

INTERNATIONAL PROCUREMENT CODE

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
GOVERNMENT PROCUREMENT
OF THE
SELECT COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE
NINETY-SIXTH CONGRESS
FIRST SESSION
ON
INTERNATIONAL PROCUREMENT CODE

APRIL 3 AND 12, 1979



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INTERNATIONAL PROCUREMENT CODE

TUESDAY, APRIL 3, 1979

U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON GOVERNMENT PROCUREMENT,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 424, Russell Senate Office Building, Hon. Robert Morgan, presiding.

Present: Senators Morgan, Sasser, Stewart, Levin, and Weicker.

Also present: Alan L. Chvotkin, legal counsel; Sandra K. Klatt, professional staff member; and Robert W. Santy, professional staff member, minority.

STATEMENT OF HON. ROBERT MORGAN, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator MORGAN [presiding]. We will call the hearings to order. I have a brief opening statement I would like to make for the record, mainly because this is the only time that I can get the Ambassador to listen to me when I am in charge.

Today, the Subcommittee on Government Procurement of the Select Committee on Small Business is taking up the issue of the impact of the multilateral trade negotiations on small business enterprises in this country.

In particular, my hope is that these hearings will clarify the information and misinformation which has been circulating about the International Procurement Code and its relation to the small business community.

As part of the multilateral trade negotiations and in keeping with the policy of reducing tariff and nontariff barriers to international trade, an International Procurement Code is being negotiated. The code is intended to end the official Government policies in the United States and overseas which limit bidding on Government contracts to domestic suppliers.

Naturally, there is concern about the impact of such a code on the interests of small business. Under current law and executive orders, there are specific programs aimed at insuring that small business gets a proper share of Government procurement contracts. Normally, small businesses do not have the resources to fight for Government contracts and, at the same time, compete with bigger enterprises to reduce prices. Since much innovation comes from small business, it is a wise policy to formally encourage small business to do business with the Government.

While I am encouraged about the prospect of opening up Government contracting worldwide, I am concerned about the interests of small businesses. I welcome the opportunity for public hearings so that all may understand the meaning of the trade talks.

Today, we are honored to have special trade representative Ambassador Robert Strauss addressing this vital issue.

Ambassador Strauss has been working diligently to bring together all the diverse interests within this country and to fulfill his obligations under the Trade Act, while at the same time negotiating with the representatives of some 98 countries which are taking part in the multilateral trade negotiations.

I believe that everyone on the Small Business Committee recognizes the difficulty of this task and applauds the work and, to my mind, fundamental success that has been brought about by your efforts. No one is happy with all the agreements, but I am confident that a public discussion such as this will benefit everyone in the small business community.

In addition to Ambassador Strauss, we will be hearing from the North Carolina and Michigan Departments of Commerce on the export programs in these States and how they view the Procurement Code's impact on small business.

On the second day of hearings, scheduled for April 12, we will be taking a greater look at the important use of export assistance. We will be hearing from Secretary of Commerce Juanita Kreps, Small Business Administrator Vernon Weaver, representatives of the Export-Import Bank, and representatives of the small business community.

I think that these hearings will fully address the important questions of what the impact of the new Procurement Code will be and what the Government—Federal and State—can do to assist small businesses in taking advantage of the benefits which may accrue under the new arrangements.

Before we proceed, Senator Levin also has an opening statement.

Senator LEVIN. Thank you, Mr. Chairman. I have a statement which I would like to be made part of the record in full and I will just briefly make two or three comments to shorten the length of time.

Senator MORGAN. Your statement will appear in full in the record at this point.

[The prepared statement of Senator Levin follows:]

STATEMENT OF SENATOR CARL LEVIN

Mr. Chairman. I am very pleased to participate in these hearings on the international procurement code, one of the most important portions of the multilateral trade agreement. Although MTN is today a meaningless acronym to most Americans, it will have a profound impact, both real and psychological, upon the world economy and upon America's participation in the international trading system in future years. For this reason, I believe it is critical that we encourage widespread public understanding and debate of the trade agreement before the Congress is called upon to approve the legislation implementing it. I hope that our hearings today and next week will help elucidate important aspects of the agreement and its implications for our domestic economy.

In these hearings, we will be focusing primarily on one section of the trade agreement, the international procurement code. The intent of the code is to discourage governments from discriminating against foreign suppliers in their procurement processes. In theory, at least, the Code will allow American exporters to bid on an estimated \$25 billion worth of sales to foreign governments.

I have three major concerns about the procurement code which I hope can be addressed by our witnesses today and next week. First, I would like to know precisely what impact the Code will have on current provisions of U.S. law which are designed to help channel our government's purchases to small and minority businesses. I understand that our negotiating position in Geneva has now been modified to protect the Small Business Administration's 8(a) Business Development Program, which permits it to subcontract to socially or economically disadvantaged small businesses to provide goods and services. I understand that the set-aside program that channels government procurement to small businesses will be similarly protected. But we need to know specifically what the code will do to the Buy American provisions that give a preference to domestic small businesses, and to businesses in labor surplus areas.

I hope we will be told exactly what the Administration proposes to do to these programs in the implementing of the trade agreement, and what the impact of the changes or waivers will be in terms of the value of sales lost to small companies.

The nature of all negotiations is that each party gives something up in order to get something in return. I've briefly discussed some of the concessions that we apparently have made in the trade negotiations. My second major concern is that we make absolutely sure that our domestic business community will receive reciprocal concessions to at least offset those that we have made.

Ambassador Strauss has said that \$25 billion in foreign government procurement will be opened up to our industries. However, if we are to realize that tremendous opportunity, we must also recognize the fundamental difference that exists between our government's procurement procedures and those of our major trading partners. Our procurement procedures are bound by statute; the preferences that we give to domestic businesses are written into the law, and can be changed by act of Congress. That, indeed, is how we will move into compliance with the terms of the trade agreement.

However, the preferences given by other countries to their own industries are procedural, not statutory. Any company that has tried to work its way through the labyrinthine trade bureaucracy of the Japanese, for example, knows that they are dealing not with statutory processes but rather with a deep-seated orientation towards "protecting their own." It will be infinitely more difficult to remove these procedural roadblocks than to overcome our statutory obstacles.

For this reason, the enforcement mechanism contained in the agreement is critically important. How do we ascertain if other countries are in compliance? What recourse do we have if they are not? Is there an ultimate complaint-resolving authority whose decisions are binding? The answers to these and other questions will determine whether our companies really get a piece of the action in exchange for what we are giving up.

Finally, we must recognize that foreign procurement is an entirely new field for almost all American businesses, and therefore that considerable government assistance will be required for them to take full advantage of it. This is particularly true for small businesses, that simply do not have the resources to take advantage of procurement opportunities without help. I believe that an integral part of our implementation of the terms of the trade agreement must be the simultaneous development of a national export assistance program, designed to help our large and small businesses compete realistically and practically for all export opportunities. I will be most interested in hearing what plans the Administration has in that regard.

Mr. Chairman, no one could be better able to answer our questions about the trade agreement than our lead-off witness today, Ambassador Robert Strauss. I commend him for his vigorous efforts to negotiate a treaty which protects American interests, and I look forward to hearing his comments.

(Unfortunately, I am obligated to be at an Armed Services Committee hearing this morning as well. I do hope to return in time to ask some questions, but in case that is not possible, I hope that I may insert them for the Record. Also, in the event that I am detained, I would like to take this opportunity to welcome one of our witnesses who will be testifying later this morning. I am very pleased to have with us Mr. Wayne Workman, Deputy Director of Michigan's Office of Economic Development. Michigan has been a leader in the development of export assistance programs at the state level, and currently ranks second in the nation in manufacturing exports. I'm sure that the perspectives Mr. Workman will share with us this morning will be most helpful as we consider the

impact which this trade agreement will have across the country, and as we evaluate the federal government's current export expansion programs. Mr. Workman, welcome.)

Thank you, Mr. Chairman.

Senator LEVIN. To summarize, there are a number of concerns which are set forth in my statement and few of them have to do with the enforcement mechanisms which are in this agreement to be certain that the agreements of other countries, particularly relating to their preferences which are more often procedural rather than statutory, are, in fact, corrected and the agreement is much more difficult for those preferences to be corrected because of the fact that they are utilized in practice and history, rather than in statute and the enforcement mechanisms which are outlined in the agreement become critically important.

In that regard, how do we ascertain if other countries are in compliance and what are the resources if they are not?

Another aspect of the agreement critical to us is the development of a national export assistance program. It has been represented at \$25 billion in other countries and will be available to our businesses which were not available now.

The practicality and realism of that national export assistance program become critical if we are going to gain as much as we lose from these agreements.

Unfortunately, Mr. Chairman, it will be necessary for me to go to the Armed Services hearings this morning and I will be unable to ask the Ambassador and the other witnesses some questions. I would like to leave those for the record.

Before I leave, I would like to welcome not only the Ambassador but particularly Mr. Wayne Workman, deputy director, Office of Economic Development, Department of Commerce, State of Michigan. Michigan has been a leader in the development of export assistance and currently ranks second in the Nation in exports.

I am sure the testimony of Mr. Workman will share with us this morning will be most helpful as we consider the impact of this trade agreement across the country.

At this point I welcome Mr. Workman to our subcommittee.

Senator MORGAN. Thank you, very much, Senator.

[The information referred to follows:]

U.S. SENATE,
Washington, D.C., April 3, 1979.

HON. ROBERT STRAUSS,
Special Trade Representative,
Washington, D.C.

DEAR AMBASSADOR STRAUSS: I appreciate you taking the time to testify this morning before the Senate Small Business Committee's Subcommittee on Government Procurement. I regret that other committee obligations prevented me from hearing your testimony.

As a member of both the Small Business and Governmental Affairs Committees, I have a great interest and jurisdictional responsibility for the international procurement code currently under negotiation. I had hoped to ask you several questions at this morning's hearing, and because of the timeliness of the issues involved, I decided to take the liberty of addressing them directly to you in writing, rather than inserting them in the record. The questions, which deal with several areas of concern over the impact and implementation of the code, are the following:

1. Could you document your statement that the international procurement code will enable U.S. exporting firms to bid on some \$20 billion worth of foreign

government contracts? What is the breakdown of that figure, by country and by product category?

2. What enforcement mechanisms will be available to us under the Code to insure that all other signatories are complying with its provisions? Although the terms of the Code are *procedural* (that is, they specify the procedures that signatories must abide by in procurement), will it be possible for us to use *performance* measures to judge their compliance? Won't it be considerably easier for us to assess compliance by seeing whether our companies really get a "piece of the action" rather than by examining all the minute details of the procurement procedures only after complaints are filed?

3. Will the dispute resolution procedure in the Code be expeditious and non-cumbersome, so that the process itself will not serve as a deterrent to exporting? As you know, many industries claim that our current anti-dumping procedures are so burdensome that they discourage the filing of petitions. Can we be assured that the same will not be true of the procedure for resolving complaints in the Code?

4. What kind of staffing do you predict will be required by your office, or by whoever assumes the task of monitoring compliance with the entire trade agreement? How many additional embassy personnel will be required overseas?

5. Within the constraints of the international procurement code, what limitations would be imposed on the proportion of covered domestic procurement that can be channeled to small firms through the set-aside program? If there is no limit, wouldn't our trading partners fear that we might simply expand that program, or re-target it, in order to take up whatever slack would be created by the elimination of the Buy American differentials favoring small businesses?

6. The President gave great emphasis to the labor surplus procurement preference program in the urban policy announced last year. He set a goal of increasing the volume of procurement in labor surplus areas five-fold, to a total of \$1.2 billion. Do you feel that that target will still be attainable in the context of the international procurement code? How would you propose to reach it? Would you favor providing a labor surplus preference in Defense Department procurement in order to compensate for the losses in other government agencies covered by the Code? Has this been discussed with DOD officials?

I look forward to receiving your answers to these questions. Should any clarification or discussion be helpful, please feel free to have your staff contact Mr. David Hansell in my office.

In addition to the issues raised above, I am deeply concerned about the development of an aggressive export assistance program to enable small firms in particular to take advantage of the new export opportunities that will be created by the procurement code. I know that you have committed yourself to that objective, and I will be most eager to examine the proposals that the Administration puts forward in that regard.

Thank you very much for your attention to these matters. I look forward to working closely with you as the trade agreement and the implementing legislation move through the Congress.

Sincerely,

CARL LEVIN, *U.S. Senator.*

APRIL 20 1979.

HON. CARL LEVIN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LEVIN: I appreciate the opportunity to respond to the questions you posed in your letter of April 3, 1979. We have now initialed the Government Procurement Agreement in Geneva. However, coverage under the Code will be the subject of further U.S. analysis prior to the formal signing of the MTN documents.

Under the Code, signatory governments will make the purchases of goods by certain entities subject to nondiscriminatory bidding from the firms of other signatories. Lists of those entities for each signatory are presented in Annex 1 beginning on page 82 of the attached copy of the Code. Our estimate of \$20 billion, as the potential market opened to U.S. bids, was based on information provided by other signatory governments in the context of the negotiations. It is the sum of purchases by those foreign entities listed in Annex 1 to the Code. Some of this information is still subject to further explanation and verification.

Product coverage of the Code will be dictated by the kinds of goods bought by the entities subject to the Code. The entities which purchase power generating equipment and rail transportation equipment have not been included in the entity list of the United States or of the other countries who will sign the Code. Most other areas of manufacture will, however, have significant new export opportunities offered to them. The principal areas of foreign government purchases that will be opened to U.S. bidders is a broad spectrum of machinery, automatic data processing, medical and educational equipment.

The agreement provides for consultation and dispute settlement in a manner that substantially improves the existing procedure under the General Agreement on Tariffs and Trade (GATT). We will also provide in the implementing legislation now being drafted for a substantially improved mechanism for domestic parties to complain against foreign non-compliance with the agreement.

The Code does provide, as you have noted, for procedures that are largely self-policing. This will encourage resolution of problems which may arise during any phase of the procurement process directly between the potential supplier and the procuring agency. The Code also provides for an annual review of its operation. This enables the U.S. to analyze the performance of the Code in terms of the actual benefits to our industries.

I can assure you that this Administration will monitor the results of the MTN very closely and will vigorously enforce the obligations undertaken by other countries. We anticipate that this will be done largely through the existing interagency trade agreements machinery which is coordinated by the Office of the Special Representative for Trade Negotiations. We anticipate any necessary increases in staffing will be minimal.

The set-aside programs for small and minority businesses were a legitimate concern raised by you and your colleagues because of inaccurate information which grossly exaggerated the Code's potential impact on those programs. However, in completing the Code we have been able to assure their exclusion from the Code's coverage. Our trading partners are on notice that the United States will set-aside enough contracts for small and minority businesses to guarantee that they have a fair share of U.S. government purchases.

Of the almost \$80 billion of total U.S. procurements we now estimate that no more than \$12 billion will be subject to non-discriminatory foreign competition under the Government Procurement Code. This will leave approximately 85% of the U.S. Government Procurement market not covered by the Code. You may be assured that President Carter's goals for the labor surplus area set-aside program will be met from that part of the U.S. government purchases not covered by the Code. I should also point out that set-asides for small and minority business that are also from a labor surplus area will not be affected by the Code.

As part of our effort to implement this agreement, the Department of Commerce, with the assistance of other federal agencies, is developing a program that will assist U.S. businesses in taking advantage of the new export opportunities created by this Code. This program will be especially designed to include specific provisions designed to assist small and minority businesses. Of course, it will be communicated to the Congress upon completion for review.

I greatly appreciate this opportunity to communicate with you personally on this important aspect of the Multilateral Trade Negotiations (MTN), and I look forward to working with you toward achieving Congressional approval of the entire MTN package.

Sincerely,

ROBERT S. STRAUSS.

Senator MORGAN. Our ranking minority member, Senator Weicker has come in and so has Senator Stewart.

Senator WEICKER. I have no opening statement.

Senator STEWART. I have none.

Senator MORGAN. Very well.

Senator STEWART. I do have one thing to tell the Ambassador. The last time I had the opportunity of interrogating him was in a caucus meeting. He asked at that time for special privileges from Alabama and I want to tell him the peanuts and pecans are on the way.

STATEMENT OF AMBASSADOR ROBERT S. STRAUSS, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, ACCOMPANIED BY AMBASSADOR MacDONALD, GENEVA NEGOTIATOR

Ambassador STRAUSS. Senator Stewart, I do not wish to start off with a big argument here but the pecans have not arrived.

Senator STEWART. I said they were on their way.

Ambassador STRAUSS. I will confine my introduction, if I may, to Ambassador MacDonald on my right who serves as my Geneva deputy and has negotiated the agreements, he may participate from time to time in the hearing. For purposes of introduction only, on my immediate left is Mr. Newkirk who served with Ambassador MacDonald and Bob Griffin who has been serving with me in our Washington office. Shall I proceed?

Senator MORGAN. Yes, sir.

Ambassador STRAUSS. Thank you.

First, let me say, Senator, to you and to the members of the committee, that I really do appreciate the opportunity to be here today. I need this opportunity and the Nation needs this opportunity to properly examine these trade agreements. Unfortunately, a good deal of inaccurate information was disseminated recently. This was not due to anyone's malice, but probably because of a lack of any real hard, accurate information and people jumped to premature conclusions with this insufficient information. All of this occurred before negotiations were even completed.

This led to a number of almost wholly inaccurate news stories that I cannot even blame on those who wrote the stories. They were given bum information, but the resulting stories have worked a terrible injustice on the public and on the people who worked so hard to complete these negotiations.

It is important that we do look closely at this trade package. I hope not only the members of the committee but the members of the press here will take the opportunity to discharge the responsibility. I know they feel so strongly in revealing the real facts of this package, both good and bad, what we have achieved and what we failed to achieve, before the American public. That, Mr. Chairman, they deserve.

With that preface, I will begin my statement. In this current round of trade negotiations we are focusing for the first time on nontariff barriers to trade.

This is significant particularly from the point of view of small business and minority enterprises because it is the nontariff barriers, not the tariff barriers, but the nontariff barriers that they are least able to do anything about. This round of negotiations, if successfully concluded, will provide a new set of rules for the international trading system. These rules will not be the final answer, but they will be a step, and I think a major step, in the right direction.

Our country will particularly attain benefits from the nontariff barrier agreements we are now concluding. That is why we are proud of the Government procurement code. American small businesses, probably more frequently than our large, multinational enterprises, are the victims of the very problems dealt with by these proposed

codes. These agreements, I might add, deal with barriers to our exports as well as problems we have with imports. Let me list some of the major agreements contemplated.

One: One of our new nontariff codes will define and control the use of subsidies where they affect trade, both for industrial and agricultural products.

Two: Another agreement will define the proper development and use of product standards, which has often been a way of discriminating against U.S. exports.

Three: We will have, as a result of this round of negotiations, a new set of rules for customs valuation. It will be a positive system that eliminates the enormous discretion that has been used to increase the dutiable value of U.S. exports.

Four: Our proposed Government Procurement Code will open up a new market of foreign governmental purchases in the area of \$20 billion. We have been systematically excluded from these foreign markets in the past.

Five: We will extend international rules to agriculture and obtain major concessions that will benefit our agricultural exports.

Six: We will obtain a special agreement for the steel sector, and possibly another for civilian aircraft.

Seven: In addition to these nontariff barrier accomplishments we will obtain reciprocal tariff reductions, and modernize the General Agreement on Tariffs and Trade.

Now let me return to the Government Procurement Code, which has been of some concern to small and minority businesses during the past 3 weeks. As I told some of your counterparts in the House of Representatives a couple of weeks ago, and as some of you know, I have personally spent a good deal of my 60 years on this earth counseling small and minority businesses and participating in their successes and failures. As Special Representative for Trade Negotiations, I have kept their interests in mind constantly in our negotiations.

I was greatly distressed when an inaccurate newspaper article created false concerns. These concerns were raised in the midst of delicate and continuing negotiations, and well before our final package could even be in place. Since that time we have succeeded in our ongoing attempt to exclude from foreign competition the whole set-aside program for small and minority businesses.

Let me assure this subcommittee that with the exclusion of the set-asides for small and minority business, and the fact that approximately 85 percent of all U.S. Government purchases will not be covered by this proposed code, we are confident that this administration's goals for small and minority businesses and labor surplus areas can and will be achieved. Our markets are open with certain 6 percent or 12 percent preferences for domestic producers. Foreign markets are closed. No developed nation has an open market until these negotiations are completed.

Since the early 1960's, the United States has been trying to negotiate an international agreement to require fairness and openness in foreign government procurement markets. The U.S. system is open; its preferences are clear. However, our exporters do not face a similar situation when trying to sell to foreign governments.

Today, this Nation is on the verge of a vital first step in making foreign governments open their systems. If we are successful, this code will be a key achievement in our overall agreement. It will provide us with significant new export opportunities which will benefit a wide range of industries. It will substantially contribute to export opportunities for U.S. producers of all types and sizes. It will require open and fair procedures and nondiscrimination.

Mr. Chairman, we should also keep in mind that many U.S. procurement contracts tend to be very large. Foreign government contracts are typically smaller. In effect, what is large business to foreign governments is small business to American firms. Foreign government purchases should be obtainable by American small businesses in a large number of cases, particularly if we develop the right kind of programs.

I initially said our negotiations are the beginning, Mr. Chairman, something to build on, put the foundation in place for us to build on through this committee, through offices like mine and others. We have been working on a program to make certain that we take proper advantage of this new opportunity and help small businesses do well in this new foreign market. This program is not yet ready for full announcement, but I want to share some of our preliminary thoughts with you.

As part of the implementation of this trade agreement, we intend to work toward greatly expanding the export assistance programs for small and minority businesses. This assistance can include direct contacts with pending tenders, translation facilities, and direct assistance in dealing with foreign purchasing entities. In addition, a White House task force, under assistant to the President Stuart Eizenstat, is presently working on a program to make certain that domestic subcontracting opportunities for small and minority firms will not be adversely affected.

With respect to our coverage of domestic procurement, the proposed procurement code has a number of limiting factors which lessen the impact of the code on U.S. producers. First, only those countries which open a fair share of their procurement to us will receive the benefits of our changes in procurement. Just this last week, I broke off negotiations with Japan because their offer was inadequate. Their offer had a lot of money in it, Mr. Chairman, a lot of bulk in it, but it did not go into the quality and it was not the kind of thing we could really do business with.

The national telephone and communications system was really the main stumbling block. There we really could not get into the high technology telecommunications area, whether it is voice or data. That is where we can do business and, I hope this is printed in Japan, because it is the best thing that can happen to Japan because the average Japanese consumer is not getting the benefit of our high technology; the benefit of a system such as the communication system we have in this country. They can get better service at cheaper prices if they open their market and there is a little consumer movement going on in Japan that is demanding the best, demanding the kind of service we have in this country. It will be the best thing in the world that could happen to the Japanese user and consumer and also would serve our domestic interest.

Now, back to the statement. Second, only contracts above a threshold amount of about \$190,000 will be covered by the code.

Third, a number of important products are completely excluded from the code. Among these items are:

One: All those goods necessary to our national security which include many goods of manufacturing potential to small and minority business;

Two: All Defense Department purchases of textiles, clothing, apparel, food, specialty metals, ships and ship components, and shoes;

Three: All construction and service contracts; and,

Four: All GSA handtool and stainless steel flatware purchases.

That is a pretty large list of exclusions, Mr. Chairman. Any negotiation, however, is a two-way street and the members of this committee know it from their own experiences.

