he could be effectively operating for only 50 percent, at worse, of his tenure.<sup>152</sup> For these and other reasons, businessmen continue to be critical of the quality of foreign service officer support on commercial matters.<sup>153</sup>

The CCP's submitted by post commercial officers are so unrealistic in their expectation of resources for commercial functions that they serve little value as a useful tool for setting commercial objectives for a post.<sup>154</sup> Because an Ambassador or DCM has broad discretion in operating a foreign service post, he frequently diverts funds which may have been earmarked for commercial purposes to administrative, political, social or other functions. The Joint Evaluation pointed out

<sup>147</sup> See Joint Evaluation, EM #E-1, pp. 11-12.

<sup>148</sup> Such things as housing, protocol, reporting relations, et cetera, were cited as important "fringes".

<sup>149</sup> Report by the President's Export Council Task Force on Export Promotion, December 1976 (PEC Task Force) p. 5.

<sup>150</sup> PEC Task Force.

A Study of Domestic and International Business Assistance Provided by the Domestic and International Business Administration by McMannus Associates, Inc., December 1976. Summary of Minutes of Small Business Assistance Conference, March 3, 1977, Conference Room 4830, U.S. Department of Commerce, Washington, D.C. (Summary of Small Business Conference).

See also the Murphy Commission Report and Joint Evaluation.

<sup>151</sup> PEC Task Force.

<sup>152</sup> Hearings, p. 105.

<sup>153</sup> Department of Commerce Summary of Small Business Conference, p. 6.

<sup>154</sup> See Appendix 4 to Hearings at p. 215.

that Ambassadors are not bound by the objectives or priorities set forth in the CCP and often fail to provide the "budgeting and administrative support needed for planned CCP events and activities."

. . . (economic/commercial) staff at posts may be pulled from their CCP-mandated activities to do special projects considered higher priority by the Ambassador. Similarly, the granting of motor pool access and the allocation of representation and travel funds . . . are not necessarily guided by CCP needs, but by what the Ambassador and his staff see as the overall mix of priorities for the post at the time.<sup>155</sup>

In the absence of clear budgetary or accounting guidelines, it is not only difficult to call Ambassadors or DCMs to account for neglect of commercial functions but the post can and often does shift resources from specific commercial programs without informing the affected officers at Commerce. For example, at some posts the sole commercial specialist in charge of a program, such as MEPD, has been removed to work on other matters an ambassador deems important, leaving no one in charge of that program. Another example are commercial libraries at foreign posts, which are frequently cited as one of the most important resources for a businessman traveling abroad. In the absence of a sales agent or organization, they provide him with valuable trading and business information. Many commercial libraries, however, have not been properly maintained and funds have been diverted for other areas.

The A/DS, as discussed above, and WTDR were also programs which often do not receive sufficient resources from State to meet their objectives. In producing WTDR's, a foreign service officer might independently review the last two balance sheets of the company or person who is the subject of a WTDR; examine the latest D&B or other credit reports on the subject; and check with a local bank on the subject's credit or business worthiness. Frequently, however, because of scarce resources, a foreign service officer merely repeats information contained in the last WTDR on the subject and updates it with information from D&B or other credit reports.

Finally, a good deal of conflict has developed between State and Commerce over Commerce's role in evaluating State personnel responsible for commercial functions. State feels that Commerce is not in a position to appraise the work done by individual foreign service officers; Commerce's contacts with officers is too limited; and its evaluation staff too small and fragmented to produce a comprehensive evaluation of an individual economic/commercial officer's work. State prefers Commerce to evaluate the work of economic/commercial section of a post as a whole and the economic/commercial chief of the post, the DCM or Ambassador who is responsible for the post's work.<sup>156</sup>

Commerce, however, believes that if it is not permitted to evaluate the work of individual officers, it will lose the little control or influence it has over those individuals actually servicing its programs. The consequence will be a greater diffusion of responsibility over the success

<sup>155</sup> See Joint Evaluation EM#C-1, pp. 10 and 11.

<sup>156</sup> See Joint Evaluation, EM#E-3, pp. 2-4.

of Commerce's programs and even poorer communications between those individuals who formulate and service programs domestically and the foreign service officer responsible for administering the program abroad. Commerce fears that DCMs and Ambassadors, with their present bias, will be given even greater latitude to shift resources and priority away from commercial work if Commerce's evaluation and limited influence over foreign service officers is further weakened.

It is probably unrealistic to expect State to give significantly greater emphasis, priority and prestige to commercial matters in the foreseeable future. Ambassadors and DCM's required to spend a large amount of resources to support trade center events and activities will continue to grant lower priority to other commercial matters and direct resources from these activities to non-commercial functions. This attitude will continue to irritate Commerce's attempts to promote exporting. For its part, as long as Commerce is committed to a marginally useful trade center program with its impact of establishing a departmental presence abroad, which State views as an attempt to encroach upon its Foreign Service's jurisdiction, there will continue to be suspicion and bureaucratic conflict between the departments. Until these problems can be resolved and the interdepartmental friction lessened, export promotion efforts will continue to be inefficient and ineffective.

# APPENDIXES

## APPENDIX 1

### EXPORT PROMOTION AND MARKETING ASSISTANCE/INFORMATION

#### PROGRAMS DISCUSSED IN THE REPORT

(Source: Interagency Report on U.S. Government Export Promotion Policies and Programs, Program Descriptions Supplement; Chapter III; OMB, July 1975)

#### AGENT/DISTRIBUTOR SERVICE

The Agent/Distributor Service (ADS) provides a requesting U.S. firm with a list of up to three foreign agents and/or distributors interested in selling the firm's product(s). State personnel furnish lists citing suitable foreign representatives within 30 days of receiving a request from Commerce. Posts are not obliged, as part of the service, to furnish specific data or initiate WTDs on the foreign firms covered, but they should be satisfied regarding their generally sound reputation.

#### BUSINESS INQUIRIES, COUNSELLING AND ASSISTANCE

Reactive assistance to businessmen takes place abroad and in the United States.

##### U.S. Assistance:

In the United States, the servicing of inquiries and requests from U.S. businessmen, other Government entities and Foreign Service posts takes place at State and Commerce in Washington and at Commerce's 43 district offices. This program responds to all types of requests concerning exporting, including general information, statistics, specific foreign tariffs or trade regulations and business practices and procedures, etc.

##### Overseas Assistance:

At Foreign Service posts, economic/commercial officers regularly answer all legitimate inquiries and provide counselling for both U.S. exporters and foreign importers. This service ranges from answering visitors' simple orientation questions to supporting U.S. firms in trade disputes with foreign governments. Posts also maintain commercial libraries.

Personnel of U.S. trade centers largely provide similar support, but with greater emphasis on helping participants in center exhibitions before, during and after shows. Their work usually is of a more defined technical nature, much of it dealing with specific entry, transport, shipping, display and publicity arrangements.

#### CATALOG SHOWS

These are displays abroad of U.S. product catalogs, sales brochures and similar graphic sales aids. These shows may be planned and staged as

independent events or may be organized in conjunction with trade shows, locally organized product displays, technical workshops, conferences, etc. Most catalog shows are held in developing markets where few other promotion vehicles exist. A typical exhibition consists of catalogs from 100 to 140 firms.

An industry expert selected by Commerce accompanies each show which, in turn, is preceded by a market research study. The show is promoted locally by USIS and Foreign Service post personnel. Commerce and State also provide display facilities, a catalog reference index and promotional materials, a publicity campaign, a listing of trade leads and visitors, and a librarian-receptionist.

#### COMMERCIAL IMAGE FAIRS

Commercial Presence Fairs display American products in areas of marginal trade potential that State has designated for foreign policy objectives to acquaint the economy with the culture and people of the United States.

#### FOREIGN BUYER PROGRAM

The Foreign Buyer Program is designed to promote increased foreign attendance at major U.S. domestic trade shows, and to provide substantive assistance during the visitors' stay in the U.S. This assistance includes providing the visitors names of those U.S. firms seeking international trade and business partnerships (agents/distributors, and/or joint venture/licensee arrangements). The program also provides complete itineraries, business appointments, plant visits, seminars, etc., for foreign buyers, either individually or in groups, and helps in the accomplishment of stated business objectives.

#### GLOBAL MARKET SURVEY (GMS)

(See Market Research)

#### IN-STORE PROMOTIONS

These are one- or two-week promotional events held in foreign countries by leading retail stores featuring U.S.-made consumer merchandise. Commerce works with Foreign Service posts to negotiate displays in stores overseas and guide foreign buying missions here.