President Carter deserves credit, credit he has not received, for his commitment to small and minority business. President Carter deserves credit and I hope the press will give it to him, for the commitment he has made toward a strong and aggressive trade negotiation and trade policy for this country, and the Republicans and the Democrats of this Congress, on a bipartisan basis deserve tremendous credit for the support they have given this program and the specific program we are talking about today as well as the entire trade program, and we have been successful. I have been successful; Ambassador MacDonald and Ambassador Wolfe have been successful; because Democrats and Republicans alike—the members of the key committees have stood up and supported President Carter and let the record be very clear on that.

In addition, Mr. Chairman, purchases by those entities not covered by the code are, of course, excluded. Among the entities that we have proposed not be covered are the entire Departments of Transportation and Energy, the Army Corps of Engineers, TVA, Amtrak, ConRail, and the U.S. Postal Service, and all purchases by State and local authorities are excluded, including those using Federal grant moneys.

As I said, any negotiation is a two-way street. For everything you obtain, there is something that you must give. For a modest risk, we have gained access to a foreign government procurement market estimated at about \$20 billion. This is a market we have had little or no opportunity to reach before now.

I can assure each of you, as I have other Members of Congress, that President Carter stands firm behind this commitment to greatly expand the Federal Government's program for minority businesses and labor surplus areas. I have discussed this area carefully with Administrator Weaver of the SBA. Mr. Weaver has assured me that the small amount of contracts opened by our Procurement Code to foreign bidding will not—and I repeat, will not—interfere with nor reduce the Federal Government's promised expansion of these programs. We have carefully negotiated our international commitments to be mindful of this administration's domestic commitments.

Mr. Chairman, in my judgment, America is accruing a major benefit from the code coming out of these negotiations. We must now concentrate our attention on developing the necessary increase in assistance to our small and minority business institutions through SBA, the Commerce Department, the Export-Import Bank, and the other

agencies of our Government so that we can also increase the percentage of small and minority business exports dramatically. I believe that this code will mark a new era of small and minority business opportunity that will pay off many times over, but it is going to require your persistence, and your tenacity, and the kind of commitment that this administration has made.

I will be pleased to answer any questions.

Senator MORGAN. Thank you, Mr. Ambassador. I think you made your position very clear and have helped clear up some misinformation that has been rampant with regard to this.

If I understand your testimony correctly, all the small business and minority set-asides have been exempted from the code; is that correct?

Ambassador STRAUSS. That is correct.

Senator MORGAN. Is there any area at all in which minority small business or those set-asides for small business will be affected?

Ambassador STRAUSS. Affected, but not adversely affected; only affected in that opportunities are available to them.

Is there any exception to that, Mr. Newkirk?

Mr. NEWKIRK. No exclusions.

Senator MORGAN. No way we know of. In addition, Mr. Ambassador, is it possible under this code if successfully negotiated that they then will have access to markets overseas that they may not now have or do not now have?

Ambassador STRAUSS. They will have access to markets in substantial amounts that they absolutely cannot reach now. No developed nation in the world permits this country to go in and compete for government procurement contracts and yet, we permit every developed nation in the world to compete for it with us.

When foreign competition bids here, they compete at a 6-percent or 12-percent disadvantage, and in a few cases it goes up to 50 percent for the Department of Defense, but we have been losing contracts with a 12-percent advantage—we are still losing a lot of business, but we are now going to have an opportunity to gain much more than we have lost.

There are a lot of things we can do. Senator Morgan, you were a distinguished attorney general in North Carolina. One thing we might look at, for example, is trading companies. I do not know all the pluses or minuses of these trading companies. Japan has used them very well. That is something you ought to be interested in looking at, and that the administration should be looking at.

Should we take a look at our antitrust laws and see if we should put 12 or 15 small companies together and make a marketing company? You get a company in North Carolina and it is a nice little public or private company and let us say they make \$500,000 a year. That is good business. One year they make \$450,000, or \$500,000, or \$550,000 and that's fighting in this domestic market. What happens to them, though, when Senator Morgan, or Senator Stewart, or Bob Strauss says why not reach over and tap that Japanese market or see if you can do some business over in Italy. The first thing this company has to do is risk \$100,000 or \$150,000 a year in speculating. If it strikes paydirt, it will increase its profits, but most of them cannot take that

chance. IBM can. GE and Du Pont can. The big firms can afford this, Mr. Chairman. The small business cannot afford that risk by themselves so we have to assist them if they are to compete. Some small businesses are able to compete now because they are in the kind of business which is able to slip in if everything is just right, but with organized help it can be a major source of income for small business.

Senator MORGAN. Trading companies are a real possibility, and, as you say, the Japanese use them very successfully.

Ambassador STRAUSS. Yes, it is something we ought to look at. We ought to open these things up, peel back the skin and look at them in the raw and see if there is anything good or bad, and that is going to be your job, Senator. If we just sit on this thing and people like you and members of your committee do not pursue it, we are never going to do anything about it. We are just starting. This is the first two or three chapters in a long book that has to be written.

Senator MORGAN. I think it is an area that should have been addressed a long time ago. It is a source of concern to my people back home that our markets are open to everyone and we are hampered.

Well now, we have withdrawn from negotiations for the time being with Japan. Without jeopardizing your negotiations, what kind of success do you think you are having with other nations?

Ambassador STRAUSS. We are having great success and we are about to conclude a code. We have some areas where we have gained and where we have lost, where we have given up things. As I said a negotiation—I do not care if it is a member of this committee or me, or who it is—you do not get anything for nothing. You have to put up something if you are going to bring back something. This is an area where we have made a major gain.

Now, there are other areas where we have given up some things and eventually we are going to have trouble on the Hill about them. When the members take this bill to the floor to pass, they might ask, "Why did you take that away from us?" Well, it was because we tried to balance the whole national interest. I say to you that if we can focus the debate in this Congress on the three-fourths we returned with, we will pass this thing with a great majority. If we let the debate focus on the areas in which we gave up something, on the other one-fourth, then the bill will go down.

It is my responsibility, and a responsibility and an opportunity that I am glad to have, to focus this debate on what is in this package rather than on what is not in it.

Senator MORGAN. In your testimony you enumerated a number of exclusions. For instance, I see nothing wrong with the threshold of \$190,000 if we are going to exclude all items vital to our national security, right?

Ambassador STRAUSS. It fits into a definition. DOD is satisfied with it.

Senator MORGAN. If we are going to exclude all defense purchases of textiles, clothing apparel, food, special metals, ships and ships components, all construction service contracts, all GSA handtools and stainless steel flatwork, the exclusion list is pretty big.

Ambassador STRAUSS. I have a lot more of them, Senator, I am very big on excluding things if I can.

Senator MORGAN. I think what I am interested in is what areas are we giving.

Ambassador STRAUSS. There are certain areas here that obviously are not excluded in the general industrial area where there is Government procurement. I guess one of the more vulnerable things is—well, why don't I just read some of the covered things?

VA is included, Department of Agriculture, Housing and Urban Development, Justice, Labor, State, Treasury, EPA, and the list goes on. Those are the big ones, but in all these situations the contract has to be over \$190,000 before it is included. I could go on through a long list—the CAB, National Mediation Board, Railroad Retirement Board, American Battle Monuments Commission. I have a lot of things in there. We have not completed negotiations on this but we are satisfied with the posture it is in.

Senator MORGAN. Let me ask one other question, Mr. Ambassador and I will yield to someone else.

Could we anticipate that if this is successfully concluded, the consumers of this country might benefit because of added competition in the marketplace?

I am thinking specifically now with regard to housing and urban development, building, and so forth.

Ambassador STRAUSS. I think unquestionably, Senator, that whenever you have a progressive trade policy the consumers will benefit, but often you have to strike a delicate balance between difficult factors. You are very familiar with one such delicate area and that, of course, is the textile area. We have some restrictions in the textile area. We have struck a very careful balance between the consumer interests, that is, the inflationary problem on the one hand, and the effects on domestic employment on the other. There are close to 3 million people that are employed in the textile industry and most of them are women and minorities, groups that traditionally have the most difficult employment problems. But, on balance, I think the interests of consumers have been protected and as I always point out, the consumers of this country and the working men and women of this country sometimes seem to get separated into two different groups. They are one and the same.

Let me add one more thing and I hope those here today and the attending press will pay close attention to this additional fact because we need to get these stories out. The fact is that we have a large trade deficit in this country today. However, we are not going to cure our trade deficit by what we are talking about here, Senator. We are not going to cure it. We are going to get started. It is going to be a long process of several years.

The trade deficits we face today are an accumulation of 20 years neglect by this Government and by private enterprise in this country—20 years of neglect where the other developed nations of the world have been slowly but surely increasing their competitive posture, while, at the same time, we have slowly and surely decreased our competitive posture in the world. Your able staffwoman is nodding because she knows I am right. Our trade deficit cannot be cured overnight and anybody that comes up here and says so is bogus. It will take a lot of work and a long period of time to reverse this trend; but we are on the right track.

Senator MORGAN. Something has to be done.

Mr. Ambassador, my leader is on the phone. Excuse me for just a moment.

Ambassador STRAUSS. Say a good word for me.

Senator STEWART [presiding]. Mr. Ambassador, one of the things I understood this meeting for this morning, was to determine how we would enable the small business community to participate in the brand new market that is apparently opening up.

We had some hearings on the authorization for the SBA recently and it was indicated at that time by Mr. Weaver and others that they really had not participated fully in these matters, but that they had been consulted from time to time.

I wish you would comment and elaborate on that a little bit, if you would, to settle my concerns in that area, the fact that they were not represented. When I say "they," I am speaking specifically of the small business interests in this country. I would like to follow up with a few other questions.

Ambassador STRAUSS. Well, it depends on really how you define the word "consulted." I would point out to you, Senator Stewart, that we run a major trading program in this country with a total of 41 people. I play the saxophone in the morning, and the trumpet in the afternoon, and the drums during the noon hour, and sweep the floor in the afternoon, and most of the folks in my shop do the same thing. We are on the Hill meeting with constituent groups and answering mail but very wisely the Congress, in the 1974 Trade Act, developed advisory groups to assist us. These advisory groups consist of an accounting committee, our top advisory committee, and, to cite a few, representatives of the small business community, the farm community, aircraft community, and the sugar community. These advisers represent the whole economy and labor's concerns are also covered by our labor committees. Every segment of labor is involved.

Now, we have held public hearings. There are more ways of consulting and running around town and going into various offices. We really did not consult in my judgment quite as closely as I wish we had with Vernon Weaver of the SBA. In the first place, he is a splendid man and has splendid insights into the problems and I probably should have spent more time over there.

Members of my staff spent time with members of his staff, but through this whole consultative process I spent at least 3 days a month working with these advisory committees. They would come in and spend about 4 hours answering and asking questions. Then they would go back to all their industries and the information would be fed back. They would write reports on our progress, where they are going and if they approve or disapprove of the different areas. All of this came out of the 1974 Trade Act. All these advisers are Presidential appointments, hundreds of them from all across America.

Senator STEWART. Let me ask you specifically. You say there is a \$20-billion market opening up. Again, the other day when we had the representatives from the SBA before the committee, we asked how would a company take advantage of those opportunities in foreign countries, say a small business located in Alabama.

What mechanism is available for them to take advantage of this market?

Ambassador STRAUSS. The first thing that happens is for the first time in developed countries, and I hope members of my staff will correct me if I'm wrong for I want to be very precise on this, but for the first time there is a requirement for publication and advice. We now are going to have a problem of translation and distribution in this country, so once we receive the publication, with at least a minimum of 30-days notice, then the Department of Commerce and other Departments of Government are going to have to develop procedures for translating and distributing, these foreign announcements. Now, that is not going to be an easy task. Nothing is easy in this world that is worth a darn, I have found out, but that is the first thing we are going to do, bring knowledge.

Second, I hope that as we develop our trade and export program here that we will look at ways of assisting that Alabama concern, No. 1, in getting in touch with the right people; No. 2, that through the Small Business Administration, the Eximbank and other sources, that there will be financing available to assist them where necessary, that proper balance sheets are available, that the projects are examined to be sound and that of all these things we will provide some skills that have never before been provided. This is an exceedingly complex thing. We are not going to wave a magic wand.

Senator STEWART. I understand that.

Ambassador STRAUSS. Not to cure all the problems.

Senator STEWART. I understand that. That is why I am asking the questions. When we had the SBA up here the other day and talked to them about this particular problem, the process they said they went through is that they clear through the Commerce Department.

My folks in Alabama, say, located there in a small business, have difficulty dealing here, compared to what a multinational corporation would have in dealing with these foreign governments. But their first access and contact to these folks is in Atlanta. They cannot go to the SBA, and here I am speaking to the committee members as well, and I think this is part of our problem. The folks in the Small Business Administration indicated they have a connection there for them in the Commerce Department. But they also have their people trained in Birmingham, Ala., to assist our people who wanted to get involved. That is probably true all over the country. And those people are not trained, equipped, and capable of getting my people and anybody's folks anywhere in this country into that \$20 billion market. That is what I am talking about.

Ambassador STRAUSS. Let me tell you what is being done. Let me tell you what I think should be done.

Senator STEWART. I want your advice because I plan to make sure in my activities on this committee that we follow a little bit of that with regard to the SBA so we begin to do something.

Ambassador STRAUSS. We would all be derelict if we did not follow up.

First of all after this trade bill passes it will go into effect in 1981 and that means between now and 1981 we have to develop some mechanism to help small business. One of the most valuable mechanisms will be through the Commerce Department and their field offices. Various export promotion activities are handled by the Commerce Depart-

ment and I know Secretary Kreps will be pleased to answer questions on this.

With a very little bit of money under Assistant Secretary Frank Weil, they have redeveloped and improved their export promotion program a good deal and they have done, I think, an exceedingly useful and worthwhile thing over there. They are just beginning this effort, but with the use of their field offices we ought to be able to reach more people and give them more help.

Because the codes of this trade bill call for the translation, publication, and distribution of trade information from other governments and a dispute settlement process; we have negotiated the kind of agreement that will enable the Commerce Department, with the support of committees like this, to develop the skills to reach the XYZ Co., in Selma, Ala., that really never heard of these trade opportunities before or if they did, felt frustrated. And, of course, they have been tremendously frustrated in the past, because there has not been very much done in the past to help our people. That is the reason I am talking about 20 years neglect where we have lost continuously on the ratio of our export markets, and it has to be reversed.

Senator STEWART. Well, I just think my personal opinion is that this committee is going to have a big job to make the changes necessary because I noticed in the SBA's request for money and the way they are going to spend their money that there was not a great deal allocated to improve their export promotion program.

Ambassador STRAUSS. 25 million is all the President allowed, and correctly so. He said that he wanted to see if it would be spent prudently and wisely in the development of these necessary export skills and when we reach the stage we are discussing here now will have the good programs to give us the right support.

There is just no sense in throwing away money at this problem.

Senator STEWART. I am talking in particular about the SBA budget with regard to this stuff and the training they do with their personnel. I think they could do a better job.

Ambassador STRAUSS. On the code itself, of course, it is a new element. Nothing has been available like this before. It will have to be funded, and while it won't require a huge budget, there will be some funding that will be required and some oversight that will be required and that is just what you are in business for.

We are talking about this at the right time, the right place, and are addressing the right subjects and we do not have all the answers to them. Anybody that comes up here and says they do is a liar. We do not have the answers to these problems, but we are on the right track.

Senator STEWART. Frankly, I look at it personally as an opportunity, and we can work on some of those answers.

Senator MORGAN [presiding]. Senator Sasser?

Senator SASSER. Thank you, Mr. Chairman.

I want to say that I am pleased that the Small Business Committee is holding these important hearings today and next week to discuss the Federal Government's Procurement Code and the effect of the negotiations for the multilateral trade negotiations on small business.

I think it is fair to say that this hearing is the result of the course indicated that small and minority business might suffer and I underline might, as a result of current trade negotiations.

Now, as a partial result of public and congressional reaction to these reports, the set aside provisions of the code have been modified.

Mr. Ambassador, I want to congratulate your responsive and prompt action on this matter. It is the sort of prompt and responsive action that we come to expect of you over the years, but I think it is important that the members of this committee be aware of the status of the multi-lateral trade negotiations and the potential in this treaty for small business.

Mr. Chairman, I am delighted that Ambassador Strauss is here today to give us the benefit of his very capable judgment on a number of matters.

Having said that I would like to ask two or three questions. Now, one is a rather parochial question. Mr. Ambassador, but there is some-grumbling about these treaties from the people in my State who make that famous Tennessee sipping whiskey. They believe that the treaties will allow too much imported whiskey to enter this country and they will not have the same opportunities to enter foreign markets.

For example, I am informed that Spain and Japan define whiskey as only Scotch whiskey. Of course, we do not make any Scotch whiskey in Tennessee and Senator Huddleston is concerned about that on the part of his district.

Ambassador STRAUSS. You all drink a good deal of it down there even though you do not make it.

Senator SASSER. I will plead the fifth on that one.

Ambassador STRAUSS. Well, do you want me to respond to that?

Senator SASSER. If you would.

Ambassador STRAUSS. I am going to make a brief response and let Ambassador MacDonald give whatever he has to contribute.

Let me say that those people primarily in the bourbon business have a legitimate complaint that what these negotiations have done is nothing. Well, they have done some things but in certain areas they feel they have suffered a modest competitive disadvantage.

Now, it is true that people in the liquor business are generally divided on this. I think there are more employees involved in that section of the business who feel that we have done well, but with respect to one narrow area they have what I think is a legitimate complaint that we cannot do anything about, but in return we have received major gains in the Government procurement program we have been talking about and especially in the agricultural area. There has been give and take all across the board in these negotiations and that is one of the areas I can point to and say we gained a great deal from that.

Let Ambassador MacDonald direct himself to more detail. He has been directly involved in the last 10 days. We do not like the situation but we cannot say from A to Z we have gained everything and given nothing.

Ambassador MACDONALD. Thank you, Mr. Chairman.

Mr. Chairman, in terms of the arrangement that Senator Sasser referred to, we have offered on the table to do away with the wine gallon form of tax collection substituting for it a proof gallon method for all kinds of whiskey coming into our country, in fact all kinds of distilled spirits. We will be charging on alcoholic content instead of on the container size. This has been a complaint for many years and, as a matter of fact, this was the first and foremost request in our agricultural nego-

tiations on the part of the European community, among others, and the Canadians too.

We have examined this in enormous detail. We have also tried to get the best advantage we could for our own group, but it still depends on their ability to market their product successfully, frankly, in terms of entry into other markets.

On the specific points mentioned I think it is true in Spain and Japan there are separate tariff lines that reflect bourbon whiskey from other forms of whiskey, blends, or Scotch.

Fortunately, in the Japanese negotiations we were able to have a much lower duty on our bourbon, than on Scotch and that has permitted an added leverage in terms of negotiation so we are quite pleased that we have a tariff going into Japan that is considerably less than the whiskey and the Scotch.

In general, the situation in terms of our opportunity elsewhere is not much different from what it is in Scotch. It is a very heavy marketing activity as we know. We do sell a fair amount of our own American distilled whiskeys overseas, not as much as we probably should and not as much as we probably could, but it is in the hands of our industry to see what they can do.

We generally believe that we have accomplished as much as we could in terms of options for them on an equitable basis elsewhere.

We also believe that the concessions we have gained in view of the domestic consumption trends will be minimum in terms of how it will affect their operations, but it was an essential part of our total package as Ambassador Strauss indicated.

Senator SASSER. We know that historically other nations have fostered discriminatory trade practices really through highly invisible administrative practices and customs.

Now, it has been pointed out that this new trade agreement will provide the world market with more transparency. I think we should be able to identify these heretofore invisible administrative practices that have been discriminatory.

Would you elaborate, Ambassador, on the specific manner in which the United States will be able to monitor the trade practices of other nations?

Ambassador STRAUSS. Well, first of all we have negotiated a new standards code and we have negotiated a new licensing code. The licensing code and the standards code are new, there have never been any before. You know as well as I know that many years, as long as I can remember, foreign countries have used unfair licensing practices, no discipline in setting their standards. They were really used not for the purpose of seeing that licensing went well, or that the standards were followed, but to keep out goods from foreign exporters.

We have brought these two abuses under a new discipline of transparency and legitimacy. Those are two items.

In subsidies as you well know, we have had a terribly difficult time competing with subsidized products from other countries. The subsidies code is not perfect, but no one thought we could ever get the Europeans or the Japanese to settle down and agree to a subsidies code.

Well, we now have a subsidy code here that will protect our products going into country A from competing with a subsidized product from country B. Now, when that takes place we can get our hands on it and do something about it.

We have a code in place that assists us in stopping an influx of counterfeit goods or merchandise that comes into our country. Counterfeiting works a fraud on our consuming public here and we never were able to prevent it, whether it be in blue jeans, or perfumes, or work shoes, or sport shoes, and all of these products have been subject to counterfeiting by some of the nations of the world. For the first time, we have brought discipline here.

Customs valuations is also a very significant area to which we have brought order which was never present before. It is a little difficult in some of these areas to talk, you know, and you sure hate to testify about an agreement before you enter into it. It is kind of a delicate balancing act, keeping it round in one place and flat in another. These agreements we have entered into are fair. We have not gotten anything we are not entitled to and we think we have brought the trading system of the world into better order.

Let me make one point here. It is hard to believe that for centuries people and companies have been going to the trading tables of the world and with all that knowledge, and all that experience, and all of those skills, and all of those hassles we have never had a modern, up to date set of rules to guide this game of trade. Now, that does not mean there are not going to be penalties. That does not mean we do not need referees and that does not mean there will be no sins committed and that does not mean the rules will not have to be changed and modernized again. But for the first time we will put order into this game. There will be a modern set of rules that will cover almost every facet of international trade and which will work to the advantage of this nation. We have the biggest market in the world for people to come into and we don't have to put up with illegal and predatory pricing with all kinds of discriminatory prices that keep our products out of their markets. Of course, we subsidize in this country. We are not without sin, but compared to what we have put up with, this is a new day. If we pass the damn thing and pat ourselves on the back and say this is really keen, it will not amount to a tinker's damn in Tennessee, North Carolina, New York, or Texas, but if we pursue it, it will make a big difference and that is the story I am telling.

Senator SASSER. Mr. Chairman, as usual the Ambassador's logic is irreversible and I have two more questions which I would like to submit for the record.

Ambassador STRAUSS. Thank you.

Senator MORGAN. Mr. Ambassador, at the risk of imposing on your time, let me ask a couple of questions for our record. We need just a little more direction. How would you compare the efforts of the U.S. Government in promoting foreign sales to the efforts of our major competitors such as Germany and Japan?

Ambassador STRAUSS. Bum.

Senator MORGAN. That is a pretty direct answer. Could you elaborate a little?

Ambassador STRAUSS. My elaboration would be real bum. Let me go a little further without being facetious.

Senator MORGAN. We are going to pursue this in the committee a little later when the staff meets for direction.

Ambassador STRAUSS. When you look at what is done in Japan to assist and support their industrial concerns in their competitive efforts with the United States and you compare this with what we do for our concerns competing over there, there is really no basis of comparison.

I do not know where to start. When you stop and think that probably today there are 1,200 or 1,500 very competent individuals in New York City, each one of whom speaks rather good English and is selling Japanese products against American products. When you stop and realize that in Tokyo today there are probably 25 or maybe 75 Americans, two of whom might possibly speak Japanese, trying to market our products over there, and compete in the most complex distribution system in the world, then you know how our efforts compare.

There is a reason for this, Senator. These things just do not just happen. We are not any less intelligent in this country. We are bright and we are good and we are creative and competitive. What has happened to us is that we have not had to export. We have gotten a little lazy. We have a big, rich, fat market here of people like those of us in this room who are purchase oriented. While the Japanese save money, we do not have any savings compared to theirs. That is one of the reasons we are in the trouble we are in. The Germans and the Japanese save four or five times as much as we do in this country. They do not buy and gobble everything up as we do.

The fact is, we are lazy. It is easier for a concern in North Carolina to not risk going abroad if there is a big market here. We have not been enthusiastic. We have not generated skills, and there is enough blame to go around. Now, do not blame the Commerce Department and do not blame the State Department or the Congress, but blame us all. Blame industry. They have not been doing what they should be doing. There is enough blame to go around in this country. The same thing is true with Germany. They just developed skills and assistance programs that we have not developed. It is the old story where you have to, you do, and where you do not have to, you do not. Now, we have to.

What aggravates me more than anything else is having to listen to the critics who, anytime we work a little bit with something coming into this country and aid a sensitive industry just a bit without imposing on the consumer very much, these critics immediately want to go back to the old institutional responses of the 1950's and 1960's and say there is Strauss who is going to cut another dangerous deal with the textile group or somebody else.

Senator, the truth of the matter is that those responses and those old standards of the 1950's and 1960's when we had major trade surpluses do not fit today.

We now have a \$30 billion deficit and the sooner we come to grips with it in this country and put our American skill and technology and drive and ambition to work, the sooner we will catch up.

This is all I am talking about, Mr. Chairman. It is just cutting some of the one hand tied behind us. The fight is just starting when we get

through with this. That is what we are talking about in plain language.

Senator MORGAN. I think you pretty well elaborated on it and also answered my other question, that you would support a comprehensive program to encourage an aggressive trade policy.

Ambassador STRAUSS. I not only support it, I demand it.

Senator MORGAN. Thank you, Mr. Ambassador. Again, I want to say you are doing an impossible job of trying to balance the many interests in this country. I have watched closely in North Carolina, where we are extremely interested in the textile industry, and what you have done there with the other countries of the world has been an almost impossible task.

What you have done with regard to farm commodities has been great, and I know that I am going to be unhappy with some of the agreements you make, but I think we have to consider them as a whole if we are to eliminate this imbalance.

Ambassador STRAUSS. Thank you. Before I leave may I say for the record that you support our very modest appropriation but it takes care of people like Ambassador MacDonald over in Geneva on a day-to-day basis.

Thank you, so much.

Senator MORGAN. Thank you, gentlemen.

We will take about a 5-minute recess at this point.

[Brief recess.]

Senator MORGAN. The subcommittee will come to order.

Next, we will hear from Mr. Jack Osmar, who is the Director of International Marketing for the State of North Carolina.

We are glad to have you with us and appreciate your coming up and also being patient throughout our long morning session.

We will be glad to hear you, and you can feel free if you like to give your statement, or submit it for the record and digress from it. But you handle it any way you like.

STATEMENT OF JACK OSMAR, DIRECTOR OF INTERNATIONAL MARKETING FOR THE STATE OF NORTH CAROLINA

Mr. OSMAR. Thank you, Senator. With your permission I do wish to make a brief opening statement.

The perspective I brought to the State of North Carolina is one of actual practitioner. For 15 years I was with the Celanese Corp. in all aspects of international marketing. I have set up and managed global operations. I have set up the Celanese Trading Co. in Vienna, Austria, specifically for bartering with the Soviets and Eastern Europe, and I then settled in beautiful Charlotte and have been operating my own international trading company. Hence, some of the comments I make may seem to be critical, but I am only trying to be constructive.

I accepted Secretary Faircloth Lafler's invitation to join him in North Carolina 6 months ago on the basis I would be able to use my expertise and contribute in the export effort. It is, therefore, in this sense, that I offer the following report.

North Carolina provides the following basic needs to its companies interested in international marketing:

One: Our headquarters office in Raleigh, together with our staff in Dusseldorf and our Japan liaison man collect and disseminate overseas market information to supplement the excellent data provided by Federal agencies. We maintain an awareness of the world market picture and provide updated marketing research intelligence.

Two: We collect trade leads and key them to interested North Carolina suppliers. We assist these suppliers in communicating with the overseas buyers.

Three: We conduct overseas trade missions with North Carolina companies and we bring overseas buyers to our State.

These are the basic services provided by most States to their exporting companies. The objective is to provide basic market information, stimulate the companies to export and, using trade leads, bring the supplier company together with the overseas buyer.

In North Carolina, we have proceeded one step further and now provide a broad spectrum of expertise. Our companies have requested and are receiving specialized assistance in such areas of international marketing as joint ventures, licensing, barter, negotiating techniques country-by-country, new market penetrations, new product introduction, acquisition of technology, and global marketing organization.

The need for this one-on-one special consultancy was recognized when many North Carolina company officials told us that they were interested in help with their specific problems. They were not interested in attending routine general seminars where they listened to 99 other companies' problems. They were already into exports. They were encountering problems and they wanted help from someone who had been there before.

We have received excellent response to this added service. Company officials with a joint venture problem in Yugoslavia appreciate the visit of someone who has actually established joint ventures in Yugoslavia. They appreciate advice from someone who has dealt with the Bank of Moscow and who is familiar with reciprocal trade agreements.

In turn, we are made aware of the company's international activities and objectives. We help them with their specific problems. These problems are more severe with the smaller companies because of their limited manpower and financial resources.

We help them to plan in order to avoid such problems. They are more comfortable that someone is available to consult with, before and while they pursue their particular international marketing strategy. Their programs move forward more expeditiously.

Our job is primarily educational. As one moves inland from the coast of America, you find that some people believe the world is flat and that there are no export markets for their products. These people are really reluctant to move out of their local markets, which they know.

There are export markets for U.S. products. We have never found anyone who investigated the export market and could not find a place for their product. We help these people to want to find export business, over and above their U.S. market. We convince them that there are real advantages in exporting from the United States today. We cannot think of a reason not to get into exports—unless you have a bottomless well of a market in the United States. We show them that increased export sales will help offset seasonal and cyclical declines.

We tell them that there will be a time when they will need the export market, and that time is when the domestic market is down.

We have developed a viable working relationship with the private sector and, while there is an educational problem, we have been able to convince companies that exports are the way to go. They recognize the opportunity to add another profit increment. They see that the alternative is that overseas companies will come here, enjoy our domestic market, and export from the United States.

After we have educated North Carolina companies to know there is an export market, we then begin to assist these companies to go international. We help them to locate markets; we advise them regarding the type of person they should be sending out to be their international ambassador; we assist them in locating good agents; we help them to cope with the new, different, massive, complex paperwork involved; we advise them of the international financing available; we help them to develop a marketing plan; and we help them to prepare the very necessary and important promotional literature. This is a venture into a new world for a small company. They require spoon-feeding. They have to be led step by step.

Our major problem in working with these companies on a continuing basis is that we need more people with experience in international marketing. We need more people who have been there before. We visit two and three companies per day. We revisit and follow up as programs proceed. We have over 8,000 companies in North Carolina.

The problem then is not one of convincing companies to export. The problem is to find the experienced international marketing people to help these companies do it. There are several ways we provide this help and several things we might do to solve the problem permanently.

Because these experienced international trading people are rare in the United States, we use retired people with this expertise; we utilize all the active international agents we can find; we use students from other countries who are currently attending our universities; we use large companies to help small companies; and we help band small companies in a single industry together in a cooperative export program.

We would like to see a program developed whereby 500 college graduates would be hired by local companies, specifically for export training. The cost could be shared by the small company and the Government for a 6-month training period. At the end of that time, the trained person could be retained by the company at their expense or available to another interested company. We could build up a large cadre of trained international marketing people in only 6 months.

We would like to see the Federal Government encourage State leadership to export. If our States were stimulated to more active export programs, possibly with the Federal Government matching State funds, we could then hire more experienced international marketing people. They would be committed to help small companies to export.

We would further suggest that a program be established to provide a concentrated 3-month international marketing instruction program directed to export committed people in small companies. Businesses

and financial institutions might provide their experienced international people to serve as instructors on a 1-month's leave of absence basis. We could have 100 trained international people every 3 months.

There is this vital need to find and acquire experienced international traders who can consult and work with small businessmen who do not now have access to the day-to-day specialized help they demand in order to participate in the competitive export market.

There is also a need for simplification of many aspects of international marketing. Small businesses do not understand the comprehensive promotional literature available, even when they take the time to read it. They are equally baffled by the complex explanations of international financing. They are frustrated by the forms required to export. If, in addition to personalized help, this available material could be simplified, we would be more successful in helping the small businessman to participate in exports.

For some reason, there is a tendency to make exporting complex, to surround it with an aura of mystery. We could accomplish more if this literature were reduced to cartoon presentations.

All the material a company needs is available, and it is impressive. It just is not being merchandised in a simplified, comprehensible manner.

The small businessman also needs help with Government agencies providing special services and assistance to export oriented firms. He needs to know what is available and he needs to know how to apply for and obtain it. Again, a merchandising program is indicated.

Most of the overseas trade leads we receive are stale. This is the result of the collection and publication time lag. It results from an inadequate State dissemination system. It is further compounded by our suppliers, who are new at this business, and who hesitate to respond.

When an overseas buyer initiates an inquiry, our companies need to be made aware of it quickly—before, or at the same time, as suppliers from other countries. We do not have a rapid mechanism for doing this.

Even when we do receive a fresh lead from an overseas buyer, it is a time-consuming process to contact potential suppliers, to get them to quote properly, to help them to sample, and to do all the things required in order to participate in that potential business.

We have been seeking assistance under an EDA project grant to expedite bringing buyers and sellers together by computerizing these leads. We hope to have overseas buyers and our North Carolina suppliers linked by computer in order that buy or sell inquiries can be expeditiously married.

This would be a big assist, especially to many North Carolina companies who are adversely affected by imports, who want and need to export, who are trying to make up for lost time, and who face increased problems as underdeveloped nations develop their labor intensive industries and export to the United States.

We need this minimal EDA grant to get it all on a computer and help these North Carolina companies.

The large companies have overseas offices and good intelligence. The small companies, and the adversely affected companies are the last to hear about overseas trade opportunities.

There is a real need for overall direction of the many agencies involved with export programs. The small company cannot seem to find

the help he needs, although SBA, EDA, Federal and State Departments of Commerce, embassy staffs, and many other groups are available. Someone should be accessible on an overall export hot line to guide these companies to the party responsible for helping them.

The single most important factor in exporting is financing. If you cannot compete in financing terms, you are just not in the export business. It is hoped that consideration will be given to liberalize the Export-Import Bank in order that they can assist American exporters to be just as competitive as other country financed exporters.

We need longer terms and special conditions of payment to match the attractive terms other countries offer.

We need to recognize that we have to export to live, as other countries have long recognized. Unless the financing terms can be made at least competitive, our exporters do not have a chance.

Another problem is in the area of technology. We are losing our technological edge. Technology is an essential ingredient in the export market. New technology has a double-whammy effect. You can sell to your domestic customer and preclude the overseas suppliers, and you can sell to the overseas customer. There is a real need for a cooperative development program between Government and U.S. industry.

Our country has greater potential today than it did when Columbus—or whoever it was—discovered us, and, because of our changing world, much of that potential lies in international marketing.

We have to produce more at home; we have to sell more overseas. Companies who have opened offices abroad recently tell me that they are amazed at how much they can sell overseas. They said that they should have done it 10 years ago. Ten years ago was too soon for the small business. Now is the time.

In summary, the success of our future export efforts with small business will depend upon our ability to train more experienced international traders and to hire more experienced traders and to make them available to small business; to simplify and merchandise the basic information literature and forms; to computerize overseas trade leads; to provide fully competitive financing; to cooperate with industry in the development of new technology; and to coordinate the overall export effort. If, at the same time, we can break down non-tariff trade barriers, American industry, with its natural initiative and ingenuity, will win the export race. It is time we all clean up our act, get it together and get into exports.

Thank you.

Senator MORGAN. Thank you, Mr. Osmar for one of the clearest and most succinct analyses of a complex problem that I have heard in a long time.

How well are we doing in North Carolina?

Mr. OSMAR. We are doing quite well. We are first in the Southeast and 13th in the Nation and growing rapidly.

Senator MORGAN. When you say growing rapidly, how much of this has come about in the last couple of years?

Mr. OSMAR. This particular program has only been in effect for 6 months and, calling on two or three companies a day and realizing that one very simple marketing plan so they know where they are going

and how to get there, takes 1 solid month, and 3 to 6 months to really implement it.

You cannot get very far in 6 months, but we have enough momentum built up that we do expect real results to report shortly.

Senator MORGAN. How are your representatives in Düsseldorf and Japan doing?

Mr. OSMAR. We have a permanent staff and office in Düsseldorf and a permanent Japan liaison man who goes there once a quarter for 1 month.

Senator MORGAN. Where does he go from?

Mr. OSMAR. He goes from Raleigh and stays in Japan 1 month out of the quarter. He is an American and speaks Japanese fluently.

Senator MORGAN. And you would agree with Ambassador Strauss' comments with regard to language?

Mr. OSMAR. Our Japan liaison man is recognized by the Japanese for his language ability as being "the Waiter Cronkite" of Japan.

Senator MORGAN. What about your office in Germany?

Mr. OSMAR. They are staffed from the Western European area, who speak the language fluently and are doing a marvelous job in terms of liaison with that market area.

Senator MORGAN. Have they been successful in feeding back leads to the State and through the State to the sellers in North Carolina? I notice it is a new program.

Mr. OSMAR. Yes, they have been moderately successful and I say moderately because of their limited actual experience and background.

They have to recognize how to recognize a real buyer over there and how to communicate the specifications and so forth, that are required. So we are learning together.

Senator MORGAN. You feel you are making progress?

Mr. OSMAR. Definitely.

Senator MORGAN. Are there other State programs designed to assist the manufacturers and sellers and producers?

Mr. OSMAR. I think most States have basic programs to assist their exporters, definitely.

Senator MORGAN. Do you think this is maybe the route to take?

You alluded in your statement to perhaps assistance on a matching formula basis by the Federal Government.

Mr. OSMAR. I think it is the best route to take. If we were able, for example, in North Carolina, to match the \$100,000 budget we have in this area with another \$100,000, I can readily acquire several more trained international marketing people to work especially with our small business people and be doubly effective or triple it.

Senator MORGAN. Do you think that would probably be more effective than an expanded national effort, maybe through the U.S. Department of Commerce, or another agency?

Mr. OSMAR. I think really the experienced international marketing people in the State working hand in hand with the companies there, would be the most effective route. That is what these small businesses need.

Senator MORGAN. It seems to me it is more on a one-to-one basis.

Mr. OSMAR. It is.

Senator MORGAN. In addition to that, it occurs to me that by having the States operate on their own, that you would have more innovation, more new programs.

Mr. OSMAR. Definitely; and they feel much more comfortable with somebody in the State or the next town whom they can call 24 hours a day, 7 days a week when they need help.

Senator MORGAN. One of the Senators that I most admired was Senator Hubert Humphrey who was hardly known to be a States Righter, but he really was. I remember one of the programs he promoted was nutritional education, where we appropriated so much per child for nutritional educational programs. There was an effort to put it all in the USDA, and his argument was to send it to the States and let the 50 States develop it. Out of those programs you develop a lot more innovative techniques and so forth than if you put it all in one agency.

Mr. OSMAR. That is especially true with the large companies, subsidiaries operating in North Carolina, for example, they do their own thing. They are not under New York. They are doing it right there in North Carolina and that is where they need the help, on site.

Senator MORGAN. What has been your experience in the State in dealing with the U.S. Department of Commerce in this area?

Are there areas in which they are not performing adequately, either because of lack of resources or lack of programs, that you would like to see us look at?

Mr. OSMAR. No, I think they have performed beautifully. They have excellent material to present to the people. They have good teams who give a comprehensive presentation to any company interested in getting into exports, but again I get back to the basic problem of, once these companies start to move, they need day-to-day help or they need help at a particular point of time when they run into a problem and they need then to key into somebody who has been there before, who has done it, who has made the mistakes, to help them avoid the mistakes. They need to be more comfortable after they are sold on proceeding into the international market.

Senator MORGAN. From your experience, does the average manufacturer in North Carolina or anywhere else understand the purpose of Export-Import Bank and how to approach it?

Mr. OSMAR. I do not think they understand the purpose of many of these agencies because these agencies do not seem to have been merchandized to these people, so they do not really know where to go and, when they do see them, they take literal interpretation which should not have precluded them from doing something along that route. They need a little more one-to-one type help.

Senator MORGAN. In your presentation you literally give us a very careful analysis, and I appreciate the part about financing. I remember years ago when North Carolina adopted the Uniform Commercial Code. I chaired the subcommittee dealing with international financing, and I am not sure to this day I understand letters of credit and all of those things involved in foreign trade. I think the only way you really understand it and comprehend them is to deal with somebody who has dealt with it.

I think you make a very good point.

Let me see if the staff has any questions.

One question the staff is interested in, and I think it is a very good one, is what has been your experience, if any, in dealing with or obtaining government contracts in Europe?

Mr. OSMAR. What do you mean specifically by government?

Senator MORGAN. To sell to foreign governments. Have we been able to, in North Carolina, obtain contracts through the Federal Republic of Germany, for instance, or any other government?

Mr. OSMAR. I think they have been quite successful in dealing with foreign governments. For example, the Egyptian telecommunications systems project will probably be awarded very shortly to a North Carolina company with their international headquarters in North Carolina. That is a \$3.5 billion contract and they did a real job in presenting and promoting that project. They are becoming much more sophisticated in this area.

What the track record has been to date, I really do not know. I have not really been that much involved with North Carolina companies in that type of Government business.

Senator MORGAN. I assume you have all kinds of difficulty with the distribution system in Japan.

Mr. OSMAR. Well, Japan is probably the most interesting market in the world today and, when Ambassador Strauss mentioned 41 people, I immediately tried to equate that to the 68,000 people that the Japanese Government has in his position and sometimes I feel the same way with 8,000 companies in North Carolina. I am out there with a mouse gun trying to kill an elephant.

Senator MORGAN. One of the prerogatives of the chairman is to ramble a bit and tell of his own experiences. I was in Japan with Senator Pell in November the year before, and one afternoon we had a meeting with a number of industrialists, including the presidents of Sony and Nippon Steel, a whole group of them.

Well, I thought I was pretty sharp. In my briefcase I had this agreement with 14 electronic companies that Japanese companies had entered into to share marketing and price information in this country.

I addressed my remark to the president of Sony, saying what their antitrust laws were in Japan in their business, but I thought when they were doing business it became our business and so on and so forth and expected him to defend it. He said, "Senator, you are exactly right. If you will look in your briefcase and look at that document, you will find Sony's name is not on it."

Well, he went on to point out the difficulty in the distribution system in Japan. He said the trouble with American manufacturers is that we are not willing to study and understand their marketing system. He says, before they move into any given area in the United States for Sony products, they will do market research, what the uses and custom and practice are in the small areas, and design their product for that area.

He also said that if you go back and read the *Washington Post* and *New York Times* and *Los Angeles Times* you will find that his company had run full page ads offering the marketing services of the Sony Co. to American manufacturers who wanted to sell products in Japan, but he said they had very few takers. He went on to point out their marketing system goes back to the feudal system of about 100 years ago with all the middlemen and so forth. He also pointed

out one of the reasons we have sold only 145,000 pairs of shoes to the Japanese is that we insist on trying to sell them American size shoes, and they are too big for them.

He also told us that he wanted an American-sized car. Two American cars could hardly pass on a few of their highways. He said he particularly wanted a Cadillac Seville, and he approached General Motors to order one with a steering wheel on the right hand side. He said he realized it was a special order, but he would have thought they would want to get into the market. Notwithstanding he was willing to pay the price, he could not find anybody interested in selling.

His real criticism is we Americans are not willing to adapt to the Japanese people and their needs and also their marketing practices and customs.

If the occasion arises and you need some assistance in marketing, hopefully try to utilize theirs, and if they do not cooperate, I want you to let me know because when he came over here, right here in this room, he repeated the same thing when we had lunch a little later.

Mr. OSMAR. It is the basic problem in selling to Japan from America. The Americans do a beautiful job in pitching their product design to our market here, but to tell the furniture industry that the Japanese need smaller furniture and to get them to redesign that smaller furniture is next to impossible.

Senator MORGAN. Well, it is because I have been trying to tell them these chairs in here are too large for me. The best I have been able to come up with is a cushion.

Mr. Osmar, thank you so much.

Our next witness is Mr. Wayne Workman from the Department of Commerce, State of Michigan.

Mr. Workman, we are glad to have you. Senator Levin has not had an opportunity to speak to you, but he had to be at a voting session at the Armed Services Committee, where both of us were supposed to be. We appreciate your taking the time to come, and we apologize for the long delay, but you may proceed in any way you like.

STATEMENT OF WAYNE WORKMAN, DEPUTY DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, STATE OF MICHIGAN

Mr. WORKMAN. Thank you, Mr. Chairman. I appreciate the opportunity to present testimony on the proposed Multilateral Trade Agreement and its effect on small business. This is of great concern to Michigan because of the importance exports play in Michigan's economy.

In 1976, Michigan businesses exported 6.9 billion dollars' worth of manufactured goods and was second only to California in ranking among the States.

Senator MORGAN. Where did you find those figures?

Mr. WORKMAN. In a publication put out by the U.S. Department of Commerce on exports throughout the country. They have a special booklet on each State.

The products that are exported by Michigan firms range from agricultural goods to helicopters and computerized machine tools.

The Michigan Department of Commerce supports both the intentions and basic concepts embodied in the proposed Multilateral Trade Agreement. Today I would like to comment on three areas of concern for small business and how that sector of our economy may be affected by the proposed agreement and other parallel legislation to be considered by Congress this year.

First, Michigan is concerned about the ability of small American firms to enter new foreign markets. To encourage small business to export at a time when international trade is such a vital part of the U.S. economic policy is a worthwhile goal. However, there are governmental barriers which counteract the purposes of the treaty, which would be to open up new markets for U.S. firms abroad.

In furtherance of that, we urge your consideration of the following:

One: When the extension of the Export Administration Act is considered later this year and the implementing legislation for the Multilateral Trade Agreement is adopted. Congress should enact legislation to overhaul the export licensing process in the United States by recognizing that U.S. businesses have a right to export and that the burden of proof in the decision to grant a license should be on the Government and not on the business in determining whether or not to grant an export license.

The Michigan Department of Commerce endorses the position and policy statement issued by the National Governors' Association on the overhaul and extension of the Export Administration Act.

At the same time, an effort should be made to streamline the export license granting process by providing an accelerated process for the review and approval of licenses.

Two: The Domestic International Sales Corp. program, which is the only major incentive offered by the United States to exporters, or any successor incentive program, should be easily available to small business. We believe that the requirement of incorporating a subsidiary as a prerequisite for participation in any export incentive program should be deleted. The added paperwork required for incorporation falls more heavily on the small business sector.

Recently, our office conducted a survey of 70 Michigan machine tool manufacturers to determine the reasons that they were not involved in exporting. One of the major reasons given was the perception that vast amounts of additional paperwork were required both to secure DISC tax benefits and to secure export licenses.

Three: The Federal Tax Code, as presently written, constitutes an unfair disincentive for U.S. firms to employ U.S. citizens overseas. We believe it is a desirable policy for the United States to have American citizens working and living abroad on behalf of U.S. industry. The fact that a U.S. citizen living in a foreign country is required to pay Federal income tax is a strong disincentive both for an individual and a corporation to not become involved in exporting.