In the contract for a specific store promotion, the foreign buyer agrees to do extensive publicity through radio, TV, press, etc., emphasizing the "made in USA" theme. He further agrees to buy for the event an incremental amount of at least \$250,000 worth of U.S. goods over the amount he purchased the previous year. Commerce pays a share of the specific sales promotion costs up to \$25,000, varying in relation to the amount of incremental U.S. goods bought by the store. The store receives this subsidy after the promotion is completed.

## MAJOR EXPORT PROJECTS AND PRODUCTS

The Major Export Projects (MEP) program identifies foreign capital projects which offer opportunities for significant exports of U.S. goods and services (generally \$5 million or more), brings these opportunities to the attention of qualified U.S. firms (mainly consulting engineers and design and construction companies), and helps them compete for the projects. Similarly, a major product generally involves sophisticated, high technology equipment having an export value of \$1 million or more.

## MARKET RESEARCH

Market research is intended to provide market intelligence useful in helping U.S. firms evaluate the desirability of initiating or expanding exporting activities. Additional uses of the research include the identification of opportunities for specific promotion events, the distribution to potential marketing assistance program participants for evaluation, and the provision of information to program managers for overall planning activities. Market research is generally conducted in the marketplace by research consultants.

BIC's Office of International Marketing administers two separate but coordinate types of market research:

(a) Market Studies - market research conducted with respect to one product category in a single country (or regional) market. These studies are "event-oriented," that is, they are obtained primarily in support of specifically planned (or alternate) trade promotion events in the market of research. The events for which such studies are obtained are pre-dominantly trade center exhibits and international trade fairs but may extend also to providing market data in support of trade missions, catalog shows, technical seminars, in-store promotions, etc.

(b) Global Market Surveys (GMS) - market research acquired for the Global Marketing Program. Such studies are conducted concurrently on one product category in an average of 15 country (or regional) markets. Commerce headquarters personnel produce summaries of individual product/market research and publish them as Country Market Surveys. Summaries of "event-oriented" research are also published as Country Market Surveys.

Individual summaries of each market study are compiled in a published Global Market Survey covering a single product category and used as an informational tool in domestic export promotion programs; such country market studies are also used directly in support of trade promotion events abroad.

## TECHNICAL SALES SEMINARS

These seminars bring technical sales representatives from specific high-technology sectors of American industry into contact abroad with foreign

government officials, economic planners and the academic community as well as buyers and agents. Seminar panels are composed of six to seven members, each from a company in a related segment of industry led by a chairman from a noncommercial institution or from the U.S. Government. The panel holds the seminar in two or three promising market locations focusing on the status of U.S. industry in a given field, how its technology is solving current problems, and how it can be adapted to conditions in the host country.

Participants are recruited by Commerce in Washington. They pay all their own personal expenses such as travel and per diem, and make a contribution for hospitality costs. Commerce pays all support costs including the expenses of an advance officer and the chairman, rental of facilities, translations of abstracts of technical presentations, simultaneous translation and promotion.

#### TRADE CENTER PROGRAM

Trade centers are permanent facilities that serve as headquarters for U.S. Government sponsored trade promotion activities in their respective marketing areas. Their principal functions are to present exhibitions of U.S. products, provide space and logistical support for nondisplay marketing activities and meetings, and occasionally to house the commercial section and commercial library of the local U.S. embassy or consulate. Their permanent staffs are generally a mix of Commerce and State personnel.

Commerce divides trade centers into three categories for administrative purposes: developed markets and emergent markets, administered by the Bureau of International Commerce; and centrally planned economy markets, administered by the Bureau of East-West Trade. The centers adjust their facilities and operations according to the requirements of the local market. Trade centers in the developed countries host four to nine major exhibitions each year with up to 40 participant companies.

Major exhibitions usually run for 5 days and have a product display theme that concentrates on one industry or segment of an industry Commerce has targeted for emphasis that year. Commerce commissions a market research study prior to each major exhibition, usually retaining a foreign market research firm at an average price of around \$4,000 per show to survey the total market for the product category in the relevant marketing area.

Before the exhibition, the center conducts a promotional campaign to attract the target audience to the show. USIA/USIS media, facilities and staff are increasingly used to help promote the event.