For instance, our department maintains offices in Brussels and Tokyo to assist Michigan business to export and to attract investment in Michigan. We are currently searching for a new director for our Tokyo office and would prefer to have an American citizen represent Michigan in Tokyo. However, because of this tax disincentive, we are

experiencing great difficulty finding someone who is qualified and willing to accept a position in Tokyo.

Four: The Multilateral Trade Agreement proposes to eliminate most special procurement programs of the Federal Government for small and minority businesses in the United States and also in foreign countries.

It has been the policy of the Federal Government for close to 20 years to encourage these types of special purchasing programs and many States, including Michigan, and the private sector have begun to enact special programs to assist the growth of the small and minority business sector. We raise a question as to the advisability and necessity of eliminating these efforts when they are just beginning to pay off.

However, we do recognize that during the lengthy and complex negotiations involving the Multilateral Trade Agreement much give and take is required. We would urge Congress, when adopting implementing legislation, to look carefully at the impact of the treaty on small and minority business development.

Our second major area of concern involves the time constraints that would be placed upon the Federal Government to investigate and take action against charges of dumping or subsidies of foreign companies to export into the United States.

If a long, drawn-out process is instituted, it will again fall more heavily on small business. For instance, the administration of the current Trade Adjustment Assistance Act requires, before assistance to a domestic company is committed, 1 year of documentation by the company or industry of damage from foreign competition.

There are tight timetables required by the Economic Development Administration for review and a decision as to eligibility for assistance. We would urge Congress to consider, after consultation with the administration, a set of guidelines to insure that the Federal Government responds in a timely fashion to charges of dumping. If the process is allowed to drag on for months or even years, we may find that a small business hurt by dumping may no longer be in business.

The next area I would like to address is other legislation to be considered this year that will have an effect on the small business sector's ability to export.

The President has proposed increasing the amount of financing for the Export-Import Bank. We support this action, as the Export-Import Bank has proven over the years that it is a viable tool for assisting U.S. companies in international trade financing.

In addition, the Administration proposed increasing the amount of financing available to the Small Business Administration by \$100 million which would be earmarked for small firms engaged in exporting. There has been a question raised as to whether the Small Business Administration has staff capability to become involved in international trade evaluations on a large scale.

The Michigan Department of Commerce believes that the SBA has a very competent staff which can adapt and gear up quickly to handle this program.

Finally, we support the President's proposal to increase the appropriation for the U.S. Department of Commerce's export promotion activities by \$20 million.

Our own experience in working with the U.S. Department of Commerce has proved that they are an invaluable link in attempting to get small business involved in exporting. In the last 18 months Michigan has conducted trade missions to Taiwan, Australia, and New Zealand, with small firms from Michigan under cosponsorship with the U.S. Department of Commerce. Without that assistance we believe it would be almost impossible to make the necessary arrangements and conduct the necessary research to assist small businesses to become involved in international trade.

In closing, I would like to thank the subcommittee for its concern about the impact that the Multilateral Trade Agreement will have on small business and for this opportunity to discuss our concerns.

Thank you.

Senator MORGAN. Thank you, Mr. Workman. You have certainly identified some very key areas that this committee and the Congress will want to address. I am especially interested in your remarks with regard to DISC and disincentives to the taxing problems for individuals abroad.

Senator Levin would like for you to answer a couple of questions for the record.

How would you evaluate the Commerce Department's outreach programs to identify and contact small businesses that have export potential. Is there a greater role that State commerce departments could or should be playing in this?

Mr. WORKMAN. I think I would agree with my counterpart from North Carolina, that the Commerce Department at the Federal level is an invaluable partner in establishing export opportunities.

However, I think their greatest strength is in their overseas connections through the U.S. consulate offices and that the States are better suited to work in the United States on a one-to-one basis in identifying companies that might use these opportunities and that the really strong suit at the Commerce Department at the Federal level is organizing and providing the overseas contacts and logistical arrangements.

Senator MORGAN. How would you evaluate the quality of communication and cooperation between the Federal and State Governments in export expansion programs and in what way would you like to see the Federal Government show greater sensitivity to problems at the State level or work more closely with you in policy or program formulations?

Mr. WORKMAN. Well, I can only speak from Michigan's experience, but to date our cooperation from the Federal Government in organizing trade missions and finding export opportunities has been excellent and that this goes through the State Department, the Commerce Department, the U.S. consulate offices abroad and we are very pleased and without their cooperation we could not conduct missions out of Michigan. It would be prohibitively expensive.

I believe the major areas where the relationships between the States and Federal Government could be improved would be the areas I addressed in my prepared remarks—legislative and licensing and those specific areas.

Senator MORGAN. Thank you very much, Mr. Workman. You and Mr. Osmar have given us two good examples of how the States can

carry on their respective roles in cooperation with the Federal Government.

I appreciate your taking the time and to come here and share these thoughts with us. The committee will be addressing these problems throughout the year to make some improvement.

Again, I thank you.

Mr. WORKMAN. Thank you, Mr. Chairman.

Senator MORGAN. Our next witness is Mr. Jack Gloster, Economic Development Task Force, National Urban Coalition. I apologize for putting you on so late. We got started a little late, but you may proceed.

STATEMENT OF JACK GLOSTER, ECONOMIC DEVELOPMENT TASK FORCE, NATIONAL URBAN COALITION

Mr. GLOSTER. Thank you, Senator, for the opportunity of appearing. With me here is Miss Sandy Solomon from the National Coalition staff.

Mr. Chairman, members of the subcommittee, the coalition combines the energy and vision of business, labor, city government, minority and community leadership in the effort to make this Nation's urban areas better places in which to live and work.

Since its founding in the wake of the riots in the late 1960's, the coalition has concerned itself with turning the tide of public and private disinvestment which stripped our great cities of much of their business and industry and which left them with many more workers than jobs.

The coalition's affiliate, New Detroit, does a monthly area report which compares the national unemployment ratio with State, city and inner-city neighborhood unemployment estimates.

Usually, Detroit unemployment rates are twice those of the Nation and inner-city neighborhood rates are twice again those of the city.

There is a dangerous skewing of the capital market manifest in these employment imbalances.

Central city businesses often do not have access to the capital they need to stay in business, much less to grow. The dysfunction in our national economy which has created these islands of disinvestment, unemployment, and poverty, comprises a threat to the health and vitality of the national economy as a whole.

Given our understanding of the very serious problems cities were experiencing, we were greatly pleased to hear President Carter announce just 1 year ago that he intended to pursue a new national urban policy. That policy was to include a number of urban initiatives, but its major strength was in its realignment of existing Government practices.

Of the five means at Government's disposal in promoting economic development—use of its expenditure, taxing, regulatory, monetary, and fiscal powers—the President committed his administration to the most cost effective strategy. He promised to boost the total of Federal procurement expenditures in labor surplus areas from their current \$228 million to some \$1.2 billion per year, a fivefold increase.

By concentrating these necessary expenditures in areas which badly needed capital and jobs, the President was promising an immediate

infusion of funds—cost effective both because they were targeted and because they required very low administrative expenses.

Moreover, he was pursuing a noninflationary policy by encouraging growth, increasing employment and thus, spurring productivity in the urban areas which were most distressed.

The multilateral trade negotiations now underway in Geneva appear to threaten the administration's commitment to targeted procurement policies. While many of us favor increased trade with other nations, which open up new business for American firms, we are concerned that concession of our domestic procurement preference programs would make it difficult, if not impossible, for small, minority and urban businesses to maintain their abysmally small share of the domestic procurement dollar without any corresponding assurance of a share in the expanded trade dollar.

We now understand that the minority and small business preferences will be protected in this agreement and we trust that the President will keep his commitment to provide minority and small businesses with the economic empowerment they so urgently require.

In that regard, I sincerely hope the committee will pursue its concern to see that adequate information and technical assistance are made through SBA, Commerce, and as well as at the State level, to help smaller firms seeking to engage in foreign trade.

But, we are still gravely alarmed at our delegation's reported willingness to cede such an important domestic development strategy as the labor surplus area preference, a strategy which has received endorsement from the President and strong approval from economists who recognize its potential for channeling funds where they are most needed at low cost and high economic return.

The goals set by the President were ambitious, and it is unclear to us how they can be met, given limitations in the scope of labor-surplus areas procurement.

Let us review the exclusions in the code as it now being discussed. All contracts under roughly \$190,000 would be exempt; while the majority of procurement contracts fall in this category, nonetheless, most procurement dollars are still spent in substantially larger contracts.

Moreover, with inflation expected to increase, the real value of a \$190,000 contract will continue to decline in the next decade, thus further swelling real procurement dollars withdrawn from the labor surplus preference.

I would not argue about the benefits of protecting small businesses, but I also know that the large firms in disinvested areas have the potential to bring needed employment into their home communities on a scale which can make a substantial difference to those communities.

Also excluded from the code would be certain agencies, including the Departments of Transportation and Energy, the Tennessee Valley Authority, the Postal Service, Amtrak, ConRail, as well as national security spending under the Department of Defense—some \$70 billion of American procurement, according to the administration.

But the Maybank amendment, which requires DOD to evaluate its procurement contracts solely in terms of least cost, perpetuates current public spending policies to the detriment of economically distressed communities and effectively excludes 65 percent of all Federal procurement activities from the labor surplus area preference.

With the proposed removal of an additional 15 percent of the total procurement market, it would be extremely difficult to meet the President's goal for Federal expenditures in high unemployment areas.

If I correctly understand the agreement now being negotiated in Geneva, the universe of procurement dollars available to meet these goals would be diminished by at least 40 percent.

We would accept this agreement under one condition—that the administration and Congress commit themselves to ending or drastically modifying the Maybank amendment which holds hostage two-thirds of all American procurement dollars. Without such a commitment, we see this multilateral trade pact as endangering the success of a domestic development strategy which has only just been launched—the goals recently set, the definition of labor surplus area modified in order to better target the preference to areas which do, in fact, have disproportionately high unemployment.

Groups like the coalition have been carefully monitoring the progress this year and we have offered suggestions for improving the administration of the program. We are anxious to see it succeed—its success is all the more important if, as many economists predict, the country experiences a serious recession late in 1979.

Roger Vaughan, a prominent economist, formerly of the Rand Corp. and now with Citibank, has observed that “every year the Federal Government spends billions of dollars on goods and services. By selecting their source of supply, the Federal Government may affect the regional distribution of employment.”

If we target those dollars to areas of high unemployment, we can help keep the jobs where the available labor force and the most pressing economic need already exist.

We must now allow the temptations of foreign markets to lure us away from our commitment to restoring the vitality of the domestic market.

Finally, so long as there are depressed inner-city neighborhoods with depression-level unemployment—disproportionately minority unemployment, I should add—there can be no vital national economy.

The health of all sectors of the economy is inextricably bound and we will do well to acknowledge that fact even as we acknowledge our integral role in the world economy.

Thank you, very much.

Senator MORGAN. Thank you, Mr. Gloster, for what you have covered, a very important area. The question I wanted to discuss with you was what you felt the effect of the International Procurement Code would be on labor surplus areas, and I think you pretty well addressed that.

You brought to our attention also the Maybank amendment which we will certainly want to take a look at.

I again want to thank you for coming before the committee. You have been here enough to know that your statement and testimony will be in the record and will be utilized by the staff and other members of this subcommittee who are unavoidably detained elsewhere.

Mr. GLOSTER. Thank you very much, Senator.

Senator MORGAN. Thank you.

We will recess these meetings now until April 12. I thank all of you very much.

[Whereupon, at 12:11 p.m., the subcommittee recessed, to reconvene on April 12, 1979.]

INTERNATIONAL PROCUREMENT CODE

THURSDAY, APRIL 12, 1979

U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON GOVERNMENT PROCUREMENT,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 424, Russell Senate Office Building, Hon. Robert Morgan, presiding.

Present: Senators Morgan, Stewart, and Levin.

Also present: Alan L. Chvotkin, legal counsel; Sandra K. Klatt, professional staff member; and Robert W. Santy, professional staff member, minority.

STATEMENT OF HON. ROBERT MORGAN, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator MORGAN. We will resume our meeting. So that we can get things into proper perspective, let me read a very short opening statement.

Today, the Subcommittee on Government Procurement of the Select Committee renews its hearings on the impact of the multilateral trade negotiations on small business in this country.

In our earlier hearings, we were pleased to have Ambassador Robert Strauss, our special trade negotiator, address us concerning the International Procurement Code.

At that time, Ambassador Strauss told the subcommittee that to his mind the United States has achieved basic success in our negotiations with the 98 countries that have taken part in the multilateral trade talks. He cited breakthroughs in removing subsidies, establishing product standards and new rules for customs valuation, and in increasing opportunities for agricultural exports. He noted that, insofar as the International Procurement Code was concerned, the major problems concerning small business set asides had been resolved. He was candid in stating that certain contracts, currently secured for domestic small business contractors by preferences, about 15 percent of Government contracting, would be put at risk. He urged the subcommittee to think positively about the prospects of new overseas government contracts. In particular, he noted that foreign government contracts are smaller than U.S. Government contracts and this should be an inducement for U.S. small business exporting.

Most importantly, Ambassador Strauss noted that the trade talks and the treaty to be submitted for Senate approval were only a be-

ginning. The task now is for U.S. business to take advantage of those markets which have opened overseas.

Next, we heard about the export side. Both the North Carolina and Michigan Departments of Commerce sent representatives to inform the subcommittee about State efforts to encourage exports. I believe that the testimony of both these men was important and raised some issues that we can explore further today. In essence, they both called for primary reliance on the States for direct business motivation and assistance and for Federal Government coordination, representation, and assistance in advertising, marketing and translation services. They both spoke of the need for trained foreign language speakers to represent the United States overseas and to develop a positive, coordinated export program.

Today, we shall continue in this vein. Lingered issues remain about the impact of the International Procurement Code, and I hope that all the witnesses may give us the benefit of their expertise on this point.

Additionally, I hope that the discussion will center on the issue of how to best take advantage of the new trade situation. Personally, I welcome change, and I believe that Ambassador Strauss made the point that the changes currently contained in the treaty are ones that we can take advantage of, and I intend to direct my efforts at encouraging American business to do just that.

I believe that Mr. Frank A. Weil, Assistant Secretary of Commerce, is our first witness this morning. We are delighted to have you with us. Mr. Weil is one of the few in the Department of Commerce that is not from North Carolina.

STATEMENT OF FRANK A. WEIL, ASSISTANT SECRETARY OF COMMERCE, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY JONATHAN MENES

Mr. WEIL. No, Mr. Chairman, I am not from North Carolina.

Senator MORGAN. We are delighted to have you with us and you may proceed in any way that you like.

As you well know, your statement will be made a part of the record and will be fully considered by not only myself and the staff but by the other Members of the Senate as well.

Mr. WEIL. Mr. Chairman, I will proceed however you like. You have my statement and you did say it will appear in full in the record.

Senator MORGAN. Yes. Your statement will be printed in full in the record at this point.

[The prepared statement of Mr. Weil follows:]

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STATEMENT OF FRANK A. WEIL

ASSISTANT SECRETARY OF COMMERCE

for

INDUSTRY AND TRADE

before the

SUBCOMMITTEE ON GOVERNMENT PROCUREMENT

of the

SENATE SMALL BUSINESS COMMITTEE

April 12, 1979



Industry and Trade Administration

Mr. Chairman, it is a pleasure to be before you to address the implications of the MTN agreements and related issues.

Specifically, I intend to discuss the following:

- o The business opportunities created or enhanced by the MTN.
- o The impact of the government procurement code on U.S. business in general and small businesses in particular.
- o The export development programs within the Department of Commerce established to assist Small Business to take advantage of these new opportunities.

These issues are crucial ones. We all are becoming increasingly concerned, and rightfully so, with our trade imbalance. We are seeking ways to strengthen our economy, slow inflation and contract our trade deficit. I believe the solution to these problems is more trade, not less trade. We need to expand our participation in the world economy and push export development as the best solution to declining domestic economic welfare.

Faster export growth, through a reawakening of U.S. aggressiveness and greater participation in foreign market opportunities, is our answer. To help U.S. exporters, the Government must provide:

- o more open access to foreign markets;

- o more equitable and visible trading rules; and
- o a fully competitive effort to take advantage of those rules.

The MTN is a move in the right direction toward expanding our competitiveness. The agreements that Special Trade Representative Robert Strauss has negotiated should expand and enhance our export opportunities. The efforts undertaken in Geneva and work being done in the U.S.-Japan Trade Facilitation Committee are important first steps. So is our initiation of the National Export Policy.

The MTN agreements, covering tariff reductions, international codes of conduct on nontariff measures, and bilateral agreements on specific trade problems, will increase market access and will improve the structure and discipline of the international trading system. Both results will mean greater opportunities for U.S. businesses.

Now, and in the months to come, the Congress and the Executive Branch alike will be assessing the impact of the MTN and related issues on U.S. trade and trade policy. I believe we will find that the results represent a positive commitment to increasing our economic strength.

GOVERNMENT PROCUREMENT - A NEW MARKET OPPORTUNITY

The Government Procurement Code represents a major potential benefit for the U.S. economy. Why? Because this Code provides the single largest new market opportunity resulting from the MTN. As a result of this Code, U.S. producers will have the opportunity to compete in a multi-billion dollar market that has hitherto been closed to international competition. Most importantly, this market will be for many of the products in which the U.S. is internationally competitive.

I have heard a certain amount of skepticism concerning the operation of this Code--that the U.S. would open its markets while our trading partners would not. In my view, this skepticism, while understandable, is not justified. The Code requires that bids for government contracts from signatory countries be treated in the same manner as domestic bids. That is to say, among the countries that sign this Code, there will be open competition for the contracts covered by the Code.

The Procurement Code contains the provisions necessary to ensure that foreign governments comply with the Code obligations. We have, in effect, reached agreement that other countries will change their procurement practices to be more

like ours. There are obligations to publish invitations to bid, to supply full tender documentation, to apply the same qualification criteria to both domestic and foreign firms, and to provide full information and an explanation at every stage of the procurement process. To further monitor compliance with the Code, there are provisions to deal both with individual contract violations and, larger, more systematic violations. On an individual contract basis, a firm has the right to be told why his bid lost and the winner won. If the losing bidder is not satisfied with this explanation, there are provisions for involving his government to pursue further this matter.

Finally, there are dispute settlement procedures to adjudicate any dispute that cannot be resolved between the partners concerned. (Retaliation remains as the ultimate device should the adjudication procedures not succeed.)

On a more aggregate level, the Code requires that records be kept on who bought what from whom. Such records do not currently exist in any major country and are only beginning to be kept in the United States. The Code requires that these records be made available to other participants and that they be exchanged on an annual basis for examination by the Signatories to the Agreement. This examination would demonstrate any wholesale Code violations not picked-up at the individual contract level.

In my view, the provisions I have just described insure that the Code will work--now let us look at the advantages for the U.S. in an effective procurement code.

First, what sort of products do governments buy? While they buy pencils, pens, and as we all know, prodigious amounts of paper, they also buy computers, sophisticated office machines, research equipment and other high technology products in which the U.S. is competitive. We can sell these types of products if we have the proper marketing attitudes and facilities.

Secondly, how do government procurement patterns evolve? Governments are steady businesses, little affected in their purchases by commercial patterns. These are good markets which should be very attractive to U.S. firms.

Thirdly, government markets are already enormous, and growing larger each day. We have got our foot in the door with this Code. Careful Code management and continuing efforts to improve its operation will be essential to ensure that U.S. suppliers can enter and expand their share of this important market.

Finally, what is the U.S. giving up? Not as much as our trading partners. We have now a relatively open market. We have specific preferences for domestic products but foreign firms are allowed to compete and, if they can overcome the preference margin, a foreign firm can win a United States Government contract. This is not the case in foreign markets. These markets are closed to international competition if the product to be procured is available domestically.

In short, we are trading a relatively low preference margin for a virtual trade embargo. I believe this is clearly to the advantage of the United States.

GOVERNMENT PROCUREMENT AND SMALL BUSINESS

American suppliers should benefit greatly from the procurement opportunities created by the Code. Many of these benefits will go to firms currently engaged in exporting. Other firms -- those new to exporting -- can and should benefit from this Code. Some, however, will need assistance from the Government.

Department of Commerce programs for export assistance are oriented to the needs of smaller companies. Helping smaller firms either to become exporters or to export more effectively is a first priority. The activities of the Industry and Trade Administration include programs to help firms:

- become more confident in their ability to export,
- become more knowledgeable about how to export, where to go for assistance, where the best markets are for their products, and what foreign business practice, laws and regulations affect exporting overseas,
- establish themselves in foreign markets,
- become more effective in meeting potential buyers and representatives; and
- establish contact with foreign buyers visiting the United States

The greatest area of need is in obtaining export information, specifically, information about export techniques, markets, potential buyers and representatives and direct sales and representation opportunities abroad.

General business counseling services offering orientation-type information to U.S. firms are provided through seminars, multiplier organizations (banks, export marketing companies, etc.), country marketing managers, and export counselors.

In addition, a wealth of publications and reports provides small business with specific foreign market information on where the best export opportunities are and what trends dominate in the economy of foreign countries to which they might consider exporting.

Services alerting firms to special commercial opportunities include the Trade Opportunities Program which has a subscriber base of over 8,000 firms. 62% of these firms are small. The Agent Distributor Service and World Trader Data Reports Service provide information to U.S. firms on over 30,000 potential foreign trade contacts. An estimated 70% of the firms using these services are small as are the majority of the exhibitors in Commerce-sponsored trade missions and fairs overseas. 65% of the members of the trade mission which Secretary Kreps led to Japan last fall were small firms. Our current overseas exhibition program assisted at least 5,000 firms last year, of which 63% were small and medium-sized.

These programs are provided to firms at a nominal fee. This encourages their use by those companies which cannot afford to have an international sales staff or market research capability. The programs are designed to fill the information needs and export assistance gaps in the private sector.

While these programs provide basic services to back up market entry efforts of individual firms, the Industry and Trade Administration is planning several new initiatives as part of the President's National Export Policy.

We are currently in the process of developing a computer-based information communications system, called the Worldwide Information and Trade System--WITS for short. This system will make it possible to provide export information accurately and quickly to all locations. The system will bring together, in one central data base, the full range of overseas marketing information. It will build a client file of users which will identify firms by name, needs, and selected characteristics. While all firms can benefit from WITS, we expect smaller firms to benefit the most.

Other direct assistance efforts intended to bring small firms into exporting are the development of the Tailored Export Marketing Plan Service (TEMPS); the Interagency Committee on Small Business; and the 1980 White House Conference on Small Business.

The TEMPS will identify for individual firms, their export capabilities and needs, and it will develop a strategy for the firms to take advantage of foreign markets and provide follow-up guidance in carrying out the plan. The Interagency Committee, comprised of Commerce, Eximbank, Small Business Administration and the Overseas Private Investment Corporation will continue to work with business representatives throughout the country, sponsoring conferences on how to export and follow-up workshops. Similarly, the White House Conference will include programs on export development. Small firm participants will be identified by Commerce, and information will be presented on export opportunities.

We are hopeful that our efforts to increase small and minority business involvement in exporting areas will enhance their ability to compete for opportunities in international markets. The Office of Minority Business Enterprise (OMBE) is cooperating with ITA to demonstrate the feasibility of special targeting of technical and trade information to minority businesses. OMBE is using its network of funded organizations to identify firms with export potential; ITA will be responsible for providing direct counseling to such firms and assisting them in preparing comprehensive development plans.