In addition to the use of its facilities, the trade center provides the following services to the exhibitor: design and construction of each exhibit booth and of the overall exhibition system; unpacking, placement, dismantling, and repacking of equipment; a commercial briefing for all

exhibitors; marketing advice to each exhibitor as appropriate; janitorial and guard service; all utilities except telephone; necessary furniture; arrangements for shipment of exhibitors' products to the trade center; free storage for up to 90 days after the exhibition for NTE/NTM firms; and a marketing reception for visitors and exhibitors. The U.S. exhibitor must provide his products, and pay for the shipment to and from the trade center, supply promotional literature, and send a qualified representative to attend his booth during normal business hours.

In addition to major events, trade centers also sponsor two types of smaller exhibits.

(a) JEEPs - Joint export establishment promotions (JEEPs) are small exhibitions featuring the related products of up to eight NTM/NTE firms. They are initiated in response to a direct request from the U.S. business community or in response to requirements identified by market research. The trade center provides JEEPs with scaled-down services similar to those provided participants in major exhibitions, except that the public relations campaign is directed primarily at assisting the firms to obtain overseas agents or distributors.

(b) BSPs - Between-show promotions (BSPs) are events held by individual participants, primarily local agents and distributors of U.S. firms, between regularly-scheduled major events and JEEPs. BSP participants can promote multiple product lines. The participant receives, as needed, marketing counsel, assistance in target audience identification, shipping information and assistance, in-stock furniture and display systems, and physical staging. Participants must undertake a preshow marketing campaign, arrange and pay for shipping to and from the trade center, provide a qualified representative in attendance, and pay all direct costs involved in their participation.

#### TRADE AND INDUSTRIAL EXHIBITS PROGRAM

Through the trade and industrial exhibits program (TIE), Commerce annually sponsors some 20-25 official U.S. participations at selected international trade fairs and, where a suitable fair or a trade center is not available, occasionally stages solo exhibitions. Acting as a collective organizer, Commerce with State assistance contracts for exhibition space and designs and constructs a U.S. pavilion for 20-100 U.S. exhibitors.

The services offered by the trade and industrial exhibits program, as well as its requirements, methods of operation, and objectives are almost identical to the trade center major exhibits program.

#### TRADE MISSIONS

Trade missions have representatives from several companies visit promising markets under Commerce's sponsorship. There are three types

of trade missions -- Specialized; Industry-Organized, Government-Approved (IOGA); and Executive Level. Commerce initiates specialized missions based on its market research; and a typical mission consists of officials representing 6-12 U.S. companies that manufacture related product lines. These representatives visit one to three countries and concentrate on technical sales discussions with prospective customers and agents. A Federally-funded advance officer precedes the mission to work with Foreign Service Posts in scheduling individual appointments, and a mission director accompanies the mission to handle all administrative and logistical details. Federal funds cover all operating expenses connected with the mission including publicity, brochures, and interpreter assistance. The mission members pay their travel expenses and share hospitality costs.

Industry-Organized, Government-Approved (IOGA) Trade Missions are organized and led by private export promotion organizations such as trade associations and chambers of commerce. Government approval entitles these missions to Federal staff support including advance arrangements for a full schedule of overseas business appointments.

The Executive Level trade mission is a recently developed technique designed for centrally planned economies. In contrast to the two other types of missions, the Executive Level mission covers a number of industrial sectors within a single country.

#### TRADE OPPORTUNITIES PROGRAM

The Trade Opportunities Program (TOP) is a computerized activity that disseminates trade leads from Foreign Service posts to U.S. business subscribers. The system supplies three categories of information: direct sales leads from foreign private sector buyers, the names of agents and distributors wishing to represent U.S. product lines, and foreign government tenders. Businessmen utilize the service by taking a subscription. They then specify the product they wish to export by SIC code up to seven digits, the countries in which they wish to do business and the categories of information (e.g., agent, government tenders) they wish to receive. Commercial officers abroad gather potential sales inquiries and report them via telex to Commerce. Commerce's TOP computer matches the American subscriber's request and the lead is automatically printed out and mailed to the producer within 3-5 days from the receipt of the telex message.

#### WORLD TRADE DATA REPORTS

World Trade Data Reports (WTDR) are trade profiles describing individual foreign firms. Each report is prepared abroad by Foreign Service personnel, utilizing private sources such as Dun and Bradstreet, as well as U.S. Government resources, and includes information on: type of organization, size of firm, sales territory, method of operation, product lines handled, names of officers, general reputation in trade and financial circles, and names of

the firm's trading connections. Although it is not a credit report per se, the WTDR does contain names and addresses of sources of financial data. A visit to the firms by Foreign Service personnel is sometimes performed, and the post's evaluation of the firm as a business contact is a critical part of the report. The reports are prepared in response to a request from a businessman or U.S. Government agencies. Requests that cannot be met by reports on file (reports are valid until they are 18 months old) are cabled to Foreign Service posts, and the average turn around time is now 34 days.