As I noted earlier, the opportunities provided by the MTN include better access to foreign markets through lower tariffs, a lessening of NTBs, and an opening up of government procurement. With January 1, 1981 set as the date for the implementation of the agreement, it is likely that at least part of WITS will have been developed and functioning. This will enhance our ability to communicate and disseminate foreign government procurement opportunities.

Moreover, our new programs of specialized assistance such as TEMPS will have been operational for some time. They will be utilized both to make smaller businesses aware of the opportunities provided by the codes and to assist them in taking advantage of them. Finally, we would anticipate the preparation of special materials on foreign government procurement practices and seminars and other educational methods to familiarize smaller firms with the opportunities and the administrative practices that they would need to follow.

We have our eye clearly on small business. I make no claims, however, that our programs are the perfect answer to small business needs or that we are doing all we can. More must be done. And I expect as we undertake the process of implementing the MTN codes and develop a better sense of the opportunities created, more will be done.

We will be looking to business and Congress for their suggestions on how we might better accomplish this.

Mr. WEIL. Let me briefly summarize my statement and make some observations. Then we can go directly to questions if that is what you prefer.

Senator MORGAN. In all candor, I think we both benefit from that kind of discussion.

Mr. WEIL. Let me say basically two things, and I assume that the statement itself will stand. One, this Tokyo round of trade negotiations will be remembered in history for the nontariff aspects much more than the tariffs. That is a plus and a minus.

The plus is that the liberalization of the trade agreement, particularly with respect to procurement, is a very important part of the changing pattern of world trade.

The minus is that many people have a hard time getting a handle on what this subject really means. It is very easy for a journalist to talk about a tariff of x percent and say whether it is a good or bad thing. I think one of the things that we will be dealing with over the next several weeks and months—and this hearing is a very useful occasion to clarify for the American people whose jobs and products will be affected—is the effect of these nontariff codes.

Senator MORGAN. Tell me, Mr. Weil, what you mean when you say “nontariff.” Is that what we are talking about when we say we have an agreement that will not put any tariffs on soybeans, is that an example?

Mr. WEIL. Actually, a tariff on soybeans is a tariff measure. An example of a nontariff measure is the government procurement code; the ability of a nation to say it will not open its government purchases to another nation’s private sector is a nontariff barrier.

The nontariff measures of this trade negotiation are those which will reduce those nontariff barriers. Of particular importance is the procurement code, since it will offer significant trade opportunities for U.S. firms. Others include the standards code, the licensing code, the subsidies code, and the customs valuation code.

It is fair to say that these codes are highly technical and very specific. Yet they will be of great benefit to the American worker, the American consumer, and the United States as a whole provided that we as a nation take advantage of the opportunities created by them.

In many other nations the private sectors are in a better position to take advantage of more liberal trading rules because those nations are currently more involved in international trade than we are. In the United States we still do 80 percent of our economic process within the continental United States, Germany does 50 percent of its economic process within its borders and Japan does about 60 percent.

This means that the average Japanese or German businessman, including many small business people, have already crossed one or many borders and are accustomed to all the aspects of international trade.

If we as a nation simply liberalize the trading rules, which we are doing, and do not take advantage of this opportunity to motivate many more American business firms to look outside the United States for business opportunities, the entire package of agreements may not prove to be to our advantage.

Therefore, as you and others have pointed out, it is enormously important that we accompany this trade negotiation with a program

to lead many more American firms to markets outside the United States.

The thrust of my testimony does two things: One, it says that the liberalized trade rules are to our advantage; and two, it outlines the export promotion and development programs for which we in the Department of Commerce have the principal responsibility within the U.S. Federal Government.

We have embarked on a series of programs which are aimed primarily at medium- and small-sized businesses. There is an illusion, a myth, that the Department of Commerce is primarily a big, big, business enterprise. This may be partially true when it comes to economic policy. But when it comes to our service delivery and operations, it is not true. The major 250 multinational corporations that do about three-quarters of all our exporting are, in many ways, more expert than we are and therefore do not need our services. They use some of the information we collect, but in the main, they are on their own.

The bulk of our services benefits companies in the small business sector. Here we consider small business to be about \$5 million to \$25 million. When you start getting down to what is really small business, and Vernon Weaver is more familiar with this than I am, it is usually difficult for those companies to become actively engaged in international trade. Here I am talking about companies in the range of \$50,000 to \$500,000 a year in turnover. Simply to take a trip today costs a great deal of money, and unless those companies are in a high technology field, the probabilities are, with certain exceptions, that it is not in their best interest to trade internationally.

However, the essence of what we are planning to do is different: To help the smaller American businessman to take advantage of the opportunities, and to bring him the essential information.

SENATOR MORGAN. How do you plan to do that, Mr. Weil? I think I read into what you are saying is, there is a certain mystique about international trade. The average small businessman does not know how to get involved. How do you plan to increase your efforts?

MR. WEIL. Well, we have found an astonishing number of examples of small businessmen who set up some kind of an enterprise where they happen to take a vacation. For example, I heard a while ago about an American businessman who went to New Zealand on a holiday, met some people in his same business, and ended up establishing an enterprise in New Zealand.

Oddly enough, it did not occur to him that if he could do it in New Zealand, he could do it in Australia and other parts of Southeast Asia. It is the happenstance of discovering with whom you can do business.

One of our problems is that we have most of the information that a person needs available somewhere within this giant bureaucracy called the Federal Government. Around the world we have about 1,000 commercial officers in our various embassies, and we have in the United States about 350 trade specialists in the 43 district offices of the Department of Commerce.

We have in Washington yards and yards of bookshelves filled with interesting information, useful information. One of the things I have discovered is that we are not doing as good a job as we could in making

sure that information is readily available on a timely basis to the average American businessman. Thus, when he does try to find out what to do through our local offices or embassies, he gets frustrated because it sometimes takes 2 months to find out what he want to know, and then it may be too late.

In the private sector during the last 15 years, the computer has been harnessed to exchange information. To give you an example, in my business in 1972 our computers were used two-thirds of the time to process transactions. When I left my firm at the end of 1977, the computer was about eight times as powerful and was being two-thirds used to exchange information. The U.S. Government is not doing this today, but we are trying to remedy the situation. One of our main programs is the setting up of a worldwide computer information system. Thus, a businessman going into a district office in Savannah, Ga. could ask somebody in that office to interrogate this machine, which has a TV screen, and find out where the businessman could sell his teacups and how he should go about it in various markets around the world. Or, the people in the Embassy in Buenos Aires could have somebody come in and say, "Where can I buy teacups," and it would show the supplier in the United States.

This type of system has to be built slowly and carefully, analyzing what the market needs are and how the market can pay for it. I would prefer to see this done by the private sector; however, what we are doing now is starting it, in the hope of reaching the point where the private sector could take over and operate it.

As you pointed out in your opening remarks, language is perceived to be a major obstacle. That, by the way, is our fault, not the fault of the rest of the world because we can stimulate language training not only in our elementary schools but also in our business schools. One Japanese trading company that I know of has 700 young people out around the world learning the languages of different countries and working as interns in business enterprises.

We, in the United States, have done a poor job of training our people in foreign languages. Since 1946 we have been sitting here waiting for the world to come to us. Now all of that has changed. There is an old saying, "If you want to sell somebody, you sell him in his language." So language is a problem.

Senator MORGAN. You seem to be saying that in recent years we had all the business we wanted. People came to us, whereas in Germany half of their business is export. Now we are caught on the horns of dilemma where we are having to sell our products and are really not prepared to sell abroad.

Mr. WEIL. Right. Many American businesses have hardly penetrated markets in neighboring States, much less considered the costs involved in expanding operations to foreign markets.

Senator MORGAN. Now, you mention that your data banks and bookshelves are full of information. The trouble I find is that the small businessman out in the States do not really know that the information is on the bookshelves.

Do you produce any kind of information program, an educational program? I believe down in my State last year we had a Department of Commerce symposium for small businessmen on how to do business with the Federal Government.

Mr. WEIL. There are two or three responses. No. 1, implicit in what I said about this information system is that we are currently not as well equipped as we could be to answer business questions about exporting. And, our philosophy is not to advertise until you make sure the product is on the shelf in the store, or you will turn your customers off.

One of the reasons we have not turned up the amplifier in our broadcast system is that I want to be sure we have a product to look at when we tell the business community about it. We are doing several things in line with what you mention. As Vernon Weaver will point out—and he has been the chairman of this effort between the Small Business Administration, Commerce, Eximbank, and the Overseas Private Investment Corp. [not OPEC]—we have had a joint undertaking and have had a considerable number of symposiums in, I think, about 100 cities around the country. It has been very heartening to see the interest demonstrated by the business community and, in particular, by the small business community in this subject. My experience in the past 2 years in terms of how many businessmen will show up at these meetings is from 30 people to 300 people. In fact, I think we are missing a bet in this country when we talk about the energy problem and do not include exporting. We talk about production and conservation of energy but we do not talk about selling abroad as a way to solve our problems.

In Germany and Japan, they cannot talk about production because they have nothing to produce. When they talk about the energy problem, they talk about conservation and selling abroad. The American people are anxious about what they can do to conserve energy. In response to the problem of energy, the American people can channel their energies as workers in the export industry.

Senator MORGAN. We can increase exports for small business and thereby double the export of farm products in this country. This is certainly a renewable resource, and we might do something about the balance of payments.

Could you address yourself to the tailored export marketing plan or service?

Mr. WEIL. Right. That is a program which is currently being organized. We are trying to do two things: First of all, we are looking at sectors or segments in regions of the world where there are special market opportunities. Then, we are looking at those sectors of the U.S. economy that we think could be organized in a special way to take advantage of these regional global opportunities.

We are putting together teams of people who will work with those industrial sectors here. Export opportunities worldwide are not likely to produce overall the kind of specific or overall results where somebody goes to make a sale. We have one program going in the shoe industry because we have become a shoe importing nation. The idea that we are now succeeding in exporting shoes to other places, such as Japan, is astounding people. We have increased the export of shoes in this country last year in amounts ranging from 48 to 50 percent.

Senator MORGAN. It is an interesting program, and at the risk of being repetitious for staff members who were here the other day, let me tell you of an incident that happened to me with regard to shoes.

About 1 year ago I was in Japan with Senator Bellmon and we had a meeting with a lot of people about trade. I was talking to Mr. Morita,

the founder of Sony. I gave him a hard time, I guess, about their way of doing business over here. He pointed out that one of our biggest problems is that we are not willing to tailor our products for their market. He said that they had bought, I think, 5 million pairs of shoes from foreign countries and only about 140,000 pairs from us. He said we insist on selling American-sized shoes in Japan and they just cannot wear our shoes over there; that their feet are not that big.

He then went on to describe why we cannot sell American automobiles in Japan. One reason is because two American cars cannot pass on their highways.

Mr. WEIL. Sometimes two Japanese cars cannot do it either.

Senator MORGAN. I agree with that. He pointed out that he tried to buy a Cadillac Seville. He said they would not at any price put the steering wheel on the right-hand side.

Mr. WEIL. Ambassador Mansfield's steering wheel is now on the right-hand side.

Senator MORGAN. I think you make the point that we do have to begin to tailor our products for the overseas market.

Mr. WEIL. I might tell you an incident which bears out the point. One of the largest merchandising companies in this country called in the middle managers to ask what problems they were having selling American made products in Japan. Among the reports was that the Japanese wanted to have Japanese labels in their garments and a different range of sizes. The senior man raised Cain with his people and said it wasn't Japan's fault they wanted Japanese labels and sizes. Henry Ford once said you can have any color you want so long as it is black. Well, that won't work any longer.

Let me tell you this story. An American foreign service officer was given a Japanese made rice cooker by his mother-in-law in Washington. He and his wife were transferred to some part of Southeast Asia and, somewhere between Washington and Southeast Asia, the rice cooker was damaged. Rather than get it fixed, they bought a new one. When they cooked the rice in the new rice cooker, it came out brown whereas in Washington it came out white. The officer complained to the store, and they said, "In this part of Southeast Asia we like our rice brown and the rice cookers are made to accommodate the rice cooking here."

Mr. Chairman, we have tended to sell the same products around the world as we do at home.

Senator MORGAN. One other point and I will then yield to my colleagues. Another point he made was that we insist on selling our products over there with American labels. That night I was in the hotel, whatever hotel it is—the Okura Hotel—and I was down in what would be known as the drugstore. There were Colgate shaving cream cans with American labels with just a tiny Japanese label sticker on it. I looked through all the shelves and most all the American products were just regular American labeled products with small Japanese stickers. I can see why that will not sell on the open market.

Mr. Weil, I might have short circuited you by not following your statement, but according to my notes, I believe you have covered most of the points.

Are there other things you would like to add at this point?

Mr. WEIL. I think since the statement will be in the record, it covers just about everything.

I would like to, if I might, make sure I am on record as saying I have spent some personal political capital with the larger businessman in this country by making the point that getting the smaller business community involved in this process is essential.

An argument larger businesses make is that the smaller business exporters are suppliers to bigger businesses. To some extent that is true. I am convinced, if we continue to place our reliance on the top 1,000 or 2,000 companies in this country to sell our way out of this problem, we will fail. Personally, I am delighted that you are holding these hearings because it is another part of the process that we have been trying to effect for 2 years, to get the business community at large, the approximately 25,000 or so companies that could be exporting, involved.

We are appreciative of your support.

Senator MORGAN. Thank you. We hope to continue with these hearings and develop more ideas.

Let me go to Senator Don Stewart of Alabama and then Senator Levin of Michigan.

Senator STEWART. Mr. Weil, I have heard your testimony so far and heard some of the things you have said with regard to what you all are doing. Let me ask you a question that I asked Administrator Weaver the other day.

What would a person in my home State, say with \$500,000 in sales a year and having a difficult time, what would a person do today in that State to make this market available to him, or to obtain access to it?

What mechanism is available? What is there now? You say you have been working on this problem for 2 years. Can you give me a specific step he can take to get involved in the market?

Mr. WEIL. Well, we have a district office in Birmingham and what he should do is sit down with the director or one of his trade specialists—and most of the people in the district offices are trade specialists where the bulk of the activity is for international trade—and tell the trade specialist what his business is and what his desires are.

Mr. Stewart, he will find that these people are knowledgeable about this in a general way. Obviously, they are not experts in every business in this country.

They will be very straightforward in telling this person whether it is worth pursuing opportunities in international trade. They have learned over time what the parameters are and, if they feel this person's business might be successful in international trade, the people in our district office in Birmingham will get in touch with the appropriate people in our Bureau of Export Development. Or, we have an operation in Washington that organizes our field offices. The trade specialist in Birmingham will be in communication with the appropriate person here in Washington who, in turn, will be in contact as appropriate with one of the commercial offices in the Embassy of the country where the market opportunity exists.

This procedure can have a number of different outcomes. It might result in this firm's going to a trade show in some country, joining a trade mission, or being part of a group receiving a foreign buyer's mission visiting this country. It might mean subscribing through the

district office to available export services, such as trade opportunities where trade leads are matched to products by a computer.

I would be happy to have my staff provide you with the booklets that show the many types of services. In a nutshell, to answer your question, all your constituent has to do is go into the district office; he will find himself well served. I would like to think that we could serve him better, but I fear that improved service will take several years to organize.

We have service now, but we could make it better. Just this year, for the first time in 9 years, we have a reversed trend of declining resources in this part of the budget in the Department of Commerce.

Senator STEWART. And those who want to cut down on Government expenditures also want to balance our trade deficit and build up our weapons system in the country and they will have an opportunity to buy a dead bullet when the time comes.

What I am asking you is what assistance you provide someone on a one-to-one basis.

Mr. WEIL. The trade specialist does that. If he thinks there is a chance, he will be glad to tell your constituent and will be able to give the kind of specific information the businessman needs to find a customer.

Senator STEWART. The only thing I am concerned about—and I do not mean to be difficult because I know you are turning it around and I am supportive of you—but the only thing I am concerned about is the seminar type of thing with a trade mission and a number of other people. Senator Morgan mentioned a minute ago that we should take advantage of this type of symposium in our home State.

What happens to the businessman once he leaves that kind of situation and goes back to Birmingham or Selma or Montgomery? He has to begin to deal on an individual basis with those particular business individuals. What assistance do you offer him or is there available in the translation of a contract?

Mr. WEIL. We do not do much of that, Senator, and I do not know if we can do much. First off, we do not have the resources.

Senator STEWART. How do these other countries develop these resources and trading activities?

Mr. WEIL. Well, translation is a subject by itself. We generally believe in the private sector buying for itself, and we have not subsidized the use of special lawyers or special professions.

Senator STEWART. I thought you mentioned a minute ago that one of the countries we were having some difficulty in competing with in the international market had some 700 people who were just involving themselves around the world in different languages and were a part and parcel of trade.

Mr. WEIL. That is correct. The company is Mitsui & Co., one of the top three Japanese trading companies. They are in the business of doing world trade and they have people who are expert in doing just that.

Senator STEWART. Why would that be something we cannot do? I can think of a guy who builds windows in Selma and he cannot put somebody on the street that has that capability in different countries around the world. That might be something that we could work out on some basis for the people who have that difficulty.

What I am saying is, specifically what assistance do you offer him beyond information?

Mr. WEIL. The answer to that is not much, a point that raises some very interesting questions. By the way, the seminars are really designed to show this man he has an opportunity to get the information.

Beyond information, we do not do very much today, although I must say that taking people on trade missions is a very useful thing. Some of the smaller firms that went with us last fall to Japan found that to be very efficient.

Senator STEWART. It is going to be a difficult job for you to carry all the small businesses around the world.

Mr. WEIL. As far as subsidizing, the problem we run into is the policy conflict as to what is appropriate for the Government to do for businessmen even if it may serve the interest of solving the trade imbalance. What is appropriate under the new GATT rules in terms of export subsidy?

As you know, Senator Stevenson held a series of hearings last year. One of the things his subcommittee report has suggested is the stimulation of trading companies in this country similar to the Japanese trading companies.

Senator STEWART. What are your feelings about that?

Mr. WEIL. My feeling is that it is coming. There are such things in this country today as export marketing companies and export marketing associations. They are small, composed generally of people who are representatives or agents for other people's products.

There is one major merchandizing company in this country considering setting up a trading company. There is one major bank considering it, too. There are several trading companies, like Englehardt Industries, a \$10 billion company dealing in metals.

The Japanese trading companies date back over 300 years, yet today they are modern institutions.

It takes two things: One is capital and we can do that quickly in this country. Second is the trading instinct. Last year when the Japanese brought their mission into this country in March, I learned to my fascination that the average pay of roughly the 100 people in that mission representing the seven or so largest trading companies was around \$400,000 a year. Traders are very highly paid because they are highly skilled.

Senator STEWART. So are salesmen. I know one in my home State who makes thousands and thousands of dollars a year.

Mr. WEIL. The traders are different from salesmen in the sense that they buy and sell. Salesmen are selling and if they sell, they are paid on a commission basis.

The only point I am making is that we cannot wave a wand and achieve this instantly. This requires acquiring decades of know-how, and some of these problems are not going to be solved quickly. There is no magic solution.

Senator STEWART. I differ with you in some respects. We have some pretty good traders because they come from other parts of the country and travel within this economy and do a pretty good job of it. Those are the people who make tremendous amounts of money.

Mr. WEIL. Oh, absolutely and part of trading is knowing the product. Part of trading is knowing the language and the region.

Senator STEWART. Right.

Mr. WEIL. Take a man who trades between Michigan and Alabama and try to get him to trade from Alabama to Ethiopia. You might find a guy who was not able to do what he did before.

Senator STEWART. We could have some difficulty in that regard, but he must begin somewhere.

Mr. WEIL. We are on the same wave length, but let us not assume this will be an instant solution.

Senator STEWART. That is why I am concerned about the fact you do not provide personal assistance to the small businesses in getting involved in this new trade area.

In response to the question as to what you did provide beyond just general information you said "not much." I know you want to do more and that is one of the reasons I want to find out the things you can do.

What other answers would you have? You talked about personal assistance and trading companies.

What answers would you have as a representative of this Department to really get small business involved in this particular area?

Mr. WEIL. Well, one problem that Vernon Weaver will speak about, which was included in the President's export policy last December, is a dedication of the portion of the small businesses' resources to loans to small businesses that would be oriented toward export activity.

Senator STEWART. That would be venture capital of some kind?

Mr. WEIL. Exactly. There was \$100 million earmarked for that, and Mr. Weaver can be more specific on how that has proceeded.

Unfortunately, that has not accomplished as much as we hoped because the SBA responds to requests. It is not in the business of going out and creating loan demand. I think that program has picked up steam in the last few months, but of that \$100 million, only a very small part of it has been utilized.

Senator STEWART. What about a coordinating program between the Department and the SBA on a small traveling show, to tell what is available to small business?

Mr. WEIL. That is taking place through this seminar.

Senator STEWART. In other words, you are highlighting that program?

Mr. WEIL. Absolutely.

Senator STEWART. Thank you.

Senator MORGAN. Senator Levin?

Senator LEVIN. You indicated that one of the things we should be doing is stimulating trading companies.

Do you think that is coming?

What is your Department doing to stimulate those trading companies?

Mr. WEIL. Well, I fear that my answer is that at this point we are talking about it, and I think a lot of things begin at that stage.

There are a series of questions that relate to this. It is more a concept at this point than anything else, but I think we are trying to find the right formula between the export management companies, the application of the exceptions to the antitrust laws. Then we might prime the pump with some money.

One of the problems with the export marketing companies is that they are not potentially good borrowers from the SBA because to get a loan from the SBA you have to have some collateral that goes to some assets.

The export marketing companies are soft companies; they are doing business with the service companies that have a hard time borrowing money.

Senator STEWART. When do you expect to have your course of action set in this area in terms of what your department is going to do to stimulate trading companies?

Mr. WEIL. I hope we will have a more specific program sometime before the year is out.

Senator LEVIN. Will you let us know what that program is?

Mr. WEIL. Yes, sir. One limitation is that we are not alone, of course, in the executive branch in formulating policies of this sort.

Senator LEVIN. Whatever your Department is doing in coordination with others, let us know at the end of the year what that program is going to be.

Mr. WEIL. Yes, sir.

Senator LEVIN. I guess Ambassador Strauss made the comment the other day when he was asked to characterize the Government's current export assistance effort and he said one word, "bum."

Do you agree with him?

Mr. WEIL. Actually, he was asked what this country's export performance was and he said "bum." The Ambassador elaborated and said "real bum."

Senator LEVIN. I hate to misquote a newspaper.

Mr. WEIL. As far as our export assistance program is concerned, I may have in 2 years become a bit proprietary and defensive. We are doing a little better than we were 2 years ago. I think that is in part because of the visibility of the problem, not because of the contribution of any individual to the subject.

The Korean Economic Minister is in town today for an exchange of views and, even from the prospective of Korea, one senses that the United States is stirring in this respect.

Senator LEVIN. How would you characterize our efforts just in one or two words? Is it fair? Is it good?

Mr. WEIL. Fair, with a lot of potential.

When we went into World War II in December 1941 we barely had an Army and we barely had an awareness of a need to engage in global affairs. In a very short, time, we mobilized this country's ability to produce things as well as people to accomplish things.

There is no question in my mind that this country has the same capability to compete successfully in international markets if we mobilize the will to do it.

Senator LEVIN. Let me go back to Senator Stewart's question about his constituents in Alabama.

First of all, does he have to walk into your office?

Mr. WEIL. He can mail in.

Senator LEVIN. Say someone that manufactured pencils in Alabama wants to know all of the governments that are buying pencils.

Under this new procurement code, is he going to be able to get a list of all those governments from your office?

Mr. WEIL. The answer is a qualified yes.

Senator LEVIN. Is that your goal?

Mr. WEIL. That is our goal.

Senator LEVIN. To be able to provide that manufacturer a list of all the countries that are purchasing pencils on a continuing basis to keep that person informed?

Mr. WEIL. Yes.

Senator LEVIN. And that person does not know what to do at that point, what then?

Mr. WEIL. Out of this system we are working for, hopefully once he has honed into the area of interest to his business, he can get down to the point—and we have it on an experimental basis—where he can get the five names, telephone numbers, and addresses of the prospective buyers and who he can call.

In the final analysis, people do business with people. All of the generalized information in the world is not going to do your constituent any good if he cannot sell his pencils.

Senator LEVIN. Is he going to get forms and so forth from you?

Mr. WEIL. I am not sure of the answer to that yet, Senator. There is a strong underlying question here still unresolved. We have our own view in the Department of Commerce on the extreme side of providing help, but the question in this country, as you well know, is how much Government should do.

Senator LEVIN. Do you consider that over the boundary?

Mr. WEIL. Bid forms? I am not sure. I think probably once you give the man the name of the person with whom he can possibly do business, I think he should proceed himself. I would not want to go on record formally as saying I draw the line there.

Senator LEVIN. When do you think you will be resolving those questions as to how much your department can do for that person on a one-on-one basis?

Let us say he is in Birmingham. He is not going to write some trading company in New York because that is a long way away from him. He or she is manufacturing pencils in Birmingham and that is all.

Mr. WEIL. Well, we answer questions like that, draw lines like that every day, all day long and I do not personally draw that many lines. It is inevitable, in a large organization, that there is a decision as to how far you go.

The policy, Senator, under which we are operating is to provide maximum service. We are a service business, a delivery enterprise, and I hate to be qualifying things like I am now because I like to be upbeat. I do not want to create expectations that cannot be filled either.

Senator LEVIN. It would be useful if you could walk us through a few situations, not today, but send us a few scenarios; pick a few small manufacturers and tell us what your dream is for them, what is your goal, and how you are going to achieve it and send it in to us.

Tell us what the ideal is for that person down there in Alabama, if you will.

Mr. WEIL. We can pick a variety of examples.

[Subsequent information was received and follows:]

EXPORT ASSISTANCE SCENARIOS FOR SMALL AND MEDIUM SIZED FIRMS

The goal of the Industry and Trade Administration of the Department of Commerce is to help U.S. firms realize and achieve their export potential. This essentially involves bringing them to an understanding of overseas markets and export methods, and then helping them overcome impediments to export trade.

The following examples are typical of firms with potential to begin exporting or increase their exports.

Company A—Non-established exporter/Small manufacturer of a single product with export potential.

Company B—Non-established exporter/Medium-sized manufacturer with several complete product lines having export potential.

Company C—Established international consultant/Medium-sized engineering firm.

Company D—Medium-sized export management company specialized in a related product category having established export contacts overseas.

Each type of firm encounters difficulties in overcoming one or more of the five impediments addressed by Commerce's export assistance programs; they are 1) attitudinal, 2) informational, 3) operational/resource limitations, 4) foreign buyer resistance and 5) foreign competitive factors. An analysis of the needs of different type of potential exporters shows how different services can be used to overcome export impediments.

CASE EXAMPLE A

Company "A" profile.—Small security equipment manufacturer that produces a single product, a revolutionary new locking device. The company, with a staff of 50 employees, handles all production, assembly, and shipment. Company A supplies its U.S. market through a network of distributors. Its sales force is, therefore, composed of only three people each handling sales and distribution for a third of the nation. Sales have grown each year of the company's three year existence to the present level of \$3 million. The company's international staff consists of one individual, a recent MBA graduate, with the title of Assistant to the President. This individual was hired because the volume of inquiries from overseas became too great to be ignored. Since the person handling the company's international activities majored in international management and not international marketing, he, and therefore the company, is not knowledgeable about the intricacies of the export process. The company is totally unaware of Commerce programs and services. It has the excess plant capacity to fill additional export orders quickly, and Commerce market research indicates that there is a definite market for the product in Europe and the developed markets to the Far East.

Management of this company views exporting as risky and complex. Although it has hired a recent MBA as an Assistant to respond to inquiries from abroad, it is very conservative in its approach. It lacks adequate expertise in the intricacies of exporting, and has cash flow difficulties as well as limited resources to devote to overseas travel, translation of company literature and advertising. This company needs more confidence and information on how to export efficiently. In addition it must determine where to export its product. Commerce enters the picture when the Assistant happens to read an ad in the *Electronics* magazine placed by the Advertising Council which says that exporting help is available from the Department of Commerce. After sending in a coupon the Assistant receives *A Basic Guide to Exporting* booklet and contacts the local District Office to arrange for a visit to the firm by the Trade Specialist. Sitting down with the new Assistant the Trade Specialist explains the various information and promotion services and programs of the Department. The Trade Specialist leaves samples, brochures, and other information including a copy of the market research on this product category and schedules a follow-up visit with the Assistant. The Assistant review the help available from Commerce, discusses with the President the various services, options, and costs; and decides a course of action. When the Trade Specialist returns, additional questions are answered, and a program such, as the following, is worked out with the Assistant for the coming year:

1. The firm will immediately subscribe to the Trade Opportunities Program, expressing direct sales interest in Europe and developed Far East countries for the product category it manufactures.

2. A "New Product Listing" will be prepared and sent to Commerce for inclusion in the Newsletter, which is distributed to Foreign Service posts abroad.

3. Two months from now, the firm plans to exhibit in the upcoming domestic trade show, which has been selected for support by the Foreign Buyers Program. The firm will register as desiring to meet with Foreign Buyers who will be attending the show.

4. Three months from now, the Trade Specialist will meet again with the firm to assess the effectiveness of the foregoing actions and decide alternative follow-on actions.

5. Assuming that sufficient potential has been shown in a specific market to warrant an agent, the firm will purchase an Agent/Distributor list for each of the countries where interest in the product has been demonstrated. It will also obtain World Trade Data Reports on each of the potential representatives for consideration.

6. The Trade Specialist will review the approach in selecting the best representatives with the Assistant. The Trade Specialist will suggest itineraries abroad to interview the most likely candidates. The Trade Specialist will also brief the Assistant on overseas events that the Assistant may attend to observe competitive products. After a trip abroad, Company A may select a non-exclusive agent as European representative on a short term contract.

7. Company A will be advised by the Commerce Department, either directly or through the Trade Specialist, to participate in a security equipment trade show in London scheduled in 3-4 months. The company is encouraged to select an exclusive distributor for Great Britain.

8. Export Mailing Lists will be provided to the company suggesting direct sales contacts for the European agent. These lists for France, Germany, Italy, Switzerland, Belgium, the Netherlands, and Scandinavia will provide both the Assistant and the European agent with potential contacts.

9. At the end of the first year's activities, the Trade Specialist will help the Assistant plan future strategies, such as Commerce-sponsored trade missions to the emergent markets and trade fairs in the developed markets. There may also be catalog shows or technical sales seminars sponsored by Commerce in the security equipment field.

10. If problems arise, such as disputes with buyers, the Trade Specialist will learn about them from the Assistant since they have a close working relationship. Although these problems may be easily solved, the Trade Specialist will provide assistance through the Trade Complaints service. Such assistance consists of having the "good offices" of the Embassy or Consulate mediate the dispute amicably. Commerce District Offices and Program Operations will assist Company A until it no longer needs continuous advice.

CASE EXAMPLE B

Company "B" profile.—Medium-size producer of food processing and packaging equipment. The company has several complete product lines covering a large segment of the industry and can also customize equipment to the specifications of individual buyers. In its fifteen year history, the company has achieved a reputation for quality and innovation. While its products are priced somewhat higher than those of its competitors, both domestic and international sales have grown consistently because Company B's products have more versatile features and longer product life than those of its competitors. Annual sales are approximately \$35-40 million. All parts manufacturing of Company B products is undertaken at its large Des Moines plant, also the site of its corporate headquarters. The company has additional smaller plants in Los Angeles, Baltimore, and Indianapolis to handle assembly, distribution and custom work. The company overall has about 400 employees. A sales force of 10 individuals is attached to each assembly plant with a Vice President for Sales resident at the Des Moines plant.

Markets are supplied both directly and through distributors. While international activities fall under the V.P. for Sales, they are actually handled by one of his assistants with the title of Export Manager. The company supplies its Canadian and Mexican markets directly from the United States with Mexico assigned to its Los Angeles sales force and Canada assigned to its Indianapolis sales force. Company B has an agent in Frankfurt to handle sales in continental Europe. This agent originally approached the company on his own, seeking representation rights, and has been moderately successful. Company B participated in a Paris trade exhibition several years ago with good sales off the floor, and medium term sales projections. Company B's Export Manager is not completely knowledgeable of other Commerce services. Exports make up a little

over 10 percent of Company B's sales, and market research indicates market potential in areas of the world not yet penetrated by the company.

As an established exporter with an agent in Europe, Company B needs to give greater support to the agent. The company, however, presently lacks sufficient resources to cover potentially good markets in depth. It needs to expand its coverage by appointing more aggressive agents/distributors capable of selling in competitive markets. More information is needed on market conditions, practices, and potentials in individual countries, as well as specific sales and representation leads abroad. It also needs background information on contracts.

Programs meeting Company B's needs are: the Agent/Distributor Service, country marketing information and publications, Trade Opportunities Program, and the World Trade Data Reports Service. Once the company absorbs this information, it will be a candidate for overseas trade promotion events. If the company has no representative, it will need to participate in an overseas promotional exhibition to gain market exposure.

Since Company B has reached the stage where it can explore markets intensively, it will participate more frequently in overseas trade promotion activities. This company will welcome advice on other events deemed to be important in providing market exposure for its products.

Company "C" profile.—Company C is a medium-sized engineering firm specializing in designs for metals, minerals, and chemicals process industries. Company C is a private concern with a permanent staff of 50 employees. The company also maintains professionals' resumés on specialist engineers and consultants that are hired on an as-needed basis. Annual billings total \$10 million. The firm typically sells its engineering and consultant services to chemical producers or minerals operators who are planning new projects. The company has performed feasibility studies, sampling studies, master plan, and detailed design services, and can prepare bidding documents and specifications and assist in evaluating technology, equipment, and construction bids. Most of the firm's work has been done in the U.S.

Its international experience has been primarily consulting work for U.S. clients who have invested overseas in mining or process facilities. Now that the firm has some experience overseas, the company executives are looking for opportunities to perform consulting and engineering work directly for foreign clients. The company's bank suggests that it contact the Commerce Department.

This company requires specific information on major projects at the earliest possible stage and follow-on assistance. Since there is considerable cost in preparing proposals, presentations, and travel, the company needs timely and meaningful support to meet the complex needs of developing countries. This could include professional training, or designing entire complexes and nationally integrated systems. Company C will use "good offices" of the Government to help make high level contacts and coordinate Government assistance in the areas of financing, insurance, guarantees, and anti-trust. The company's officials concerned with these impediments will call on the Major Export Projects Division, as well as contacts in FCIA, EXIM Bank, IBRD, and others.

Through the Major Export Projects Programs, Commerce will offer comprehensive assistance to Company C in seeking contracts for major overseas projects. While the principal users of the service are consultants, engineers, and construction firms, the program also assists equipment companies, operating firms, and process licensors. In addition, sub-suppliers could ultimately benefit from this service. Each project is handled on a case-by-case basis, and the services differ considerably depending on the nature of the problems and needs of the firms. Several U.S. firms may be involved in the same project at various stages of procurement. A completely new strategy involving innovative forms of assistance will be employed for each project.

CASE EXAMPLE D

Company "D" profile.—Medium-size export management company specializing in medical equipment. Company D, headed by several doctors and located in Chicago, has a staff of 35 employees and has an annual sales volume of \$20 million. Services to its 20 clients include market research, appointment of overseas agents and distributors, exhibiting the client's products at overseas trade shows and colloquia, and handling of all financing, advertising, shipping and documentation. The company works on a buy-and-sell arrangement with its clients; that is, the company places orders with its clients when overseas orders are received, Company D then pays cash, resells the product abroad, and invoices the customer.

directly. Company D relies heavily on the Department of Commerce for marketing information, for market research and for overseas facilitative services. The President of the company, being both a physician and salesman, is often called upon to act as a moderator for overseas seminars sponsored by the Department of Commerce. In addition, the President is active in the affairs of the National Federation of Export Management Companies and the District Export Council.

The Export Management Company (EMC) is a special category that uses all of the same types of services and programs as a medium-size firm, only it is small, usually having fewer than 25 employees. It may have some problems in overcoming foreign buyer resistance, especially when acting as an intermediary representing U.S. manufacturers. The foreign buyer may believe, more often erroneously, that the EMC sells at a higher price than a manufacturer. The EMC sells at a higher price than a manufacturer. The EMC seeks sales leads for its several clients and information on market conditions, practices, and potentials in foreign countries. The *Trade Opportunities Bulletin* is most appropriate for this company. As a member of an EMC association, Company D receives marketing information through the Multiplier Program.

Although relatively small, the EMC can analyze a large quantity of marketing intelligence and data. For this reason, it will be most interested in country marketing information and publications, such as Global Market Surveys. The EMC is always looking for new clients with "high" technology products and expects its clients eventually exporting on their own. The District Office help small inexperienced manufacturers with limited resources to contact appropriate EMC's. It is frequently appropriate for an EMC to participate in overseas trade promotion activities, making the pro-rated cost to the EMC clients much less than if each of the client participated individually.

**RECORD OF ASSISTANCE PROVIDED TO SMALL U.S. MANUFACTURERS BY THE
INDUSTRY AND TRADE ADMINISTRATION OF THE DEPARTMENT OF COMMERCE**

CASE 1

Firm.—Beowulf Inc., P.O. Box 5168, Huntsville, Ala. 35806. Mr. Kelly Prady, president. Firm established in 1968 with twenty (20) employees manufacturer of cable and electronic items.

Objective.—To help Beowulf contact potential overseas buyers and establish itself in the best market region for its products.

Beowulf contacted the Birmingham District Office in 1975 about exporting.

The District Office (DO) counseled the firm and provided fundamental export information on opportunities for selling electronic components in major overseas markets. A Trade Specialist was assigned to serve as an account executive (AE).

Over the past three years; the AE has worked on a regular basis with this firm, answering questions and suggesting programs that could help the firm address specific export problems.

The company's products fit into the electronic components and the industrial process control target industries. Both product categories are among those industries in which the Commerce Department focuses particular attention in its promotional programs.

For two years the company has been a subscriber to the Trade Opportunities Program, which is a computer-match service providing specific export leads by product category to U.S. firms.

The Birmingham District Office has provided counseling and information on specific countries through a series of Overseas Business Reports (OBRs) and has arranged business appointments with potential trade contacts through Foreign Service Posts in several countries.

The continued counseling and assistance provided by the District Office has helped this firm start a viable export program. It now employs 50 people. The DO is presently working with the firm to determine the possibility of its participation in Commerce sponsored trade shows overseas.

CASE 2

Firm.—Buchanan Mfg. Co., Industries Park, Star Route, Box 20, Garnersville, Ala. 35976. Craig Buchanan. Buchanan is a distributor of all types of metalworking and finishing equipment.

Objective.—To help Buchanan locate an agent in Mexico and eventually expand its export sales to other regions of the Latin American market.

The Birmingham District Office has provided basic counseling and information to Buchanan on the various Commerce Department services available to U.S. firms interested in exporting.

This company has made use of the Agency Distributor Service to help identify an agent in Mexico and is presently concentrating its marketing efforts in Mexico.

Acting on advice of the District Office, this firm is setting up a network of agents, overseas and is participating in Commerce trade shows for the metal-working and finishing equipment industry.

SENESH INTERNATIONAL,
Taipei, Taiwan R.O.C., April 20, 1979.

Hon. JUANITA KREPS,
Secretary of Commerce, U.S. Department of Commerce, Washington, D.C.

DEAR SECRETARY OF COMMERCE: Being in need of Department of Commerce assistance, on a recent business trip our firm, Senesh International, approached the Industry and Trade division of the Philadelphia District Office. We were directed to Mr. John J. Giannini, International Trade Specialist; who conferred with us, and has subsequently prompted this correspondence.

Wishing to contact manufacturers concerning Asian distribution of medical and automotive equipment, within a span of three highly compressed weeks, Mr. Giannini arranged appointments and introductions.

Through careful selection, Mr. Giannini concentrated our efforts on those most receptive to marketing their product lines in our area. He also apprised us of local business conditions and was always available to answer our numerous, if not myriad, inquiries.

Because of time constraints we became increasingly dependent on his advice and insights, and thus developed an appreciation of his high calibre professionalism and rare business sensitivity.

Senesh International, and the manufacturers we represent, are now successfully exporting to Asia. In retrospect, we realize Mr. Giannini to be the catalyst by which this was achieved.

In addition, Mr. Giannini displayed a refreshing courtesy, and his actions were underscored by an enthusiasm which viewed our assignment not as a perfunctory exercise, but an exciting challenge.

He is an example of Department of Commerce assistance at its finest, and the esteem we reserve for him is of the highest order. If our remarks seem a bit unqualified, it is only because Mr. Giannini's excellence has left us no recourse.

Senesh International is indebted to the Department of Commerce, and Mr. Giannini; and this has been an attempt at registering our gratitude, though it is not nearly enough.

Sincerely,

DANIEL LITT, *President.*

Senator LEVIN. What are the specific steps you are going to be taking to achieve this or who else has to take the steps. That is the bottom line I think of most small business people. There are actually trade shows and to get to New York once in a while is great, but they are really small manufacturers and distributors, but he only wants to fill out a form and get a bid in.

Mr. WEIL. In the Department over the years a lot of the businesses have been very successful.

Senator LEVIN. They cannot hire someone to translate Chinese or Japanese. I think they would be willing to pay a modest fee for that service, but they cannot have a staff person hired just for that.

There are basic human problems that have to be solved at the grassroots level for small business people, and I do not think, in all due respect to you, the trade shows and those kinds of tours are going to do it.

Mr. WEIL. Well, the record of that is pretty good.

Senator LEVIN. I am not knocking it. I just do not know how that fits into the needs of small business. I have only one more question.

In the President's export policy, he mandated a \$20 million allocation for export development, and you have made some comment on that. He specified three areas where those funds would go—a computerized information system, risk sharing, targeting assistance to firms and industries with high export potential.

What steps have been taken to implement those objectives?

Mr. WEIL. Those funds will not become available until the next fiscal year. We are currently laying down the plans to implement precisely the things we have been talking about. We are moving as far as we can, given the limitation of the budget, you see.

Senator LEVIN. Let us have the timetable for meeting that. By the way, is the lack of that \$20 million holding you up?

Mr. WEIL. I would not blame that on the absence of the new moneys. These programs are ongoing, a continuation of things happening all the time.

One of our problems is caused by the growing awareness around this country of the whole trade problem and responding to it and with the instructions that the President has given to our embassies around the world. One of our problems is that we have increasing demand for our services, which is a very heartening thing. Until recently the foreign service people were not that interested in the subject. They are interested now and every Ambassador in every country brings us the list; however, we have just so many people and so much money.

Senator, I am not arguing for the budget here, but I anticipate a gap between the demand and what we are going to be able to fill. We will be struggling with this for the next several years.

Senator LEVIN. Thank you.

Senator MORGAN. Thank you, Mr. Weil.

If I could add one request to Senator Levin's request, will you send us some examples of what you deem to be thoughtful suggestions as to what we in the Congress might do to help you? There are a lot of things other than money that we can do.

We might be able to help you utilize and mobilize the public sector. You might provide us a little list of different things we could do. We might have someone in my State that would like to do business in Japan or Germany or Greece and they do not know of anyone who speaks the language and so you might give us some ways to promote international trade for small business.

As I mentioned earlier, with the farmers lie the great hope for balancing our trade deficit with their renewable resources.

Thank you very much, Mr. Weil. We have your statement as I mentioned earlier and we have had the summary from you.

Mr. WEIL. Thank you.

We will get that information to you.

[Subsequent information was received and follows.]

We are pleased that you in Congress are interested in export development and hope that you take interest in creating an export awareness among your constituents. We hope that you will take an active role in export programs at the state and local levels and that you will work with the private sector to develop your export potential industries. Any personal appearances that you might make at export related functions in your states, such as trade shows and export seminars, would further emphasize the contribution exporting makes to the economy of the Nation as well as individual states.

Senator MORGAN. We will next hear from Mr. A. Vernon Weaver, Administrator, Small Business Administration.

STATEMENT OF A. VERNON WEAVER, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY WILLIAM MAUK, AND DR. PATRICIA BURR

Mr. WEAVER. I have with me William Mauk, our Deputy Administrator and Dr. Patricia Burr, Assistant Administrator for Management Assistance.

Senator MORGAN. Good to have you with us.

For your information, your statement will be made a part of the record for consideration by the other members and the staff. As you know, the staff does most of the work for the committee and the other members of the committee also.

You may proceed in any way you like to help us with your problem.

Mr. WEAVER. My statement has been previously supplied to the committee, Mr. Chairman. I will proceed to summarize it.

[The prepared statement of Mr. Weaver follows:]



SMALL BUSINESS ADMINISTRATION

***** Washington, D.C. *****

STATEMENT OF
A. VERNON WEAVER, ADMINISTRATOR
UNITED STATES SMALL BUSINESS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT PROCUREMENT
SELECT COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

April 12, 1979

MR. CHAIRMAN AND MEMBERS OF THIS SUBCOMMITTEE:

Thank you very much for this opportunity to discuss with you the expected impact on small business of the International Government Procurement Code which was negotiated as part of the Multilateral Trade Agreement.

As you know, it is the purpose of this Agreement to establish a new set of rules for an international trading system. This Agreement has a number of important objectives from the point of view of the United States, namely; helping to reduce the trade deficit; reducing domestic barriers to exports and foreign barriers to our exports; and, providing new export opportunities for all American businesses.

The round of negotiations dealing with the non-tariff barrier agreements has been concluded. These

negotiations left intact our small and minority procurement set-aside program -- these programs which benefit small and minority-owned firms are exempted from the Code. Also exempted are contracts of less than \$190,000; contracts for products necessary to our national security; construction and service contracts; Department of Defense contracts for textiles, clothing, food and specialty metals; and all GSA handtool and stainless flatware purchases.

At this time, it is very difficult to assess the impact the Code may have on small businesses in general. However, on the positive side, Ambassador Robert Strauss, Special Representative for Trade Negotiations, has estimated that through these agreements we have gained access to a foreign government procurement market estimated at \$20 billion.

I would like to point out that small businesses have some inherent strengths which make it possible to be successful in the area of international trade. The obvious advantages are that they can respond more quickly and on a more personal basis to their clients. They are also better able to adjust to the needs of small foreign procurement markets.

It is our intention to ensure that small and minority-owned businesses play an important role in this new foreign market. We have established an Office of International Trade within the Small Business

Administration and we are working to strengthen this program of small business export assistance.

In accordance with President Carter's Export Policy Declaration of September 26, 1978, and his State of the Union Message, SBA, in cooperation with other Federal Government agencies and the private sector, is undertaking an outreach program to help small businesses recognize their export potential and obtain the financial and management assistance necessary to turn these export opportunities into export sales. Agreements have been signed with the Department of Commerce which establish methods to refer to SBA those businesses who need financial assistance for exporting.