APPENDIX 2.

COMMERCE TRADE CENTERS

Fiscal Year 1976 Obligations<sup>1/</sup> (Direct Project)

<u>Trade Centers</u>	<u>Appropriated Funds<sup>2/</sup></u>	<u>Participation Fees</u>	<u>Total</u>	<u>Fees as % of Total</u>
1. Frankfurt	\$ 482,300	\$ 291,600	\$ 773,900	38
2. London	270,100	233,300	503,400	46
3. Mexico City	258,900	173,500	432,400	40
4. Milan	214,700	178,100	392,800	45
5. Paris	583,200	228,600	811,800	28
6. Singapore	256,100	61,200	317,300	19
7. Stockholm	362,600	163,500	526,100	31
8. Sydney	341,900 <sup>3/</sup>	64,500	406,400	16
9. Taipei	105,300	64,400	169,700	38
10. Tehran	169,100	172,800	341,900	51
11. Tokyo	295,600	209,400	505,000	41
12. Beirut (Athens)	143,000	--	143,000	0
	<u>\$3,482,800</u>	<u>\$1,840,900</u>	<u>\$5,323,700</u>	
	65.4%	34.6%	100%	

1/ Includes overseas salaries and benefits (except State-funded), space rental, telephone, utilities and overseas/domestic other obligations.

2/ Washington staff obligations are not included (in the above) as the accounting system does not provide for such data by individual trade center. However, the Washington staff obligations attributable to the trade center program as a whole in 1976 totaled \$1,796,400 and 75 manyears.

Department of State expenditures directly associated with trade centers are also not included in the above. According to State, salaries and allowances for positions at trade centers that are funded by State, including those filled by foreign employees were estimated to be \$1.4 million in fiscal year 1976.

3/ Includes approximately \$100,000 annual rent covering 1976 that was paid in 1975.

## ADDITIONAL VIEWS OF HON. MICHAEL T. BLOUIN

After reviewing the report of the House Government Operation's Subcommittee on Commerce, Consumer, and Monetary Affairs, "Effectiveness of the Export Policies of the Department of Commerce and State," I asked the Department of Commerce to review their programs which are involved in export promotion and asked how they applied to my home State of Iowa.

Oftentimes we read of Government programs and how they are supposed to work, but it is more interesting and useful to see how they impact on the people that we know the best—the men and women in our districts and States who use these Government programs and services to boost their companies' profits and make them more dynamic and effective.

I believe that the information the Department of Commerce has submitted on the extent and overwhelming success of Iowa firms in overseas markets will be of great interest to the members of the House Government Operations Committee and to the Members of the full House as well.

Unfortunately, space does not permit the detailing of this complete report. It is for this reason that these expanded remarks were made part of the Congressional Record of August 5, 1977.

The report states that Iowa's participation in the Department of Commerce's Domestic and International Business Administrations' overseas events is the highest in proportion to the number of manufacturing firms in the state than anywhere in the country. Cedar Rapids, Iowa, the largest city in my district, has the largest amount of export sales, per capita, of any city in the United States. In 1976, over \$273 million in Iowa exports came from the Cedar Rapids area. Moreover, about 18.6 percent of the people employed in Cedar Rapids are dependent upon exports and most of the firms are considered small to medium, being of less than 200 employees.

Based on the information provided by the Department of Commerce, I feel that I must state that the criticisms leveled at this country's export promotion programs are overly harsh and based on questionable information. Moreover, I feel that it would be premature not to allow the new administration the opportunity to thoroughly examine existing export promotion programs and make changes if they are deemed necessary.

The people of Iowa and my district recognize the importance of the export market as it relates to this country's balance of trade and the economy as a whole. Not only does it stimulate the fiscal growth of our country, but it provides jobs for hundreds of thousands who would otherwise do without. I have faith that those currently in office will not let the American businessman and worker down, but rather seek to refine those programs that are vital to the health of our Nation's economy.

MICHAEL T. BLOUIN.