Before final negotiations on the nontariff barrier agreements, SBA had targeted \$100 million in FY 1979 loan guarantees for small exporters. Businesses engaged in exporting may be eligible for the maximum \$500,000 loan guarantee which is available from SBA, assuming all prudent credit, collateral, and repayment conditions are present.

SBA can provide loan assistance to exporters to help them expand production so the business can fulfill its overseas commitment, and to enable them to participate in foreign trade shows, overseas travel, shipping of samples, and other costs of developing and penetrating foreign markets. Since most SBA financial assistance is for operating capital to be used domestically, those firms

interested in doing business with foreign concerns can use this Agency's services when they require capital to perform on an overseas contract.

We have held, and continue to hold, seminars to help small firms become familiar with the types of government and private sector programs available to them. During FY 1978, SBA in conjunction with the Department of Commerce, the Export-Import Bank, and the Overseas Private Investment Corporation, cosponsored 14 international trade seminars which were attended by over 2,800 business persons. In addition, approximately 12,000 small firms attended 195 foreign trade training programs.

During the first quarter of FY 1979, another 10 such programs were attended by over 1,500 small business people. Twenty-seven additional Interagency Conferences on Small Business Export and Investment are to be held during the remainder of FY 1979.

To acquaint SBA personnel with export financing and marketing techniques, we plan to hold a series of export orientation programs, and one person in each SBA District Office has been assigned international trade responsibility on a collateral duty basis.

Some 275 SCORE and ACE volunteers have indicated that they have had first hand experience and will work with us in our international trade efforts. To utilize these individuals, the National SCORE Office has selected a

full-time volunteer counselor to assist the Office of International Trade in developing a program of international trade expertise. Last month, for instance, one SCORE counselor from each SBA region attended a three-day orientation and planning program in Washington. In addition, various schools involved in the Small Business Institute program will provide basic international trade counseling. The Small Business Institute Directors Association has given priority status to the development of the international trade program during FY 1979.

In order to identify small businesses interested in exporting, we are registering these concerns in our Procurement Automated Source System (PASS). PASS is a centralized computerized source system of small businesses capable of and desiring to participate in the government procurement marketplace.

As you can see, SBA stands ready and willing to provide direct technical and financial assistance to firms desiring to participate in the world market. Although these initiatives will be helpful to small business exporters, we cannot expect dramatic results overnight. Obviously, this will all take time, and there must be a sustained effort on the part of business, labor, and government.

This concludes my prepared statement. I will be happy to respond to any questions you may have.

Mr. WEAVER. Let me say at the outset in the past years there has been considerable antagonism between the Department of Commerce and the Small Business Administration, real or imagined, and I for one am gratified and glad to tell you that the cooperation we have had with Frank Weil and his staff has been excellent. We are working together and have established a coordinating committee of Eximbank, OPIC, and ourselves.

We have produced this book that I will refer to later on for the small business person. If any one thing is on the horizon it is that we are cooperating and working together.

Let me, as I said, summarize my statement. I suspect one of the most important things I can say this morning is that we recently concluded trade negotiations and left intact our small and minority business set-aside programs. It would have severely hurt them, but Ambassador Strauss renegotiated the treaties and now those programs are intact. We will experience some loss in that under the terms of the treaty when a company in a foreign country—and that includes a U.S. company producing its products on foreign soil—gets a prime contract, it will not be subjected to the subcontracting requirements that are currently in the law.

On the other hand, Ambassador Strauss estimates \$20 billion of procurement overseas will be made available. To what extent small business can penetrate the market remains to be seen.

Mr. Weil mentioned one of the things that we did in the President's export policy was to target \$100 million for fiscal year 1979 for guaranteed loans for exporters. Mr. Mauk has the figures.

Mr. MAUK. In fiscal 1978 we made \$1.2 million of guaranteed loans to six firms.

Through the first 5 months of this year we had made \$900,000 or guaranteed \$900,000 in loans.

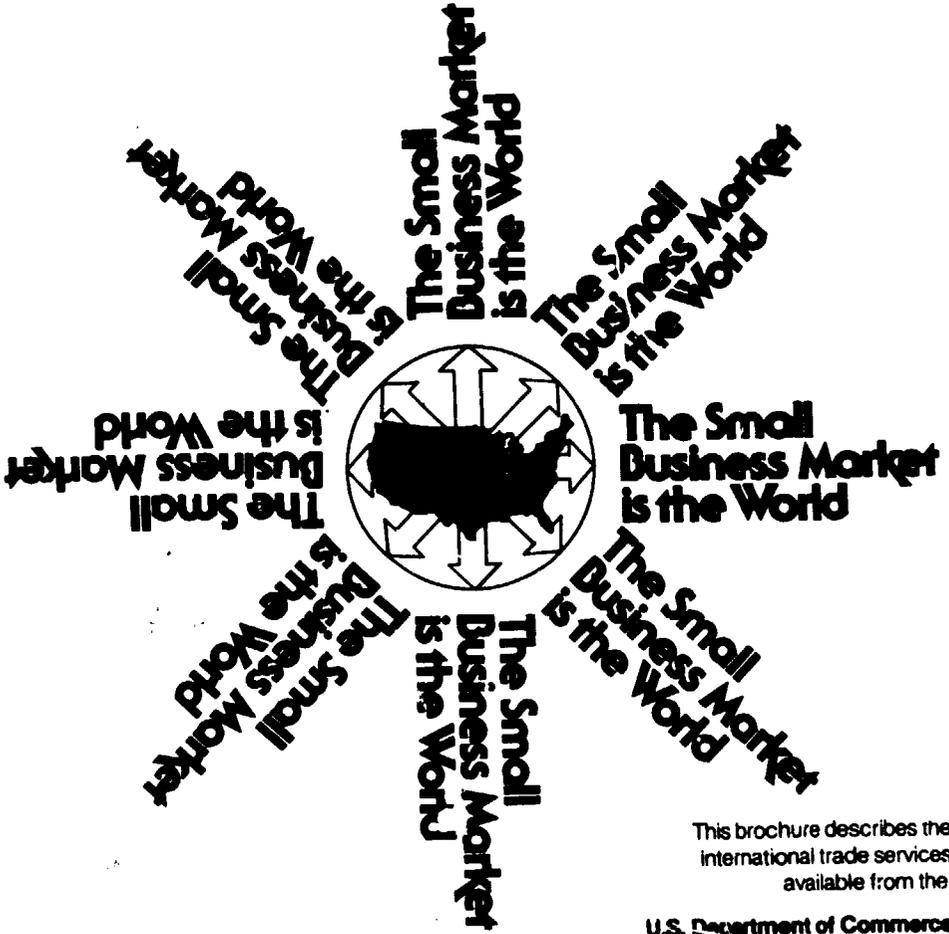
Mr. WEAVER. We are satisfied with it.

Let me put in the record this booklet put out by the four agencies I mentioned earlier entitled "The Small Business Market Is the World."

Senator MORGAN. We will include that in the record at this point.

Mr. WEAVER. I think it would be helpful for the other members to see that little booklet.

[The booklet referred to follows:]



This brochure describes the international trade services available from the:

U.S. Department of Commerce
U.S. Small Business Administration
Export-Import Bank of the U.S.
Overseas Private Investment Corp.

THE WHITE HOUSE

WASHINGTON

TO THE INTER-AGENCY CONFERENCE PARTICIPANTS:

The health of our national economy is ever more dependent upon world trade and commerce. Together we must seek to expand the world market for our Nation's goods and services, if we are to redress effectively our country's trade deficit.

As a small businessman, I learned the value of finding new markets for my products. I urge you to learn how you can use your government's services to enter the international marketplace. The Inter-Agency conferences can be a good starting point for you in learning how to compete abroad.

You have a significant role to play in this important national effort in support of American trade.

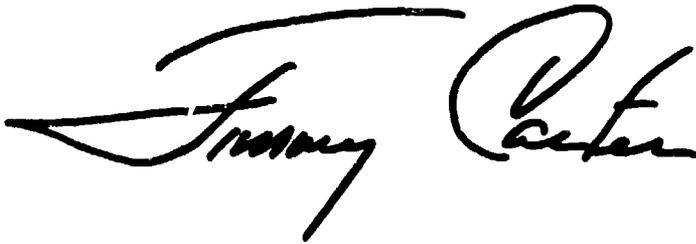
A handwritten signature in black ink, reading "Jimmy Carter". The signature is written in a cursive style with a large, sweeping initial "J" and a distinct "Carter" at the end.

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UNITED STATES DEPARTMENT OF COMMERCE

The United States Department of Commerce is eager to assist small and minority businesses which are either already engaged in exporting or wish to enter the export field.

Industry and Trade Administration

The Department's Industry and Trade Administration (ITA), through the Bureau of Export Development (BED), is concerned with motivating the U.S. business community toward a greater export effort by conducting export promotional activities to increase national awareness of export opportunities and by assisting the business community's export activities through a wide range of programs and services.

BED is the focal point for information about specific markets around the world and helps operators of small and minority businesses to:

- Learn about specific, current opportunities for selling, exhibiting and promoting their products abroad;
- Keep abreast of important marketing, economic, governmental and other developments overseas, and
- Exhibit their products overseas and meet foreign buyers, through sponsorship of trade missions, seminar missions, trade exhibitions, and other specialized events.

This information, gathered from U.S. Foreign Service posts and a worldwide network of commercial intelligence sources, is processed and disseminated to the U.S. business community.

Personal counseling can begin with one of the 43 Department of Commerce District Offices (see Appendix A) located near your business. Each District Office has a staff of International Trade Specialists who are familiar with all Commerce programs.

The local Commerce officer can assist you in using the services and programs described in this booklet. In addition, the ITA's Washington staff is prepared to provide substantive assistance in developing marketing strategies for specific products or services. If you are interested in (1) entering the export field for the first time; (2) expanding overseas sales; (3) locating an overseas agent or distributor, or (4) licensing a product for manufacture in a foreign country, contact the nearest Commerce District Office.

Finding Overseas Buyers

The Department of Commerce has several aids designed to help exporters and would-be exporters find overseas buyers.

Export Contact List Services are available from the Department of Commerce which collects and stores information on foreign firms in a master computer file designated as the Foreign Traders Index (FTI). This file contains information on more than 138,000 importing firms, agents, representatives, distributors, manufacturers, service orga-

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nizations, retailers, and potential end-users of American products and/or services in 130 countries. Newly identified firms are constantly being added to the file; information on previously listed firms is updated frequently. This information is available to U.S. exporters in the following three forms:

Export Mailing List Service (EMLS) consists of specially targeted retrievals for individual requestors wishing to obtain lists of foreign firms in selected countries by commodity classification. Retrievals are offered on gummed mailing labels or on printouts and include, to the extent available, the name and address of the firm, name and title of executive officer, type of organization, year established, relative size, number of employees and sales personnel, and product or service codes by Standard Industrial Classification (SIC) number. Information on charges for this service may be obtained from Commerce District Offices.

FTI Data Tape Service (DTS) offers information on all firms included in the FTI for all or selected countries to U.S. firms on magnetic tape. Users can retrieve various segments of the data in unlimited combinations through their own computer facilities.

Trade Lists in two forms are available. (1) lists of controlled trading companies in countries where state-owned or controlled organizations conduct foreign trade; or (2) lists of business firms in selected developing countries contained in the automated Foreign Traders Index.

The Agent/Distributor Service (ADS) is used to seek representatives (agents) and/or distributors for U.S. products and services. The essence of the service is the determination of a foreign firm's interest in a specific U.S. proposal and willingness to correspond with the U.S. requestor. U.S. Foreign Service Posts supply up to six selected names of such firms together with the addresses and persons to contact. Charges for this service, as well as ADS application forms, may be obtained from Commerce Department District Offices where trade specialists will give guidance and evaluate the business relationship under consideration.

The Foreign Buyer Program is designed to increase the purchase of American products and services by foreign business visitors to the United States. It provides substantive assistance to individuals and groups of foreign visitors to ensure the accomplishment of business objectives during their stay in this country. Facilitative services include identifying U.S. suppliers, services, and technology. The service also includes setting up itineraries, business appointments, plant visits, seminars, and other arrangements best suited to the visitors' business objectives and providing the visitors with the names of U.S. firms exhibiting at domestic trade shows which are seeking business partners (agents/distributors, etc.) abroad.

The Department of Commerce maintains lists of U.S. firms that want to make export sales and establish overseas trade relationships. Upon learning of an upcoming visit to the United States by potential buyers, this file is searched by Department of Commerce personnel to identify those American companies which would help satisfy the prospective buyers' objectives. Then the American firms are contacted by either a telephone call or a notice of the trade opportunity in one or more

publications. Information concerning interested U.S. firms is then transmitted to the U.S. Foreign Service Post prior to the visitor's departure from the country, allowing sufficient time for the two parties to make arrangements for a meeting in the U.S.

The Trade Opportunities Program (TOP) also furnishes U.S. business with detailed opportunities for direct sales to overseas buyers—private and government—as well as notices of foreign companies offering to represent U.S. firms overseas.

American businesses indicate the specific product categories, type of opportunities, and countries for which they wish to receive leads. This information is put into the computer. As leads are reported from overseas, they are computer-matched with the U.S. supplier's information requirements. Individual trade opportunity notices are automatically printed and mailed to appropriate subscribers. These trade leads are generated by more than 200 American Embassies and Consulates overseas that cable the information to the Trade Opportunities Program in Washington.

World Traders Data Reports (WTDRs) are business reports prepared by the U.S. Foreign Service and available from the Department of Commerce. They give such information as type of organization, year established, relative size, number of employees, general reputation, territory covered, language preferred, product lines handled, principal owners, financial references, and trade references. A general narrative report by a U.S. Commercial Officer on the reliability of the firm is also included. Request forms and information on charges for this service are available from Commerce District Offices.

Meeting New Customers Abroad

The Department of Commerce trade promotion programs designed to help exporters meet new customers abroad include the following:

Specialized U.S. Government Trade Missions consist of 8 to 10 American companies recruited by Commerce from a specific industry to promote the sale of the products or services of that industry, or to establish representation for it in specially selected overseas markets. Commerce, assisted by the U.S. Foreign Service, provides detailed marketing information, advanced planning, publicity, trip coordination and a Mission Director. Mission members pay their own expenses and a share of the overseas operating costs, and conduct business on behalf of the firms they represent.

Seminar Missions are similar to the Trade Mission described above. The Seminar Mission members present authoritative state-of-the-arts presentations to key foreign government, industry and technical leaders in a carefully planned, publicized seminar often held with the co-sponsorship of a local trade association. Following the seminar, time is allocated for individual business appointments.

Catalog Shows entail a promotion technique featuring special displays of American product catalogs, sales brochures, and other graphic sales aids at U.S. Foreign Service Posts or in conjunction with Trade Fairs.

Product Marketing Service (PMS) is a program which provides U.S. businesspeople with "an office away from the office" in U.S. Trade Centers in the following overseas cities: London, Milan, Mexico City, Taipei, Singapore, Sydney, Tehran and São Paulo.

Essentially, the PMS provides office space for up to 5 days; free local telephone service and access to telecommunications; audio-visual equipment and a place to use it; a market briefing, a list of key business prospects, and help in making appointments. Help is also offered in obtaining secretarial and interpreter services (at the U.S. company's expense).

The daily minimum charge for this service may be obtained from local Commerce District Offices which also have information on similar services in Eastern Europe and the U.S.S.R.

New Product Information Service (NPIS) is specifically designed to help small, new-to-export companies publicize the availability of new U.S. products in foreign markets. Product information selected for this service is published in the **Commercial News USA** which is sent worldwide to 240 U.S. Embassies and Consulates. The information is then translated and reprinted in 85 post Commercial Newsletters which are distributed to over 100,000 local foreign business and government officials.

For purposes of this program, a new product is defined as one that has not been for sale on the U.S. market longer than two years and exported to no more than three countries on a regular basis. Further information and applications are available through local Commerce District Offices.

Foreign Market Research is conducted through "three distinct foreign market research programs" which are particularly useful to the small-to-medium sized U.S. firm interested in establishing itself in the world marketplace. Through the **Global Market Research** program, 15 U.S. "target" industries, mostly those manufacturing capital equipment, are provided with marketing research information obtained on a contract basis from countries that show best sales potential for U.S. products. The basic information is published in the **Global Market Survey** (one for each industry), which is distributed through the Department's 43 District Offices. The **Operational Market Research** program is designed to support the ITA trade promotional event planning effort. The information obtained covers product areas that are outside the scope of the 15 basic target industries and the research is available to U.S. firms through the Department's National Technical Information Service. The **Country Sectoral Survey** program involves researching specific countries, particularly developing countries with recently acquired foreign exchange reserves, for U.S. sales opportunities in all capital equipment product areas. Completed surveys are available through the U.S. Superintendent of Documents. For more information on all of the above programs, please contact the nearest Commerce District Office.

Business Travel Overseas by U.S. firms can be facilitated by advising the American Embassies and Consulates in advance of your proposed travel. This can be done through

your local Commerce District Office, through your Country Marketing Manager or by writing directly two to three weeks in advance to the Commercial Section of the Embassy or Consulate you will visit. Provide your company name, complete address, product line, and a full description of what you want to accomplish during your trip.

U.S. Embassy and Consular Officers can provide country briefings, a review of the local market conditions and, most importantly, leads to local firms, individuals or government officials. They do not make appointments in advance of your arrival due to the large incidence of broken travel arrangements, travel delays and "no-show" visitors. They are there to help you when you arrive and they can do a better job if they are notified in advance of your travel plans.

Business travelers should consult the list of overseas holidays, which is published annually in *Commerce America* (usually in the last issue of each calendar year), prior to planning an overseas business itinerary. American Embassies, Consulates and foreign business and government offices may be closed on these holidays. Overseas U.S. Government offices are also closed on U.S. holidays. A list of the addresses of American Embassies and Consulates may be found in the Foreign Service List, available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, \$1.00.

Displaying Your Products Overseas

The Department of Commerce plans, organizes and stages exhibitions for U.S. companies in its Trade Centers, International Marketing Centers, in international fairs and at U.S. exhibitions organized to capture specialized markets. Nearly all exhibitions feature specific industrial product lines, especially in the capital goods area. Other areas featured include medical equipment, educational materials, automotive service equipment, material testing equipment and safety and security equipment. These trade exhibitions provide U.S. industry an opportunity for market testing, direct sales, locating an agent, or finding a joint venture partner. Special pre-show market promotion activities include calls on blue-ribbon customers, trade associations, agents and distributors, an extensive publicity campaign, an exhibition catalog, translators, and a host of other activities designed to attract the buyer to your display.

U.S. Trade Centers are complete with exhibition halls, visitor lounges, telephones, exhibition booths, a permanent staff and other facilities required for a successful exhibition. All exhibitions are backed by in-depth market research provided in advance to the exhibitor for each of the six to eight exhibitions held annually.

International Marketing Centers stage small exhibitions and organize U.S. Pavilions in large international fairs located in the host country or in neighboring countries. Trade Centers and International Marketing Centers are located in Sydney, São Paulo, Paris, Cologne, Tehran, Milan, Tokyo, Seoul, Mexico City, Singapore, Taipei, London, Warsaw and Moscow.

A special exhibition facility in Caracas, Venezuela stages four exhibitions annually. These product-oriented exhibitions are planned to take advantage of the rapidly expanding petroleum-based economy. Other single country exhibitions are held in individual countries as special marketing opportunities arise.

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Private companies may also enter any of the 600 fairs held around the world by governments, industries and associations. A list of the major international fairs is published annually in *Commerce America*, available from your Commerce District Office.

Publications

The Department of Commerce produces many valuable publications that keep the reader informed on international business developments and help in the investigation of market potentials. Among them are the following:

Commerce America is a biweekly subscription magazine which contains information and reports about various international markets and economic situations abroad as well as news of specific sales opportunities. Sample copies may be obtained free from District Offices.

Commerce Business Daily is a daily synopsis of U.S. Government procurement invitations, subcontracting leads, contract awards, sales of surplus property, and foreign business opportunities.

Overseas Business Reports examine the marketing factors, trade regulations, basic economic data, selling practices, and market profiles of individual countries.

Foreign Economic Trends and Their Implications for the United States are individual country reports, prepared each year by U.S. commercial officers abroad. They give current business conditions, current and near-term prospects, and latest data on growth and buying patterns.

Global Market Surveys are a compilation of country market summaries indicating sales potential of a specific Target Industry's products in a number of growth markets. Among the **Global Market Surveys** now available are: Communications Equipment and Systems; Building Products and Construction Equipment; Medical Equipment; Computers and Peripheral Equipment; and Graphic Industries Equipment.

Market Share Reports contain the latest five-year spread of statistical data on imports of over 1,000 commodities by 88 countries, and show the U.S. share of the market for some 880 commodities in major overseas markets.

Foreign Market Reports are a subject and country listing of Foreign Service reports covering economic, trade, marketing, market research, selected industrial sectors and commodity reports.

In addition, the Department publishes special brochures, such as *U.S. Trade Center Facilities Abroad*, *a Guide to Financing Exports*, *The EMC—Your Export Department*, *A Basic Guide to Exporting*, and *Business Services Checklist*. Information regarding the source and cost of all of the above publications is available from your local Commerce District Office.

Department of Commerce District Offices

The Department of Commerce operates 43 District Offices, (Appendix A) all of which are equipped to provide international trade assistance to small and minority firms. A wide variety of export promotion programs are available on the local level in addition to detailed economic and marketing data con-

cerning overseas opportunities. District Office personnel are available for in-depth counseling and will assist firms in developing an international marketing plan or strategy. An extensive library of international marketing material is maintained in each District Office.

In selected District Offices, the Export Assistance Masters Program (TEAM) is in operation. This technique provides a qualified university or college graduate student in international marketing with an opportunity to assist small firms develop their export business. The market research is accomplished in consort with the firm and the local Commerce District Office where a substantial amount of the source documents are maintained. Upon completion the export marketing plan is presented to the firm.

The Department's Washington offices are in a position to augment the local office by providing technical information concerning specific products and markets and in responding to export administration matters on behalf of small business firms.

Commerce Department Offices conduct export seminars or workshops designed to assist small and minority business firms develop overseas markets. These seminars are sponsored jointly by SBA, local world trade clubs, banks and the respective District Export Council. Those firms interested in attending an export seminar or workshop are requested to contact the nearest Department of Commerce District Office for complete details concerning dates and location.

East-West Trade Assistance

The Bureau of East-West Trade promotes and assists the orderly development of trade between the United States and the USSR, the countries of Eastern Europe, and the People's Republic of China.

The Bureau provides U.S. firms which are doing or planning on doing business in these countries with information and advice on business practices including information on contracts, negotiating tactics likely to be used, possible contract clauses and alternate financing arrangements.

The Bureau also administers trade promotion facilities in Moscow and Warsaw, sponsors participation by U.S. firms in trade fairs and exhibitions in Eastern Europe and the USSR, and sends technical sales seminars to those countries. Further information can be obtained from the Trade Development Assistance Division, Bureau of East-West Trade, Industry and Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230

Export Licensing Requirements

The Export Administration Act of 1969 (as amended) requires the President to control exports to the extent necessary to protect the national security, promote foreign policy, and conserve stocks of short-supply commodities. At the present time, a license document is required for a very small proportion of U.S. exports (probably less than 10 percent). It is unlikely, therefore, that most exporters will have to apply for an export license unless they are shipping a strategic commodity or trading with a country toward which the United States has some restrictions for foreign policy reasons. Various commodities fall under short-supply control from time to time, but such controls are lifted upon restoration of a reasonable balance of supply.

Department of Commerce District Offices or the Office of Export Administration in Washington will furnish details on request.

Using Foreign Trade Zones

Exporters should consider using the customs privileges of U.S. foreign trade zones, which are domestic locations considered outside customs territory. These areas are for the benefit of activities that might otherwise be carried on overseas for customs reasons. For purely export operations, foreign trade zones provide accelerated export status for purposes of excise tax rebates and customs drawback.

On the import and re-export side, no duties are charged on foreign goods moved into the zones unless and until they are moved into customs territory. This means the use of the zones can be considered for operations involving foreign dutiable materials and components being assembled or produced here for re-export. Also, in such cases no quota restrictions would ordinarily apply.

The facilities are available for storage, repacking, inspection, exhibition, assembly, manufacturing, and other processing. Information on Foreign Trade Zones may be obtained from the Executive Secretary of the Foreign Trade Zone Board, U.S. Department of Commerce, Washington, D.C. 20230, or from Commerce District Offices.

Business Counseling Service

Businesspeople may receive personal counseling from any of the 43 District Offices or from the Department of Commerce in Washington. After consulting with District Office personnel, appointments, if desired, can be scheduled in Washington with the Department's country and commodity experts to furnish additional information about economic trends, markets for specific products, basic data, and other information that will help determine the best overseas markets for each company's products.

Office of Minority Business Enterprise

The Department of Commerce Office of Minority Business Enterprise (OMBE) in conjunction with ITA has initiated a program to assist minority-owned firms manufacturing exportable products or technical services which have an export capability to enter the export market.

The program links OMBE with ITA's Bureau of Export Development and Bureau of Field Operations, which share responsibilities in a wide variety of Commerce's export promotion activities. These range from relaying trade opportunities to manufacturers in their home-town offices to staging overseas exhibitions of U.S. products. Under the terms of the program, OMBE provides ITA with a list of minority firms that export or are interested in exporting. ITA categorizes the firms by product and Standard Industrial Classification and Commerce District Office personnel conduct site visits to explore the firm's export potential.

The program includes seminars and workshops on exporting; individual consultations by Commerce District Office trade specialists; dissemination of overseas market research findings and specific foreign trade leads; help in securing export financing and obtaining overseas agents and distributors; and participation in Commerce-sponsored trade promotion events abroad. A list of OMBE Regional Offices is included in Appendix B.



U.S. SMALL BUSINESS ADMINISTRATION

To assist small businesses to enter the field of international trade, the U.S. Small Business Administration offers various programs and services through its field offices listed in Appendix C. Prospective small exporters can be helped to explore their overseas opportunities and determine their particular needs. Those current small exporters wishing to expand their international marketing operations can also be assisted through programs of management and technical assistance. The extent to which such services are available will vary from SBA office to SBA office. Financial assistance to current or prospective exporters may also be available, primarily through Agency guaranty loan programs. However, SBA financial assistance cannot be used to establish or expand a business located outside the United States.

Export Counseling Services

Various resources are available from SBA field offices which can provide export counseling to potential and current small business exporters. These services are available at no cost to eligible recipients and may include any or all of the following.

Members of the Service Corps of Retired Executives (SCORE) and the **Active Corps of Executives (ACE)** who have had many years of practical experience in international trade are available to help the small business entrepreneur make a preliminary assessment of his/her export potential. Since a basic requirement for successful overseas sales is a strong domestic business operation, these volunteers can first help a small business client identify any present managerial, financial or technical problems which must initially be solved. Among these areas of concern are adequate recordkeeping, cash flow requirements, production scheduling, and credit and collection practices.

As in any domestic business operation, proper planning is necessary for exporting success. SCORE and ACE volunteers can assist the small client in developing a basic Export Marketing Plan. This can include identification of products most appropriate for export, where the best markets for these products exist, and the best way to sell these products abroad. Together, the volunteer counselor and the owner/manager can identify and analyze relevant government statistical information and industry and trade association data. For more specific in-depth information on transportation, advertising and promotion, pricing and financing, the Export Marketing Plan will suggest appropriate government and private sector sources. The SCORE and ACE volunteers will share their years of experience in international trade with the small business clients as they begin to implement their Export Marketing Plan.

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The Small Business Institute (SBI) program makes senior and graduate level students of international business available through many SBA District Offices to provide additional overseas marketing information to small businesses. Under this program, students from over 450 colleges and universities are participating with the SBA to provide more in-depth and long-term counseling to small businesses in their areas. At various **Small Business Development Centers (SBDC's)** located within certain state colleges and private universities, additional export counseling and assistance is offered through their International Trade Centers.

These college and university students can, under faculty guidance and supervision, provide technical help by developing an export marketing feasibility study and analysis for their "client" firms. Based upon the Export Marketing Plan, specific country location, potential overseas demand, channels of distribution, marketing techniques and financing procedures and programs can be identified for the individual client. With this information, the small or minority businessperson can make a well-reasoned decision as to his or her international marketing opportunities.

SBA's **Call Contract Program**, which utilizes professional management and technical consultants, is a third SBA counseling resource. In some cases, due to the nature of their products and production capabilities, some small or minority businesses will require highly sophisticated marketing information and production technology to identify and service overseas markets. Such specialized export assistance may be provided at no cost to an eligible client through this program.

Since the availability of these counseling services will vary, more specific information should be requested from the local SBA District Office or from the Office of International Trade, Small Business Administration, Washington, D.C. 20416.

Export Workshops and Training Programs

Export workshops are conducted periodically in cities across the country under the co-sponsorship of SBA District Offices, the U.S. Department of Commerce, and other agencies and institutions concerned with international trade development. Interested small manufacturers and suppliers should contact their local offices for specific times and places. The workshops, which vary from one-day introductory export overviews, to multi-session "how to" programs, to specialized "one-subject" seminars, are conducted by seasoned exporters and knowledgeable international traders. They will explain and discuss the procedures and techniques involved in exporting from identifying overseas markets to ensuring that payment for exported goods and services is received. Participants are encouraged to ask questions of the experts and to share their experiences with the other attendees. Emphasis is on the practical application of successful exporting procedures to small business. These programs are designed to be of assistance to both current and prospective small exporters.

Financial Assistance to Exporters

All aspects of the SBA's financial assistance programs are delegated to the local field offices and are administered by each office's Financing Division. While the SBA does not have a specific program for export-oriented lending, the Agency is eager to promote small business participation in international trade. During FY 1979, for example, the SBA will be reordering its lending priorities in order to provide up

to \$100 million of its loan guaranty authority for the use of small businesses in export-oriented activities. As the SBA is restricted in its financial assistance programs to providing loans and loan guarantees to firms located in the United States, its possessions and territories, the Agency is unable to provide financial assistance for the establishment of overseas joint ventures.

By law, the Agency cannot make a loan if a business is able to obtain funds from a bank or other private financial institution. It is necessary, therefore, that each prospective applicant examine his or her own resources prior to applying for SBA financial assistance. The SBA, like all lending institutions, has certain credit requirements that all applicants must meet. Under the Agency's regular Business Loan Program all loans made must be of such sound value or so secured as reasonably to assure repayment. In effect, this means that each applicant must have a reasonable equity investment, adequate collateral, and be able to furnish evidence of the ability to repay the loan and other outstanding debts from the earnings of the firm.

It should be noted that the supply of direct SBA loan funds is very limited. For many years, the SBA has emphasized bank participation and SBA guaranty authority. In fact, over 90 percent of the Agency's regular business loans are made under the guaranty plan. This plan provides for an SBA guarantee of up to 90 percent of the loan amount or \$500,000, whichever is lesser.

Funds may be used to purchase machinery, equipment, facilities, supplies, or materials needed to manufacture or sell products overseas, as well as for working capital. Working capital loans may be used to defray the costs of developing or penetrating foreign markets. Specifically, this can include costs for professional foreign marketing advice and services, foreign business travel, shipping sample merchandise abroad, shopping foreign markets, participation in overseas trade center shows and international fairs, foreign advertising and preparation of promotional materials, and other related purposes.

In addition, through its Guaranty Loan Program, SBA can assist a commercial bank in providing short-term working capital to a manufacturer for the additional labor or materials required to perform a specific already secured export sales contract. This contract should be covered by a Foreign Credit Insurance Association Policy (see p. 22) held by the exporter or the commercial bank.

As the individual private lending institution will be analyzing loan requests under the Guaranty Program according to its own credit policies and requirements, a well-developed business proposal should be completed. Such proposals should, at minimum, include the following:

- current and historic financial statements,
- descriptions of the use of the proceeds of the loan,
- projected earnings statements which include the increased debt service, and
- supporting documentation upon which expanded revenues are based.

It would also be helpful to have information on the amount and types of collateral, financial statements of the principals of the business, and past experience in the field, if any. The information needs of private financial institutions do, of course, vary; thus, each applicant should be aware that additional data may be required.

Should the bank or private lending institution request that

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the SBA participate in the financing through its guaranty plan, then it may need further information. However, the processing of the application will remain within the purview of the private institution which will work directly with the SBA in this matter.

For more specific information on the SBA's financial assistance programs, policies, and requirements, contact the nearest SBA field office.

Publications

The SBA publishes a booklet entitled "Export Marketing for Smaller Firms." Written specifically for small business owner-managers, it outlines the sequence of steps necessary to determine whether and how to utilize foreign markets as a source of immediate and future profits.

It describes the problems facing smaller firms engaged in, or seeking to enter, international trade and the many types of assistance available to help them cope with problems which may arise. The booklet also provides a step-by-step guide to the appraisal of the sales potential of foreign markets and to an understanding of the requirements of local business practices and procedures in those overseas markets. This booklet is available for purchase from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.



EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import Bank of the United States (Eximbank) is a financially self-sustaining independent U.S. Government agency. Its primary purpose is to facilitate the export of U.S. goods and services. This is accomplished through a variety of financing programs, several being particularly well suited for use by small exporters.

The need for export financing to be competitive in foreign markets is an established fact of business life. Often the availability of credit can be as important as pricing in penetrating an overseas market, particularly in many of the lesser developed countries. The natural reluctance of U.S. banks and exporters to extend credit to unknown foreign buyers in developing markets can be largely overcome through the protection offered by Eximbank programs.

Eximbank-supported financing is a natural extension of domestic financing and marketing operations, and it is a complementary marketing tool to those offered by other U.S. Government agencies. For example, Small Business Administration (SBA) financing support (see previous section) can be used to expand a company's production facilities to meet foreign demand. It can also be used to finance basic overseas market development costs and to purchase materials and labor required to perform an export sales contract. SBA financing programs can be used to assist the small exporter up to the point that Eximbank financing programs are needed to support qualified export sales.

Similarly, the eventual establishment of a strong sales network overseas often leads to investment in selected markets. Once a company has successfully set up a marketing operation in a country, it might decide to invest in assembly and warehousing operations here—in order to obtain lower shipping and tariff costs—and to expand sales through a local partner. In such situations, Eximbank will work in close partnership with Overseas Private Investment Corporation (OPIC) to put together an appropriate export and investment financing package (see next section).

Small Business Advisory Service

To encourage smaller export firms, Eximbank maintains a Small Business Advisory Service to provide information on the availability and use of export credit insurance, guarantees, discount loans, and foreign bank credits supporting the sale of U.S. goods and services abroad. Direct telephone inquiries are welcome. The Small Business Advisory Service can be reached at (202) 566-8990.

Briefing Programs

Eximbank offers a regular Briefing Program which is open to representatives from the small business and banking communities. Conducted on a weekly basis at the Bank headquarters in Washington, D.C., the program includes

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both group briefings and one-on-one discussions about direct application of Eximbank programs. In addition to the briefings conducted at the Bank, Eximbank officers regularly meet with groups and individual business people when travelling throughout the country. To obtain additional information on the briefing program and scheduled travel of Eximbank officers, write the Office of Public Affairs or telephone (202) 566-8990.

Financial Support Programs

Each of Eximbank's financing programs is available for use by any U.S. firm, regardless of size. Better known than most is the Direct Lending Program which is designed to provide long term financing for large industrial projects or multi-million dollar product sales. Small suppliers often benefit from subcontracts in these sales, but they seldom are involved as primary suppliers.

The following programs, however, can directly benefit small business exporters. They account for a large percentage of the export transactions supported by Eximbank each year. More than 50 percent of the authorizations under these programs support exports sales of \$200,000 or less. All of the Eximbank financing programs involve the active credit participation of U.S. foreign commercial banks.

The Export Credit Insurance Program insures exporters against losses caused by specified commercial and political risks. It is operated in cooperation with and administered by the Foreign Credit Insurance Association (FCIA), an association of 50 private U.S. insurance companies. Any exporter can apply for export credit insurance through either a national insurance broker or any one of the seven FCIA regional offices listed in Appendix F.

FCIA Insurance coverage can do the following:

- protect the exporter against the failure of foreign buyers to pay their obligations for commercial or political reasons;
- encourage exporters to offer foreign buyers competitive terms of payment;
- support an exporter's prudent sales plan in higher risk foreign markets; and
- give exporters and their banks greater financial flexibility in handling overseas accounts receivable.

A variety of policies are offered which are intended to assist businesses in meeting their export requirements. The two types of risks covered are (1) commercial risks (i.e., insolvency of foreign buyer, protracted default) which are usually covered up to 90 percent of the financed portion; and (2) political risks beyond the control of either buyer or seller (i.e., war, revolution, revocation of import licenses, expropriation etc.), covered usually up to 95 percent for short-term sales and 90 percent for medium-term sales dependent upon country and commercial conditions. Terms of coverage range from short-term (up to 180 days) to medium-term (181 days to 5 years), or combinations of the two.

The Short-Term Comprehensive Policy, providing up to 180 days of commercial and political risk coverage, is generally regarded as the most useful insurance program for the small exporter. These policies can be held by individual exporters, by national or regional commercial banks which combine a number of their clients' export transactions into a larger package for insurance purposes, and by trading companies and commercial credit agencies.

The use of bank short-term policies can be particularly

important to the small business which does not wish to carry its own policy. Coverage under a bank policy offers relief to the small business from administering its own insurance coverage.

The short-term policy provides a blanket type of coverage and requires the exporter to insure all, or at least a reasonable spread, of its short-term export sales.

Comprehensive coverage applies to both commercial credit risks and political risks on sales which are made on terms of up to 180 days. Each policy has an aggregate limit and usually a moderate discretionary credit limit. Normally, a commercial risk deductible provision is included, similar to that found in the standard home or automobile insurance policy. Under certain conditions, short-term coverage may be issued for political risks only with coverage up to 90 percent of invoice value.

Small Business Short Term Comprehensive Insurance Policy

Eximbank and FCIA are offering a new short-term insurance policy specifically to meet the requirements of small business exporters. The policy is available to firms with a net worth of \$2 million or less and average annual export sales during the preceding two years of \$350,000 or less, and which have not previously used Eximbank or FCIA programs either directly or indirectly. The special coverage will be provided for a two year period, after which the company should have sufficient experience to utilize the standard FCIA programs.

Under the small business policy, Eximbank and FCIA will cover 100 percent of the political risk and 95 percent of the commercial risk involved in the financed portion of the transaction. The policy frees the smaller exporter from the "first loss" risk provisions which are found in the regular policies. This special policy is offered to qualified small exporters at the same basic cost as regular insurance coverage.

A Medium-Term Policy provides coverage for extended terms of 181 days to 5 years. Coverage of this term is usually required for sales of U.S. capital and quasi-capital equipment to foreign buyers. One of the chief differences between short-term and medium-term financing requirements is that the foreign buyer must make a minimum down payment of 15 percent of contract value before credit risk coverage can be applied. The remaining risk is then spread among the exporter, the commercial bank and Eximbank/FCIA with the latter taking the greater portion.

The ***Combination Policy*** (short and medium term) affords protection to U.S. exporters who sell their goods through overseas dealers and distributors. It covers:

- The shipment of parts and accessories on terms up to 180 days;
- Inventory financing, where the exporter may ship goods under a "floor planning" arrangement (i.e., selling out of a standard inventory level) with initial coverage up to 270 days; and
- Receivable financing, with terms up to three years.

The ***Master Policy*** is structured to support exporters who may be shipping a variety of products to a number of different markets. It covers all—or a reasonable spread—of an exporter's eligible export sales, both short and medium term, made during a one-year period. It offers lower premiums, independent credit decisions by the exporters, and faster delivery of services to overseas buyers.

The Commercial Bank Exporter Guarantee Program

Similar to the medium-term insurance policy, the Guarantee facility covers direct sale of U.S. capital and quasi-capital goods to foreign buyers. In contrast to the insurance program, however, the Guarantee program is operated through a direct network of U.S. commercial banks. Over 280 national and regional banks participate in this program, guaranteeing transactions which currently have a median contract value of approximately \$180,000.

To use this program, the small exporter would apply to its bank for financing of overseas sales. The bank in turn would apply to Eximbank for Guarantee coverage of the commercial and political risks involved in extending credit to designated overseas buyers.

The advantage of this program to the small exporter is that the commercial bank administers the coverage, thereby relieving the exporter of a large portion of the paperwork.

The Small Business Guarantee Program

Similar to the coverage offered under the small business insurance policy, Eximbank will cover 100% of the political risk and 95% of the commercial risk involved in the financed portions for medium-term sales. These guarantees, which came into effect July 1, 1978, are offered to eligible small business exporters at the same rates as regular guarantee coverage to established exporters. Eximbank made a series of administrative modifications to its guarantee program in mid-1978, which should make the program appeal to a broader range of banks by providing sufficient incentives for those banks to finance small business transactions.

The Cooperative Financing Facility

The *Cooperative Financing Facility (CFF)* helps make credit available to small and medium-size foreign buyers of U.S. goods and services, through banks in their own countries. The CFF is a line of credit extended from Eximbank to foreign banks for the purpose of financing 42.5 percent of local buyers' purchases of U.S. capital equipment, quasi-capital equipment and services. A 15 percent cash payment is required and the other 42.5 percent is provided from the local banks' own resources or other borrowings at market rates of interest.

An advantage of this program for small U.S. exporters is that they can inform foreign customers of the CFF lines being extended to their own local banks. At that point, the small exporter can leave the financing arrangements to the individual buyers and their banks. The local CFF bank would be expected to be familiar with the customer's credit standing and market conditions, enabling it to reach a decision quickly on a credit request. Over one half of CFF loan authorizations approved yearly are for less than \$100,000.

As of mid-1978, Eximbank had 95 CFF lines of credit in 28 foreign markets, primarily those designated as "developing countries."

Discount Loan Program

Under the *Discount Loan Program*, Eximbank will agree to buy eligible fixed-rate medium-term export debt obligations from U.S. commercial banks. With this assurance, Eximbank has given tangible support to banks—particularly the smaller ones—which offer fixed-rate loans in the medium-term area.

Optional Coverages

In mid-1978, Eximbank initiated a "Switch Cover Option" for its Medium-Term Insurance, Bank Guarantee, Discount Loan, and CFF programs. This option was designed to assist U.S. exporters selling through distributors and dealers overseas. Under the option, eligible U.S. equipment which has been exported to a dealer under a floor-planning scheme, could be insured, guaranteed or financed under the name of the ultimate end user if he/she is found to be creditworthy. Extension of the switch cover option is made on a case-by-case basis depending upon the distributor, the products and usage.

The Small and Minority Bank Pilot Project

Eximbank began in mid-1978 a new pilot program to bring a selected number of qualified small and minority banks into its regular financing network. The program incorporates extensive training of the participating bank lending officers both in Washington and with larger sponsoring commercial banks throughout the country. As part of the program, Eximbank officers provide direct counseling to the lending officers and their local business clients.

Application Process

The first step small exporters should take in exploring the availability of export financing is to contact their own bank. If it is one of the larger regional banks, it may have its own international department or at least a loan officer responsible for handling foreign transactions. If it is a smaller bank, or one not yet involved in international trade, it will have a correspondent relationship with one or more banks experienced in the international area. In either case, the bank should be able to assist its client in the initial steps necessary to set up an export financing program.

When an exporter's bank is not conversant with international financing, or unable to provide assistance through correspondent banks, the exporter should directly contact Eximbank's Small Business Advisory Service for advice in determining sources and availability of financing. Alternate sources of information on Eximbank/FCIA export financing programs can be obtained from the nearest FCIA regional office or the field offices of the U.S. Department of Commerce or the U.S. Small Business Administration.

Inquiries for further information on the Export-Import Bank of the United States should be directed to:

Office of Public Affairs
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571
(202) 566-8990



OVERSEAS PRIVATE INVESTMENT CORPORATION

The U.S. Government, through the Overseas Private Investment Corporation (OPIC), is prepared to offer qualified U.S. businesses appropriate guidance, counseling, and financial support in determining how and where to invest in undeveloped countries. Insurance protection and financial services are also available during project development and operation. OPIC is the agency through which the Federal Government encourages and assists U.S. private overseas investments, including, in some circumstances, distributorships owned by U.S. manufacturers which are consistent with both the United States and the developing nations' economic interests. The agency places special emphasis on projects sponsored by small and medium-sized American business investors.

OPIC is an independent, financially self-sustaining agency of the U.S. Government, and its contracts are backed by the full faith and credit of the United States. Its two principal operating units are the Insurance and Finance Departments, organized primarily along regional geographic lines. Within each department an officer is assigned specifically to assist small and minority U.S. companies. OPIC's only office is in Washington, D.C.; however, its staff works closely with U.S. Embassy economic and commercial officers abroad.

All applications for OPIC insurance or financing are carefully reviewed to assure their consistency with host country aims and U.S. foreign economic policy. Approved projects must offer potential benefit to the host country in such areas as job creation, skills training, import savings, export earnings, and tax revenues. They also are reviewed to assure that the United States gains net benefits in expanded trade, employment, access to needed materials, and investor earnings.

For OPIC purposes, an eligible U.S. investor, project sponsor or lender is a U.S. citizen, a U.S. entity at least 50 percent beneficially owned by U.S. citizens, corporations or partnerships, or a foreign firm at least 95 percent owned by U.S. citizens or firms.

Opportunity Identification and Evaluation

Two of the most difficult problems facing the potential investor abroad are: (1) evaluation of the investment climate and (2) identification of potential investment opportunities.

In an effort to broaden its facilities for identifying and publicizing appropriate investment opportunities, OPIC has introduced a new approach to country studies and project identification.

Target Missions

Target missions are conducted with on-the-spot studies by OPIC officials in selected countries. These are followed by investor identification and project brokering in the United States designed to match potential projects with qualified

investors. OPIC then organizes group visits by U.S. business executives to selected countries. There they meet host country officials, local business persons and U.S. embassy personnel, and review areas of investment opportunity. These missions have been received enthusiastically by medium and smaller-size companies.

Feasibility Studies

On a selective basis, OPIC can also enter into cost-sharing arrangements with a U.S. firm to investigate and study the feasibility of an opportunity which that firm has identified through its own resources. To encourage investment in poor countries, feasibility study funds are available to companies of specific size* in host countries having a specified per capita income*. However, smaller U.S. firms are eligible for feasibility survey assistance in all countries in which OPIC operates. To receive such assistance, the U.S. firm must have a sound operating record, and demonstrate that it has the managerial, technical and financial competence to implement the project if it proves feasible.

The maximum OPIC participation is \$50,000 or up to 75 percent of the total eligible costs of the study as formally budgeted and agreed upon by the firm and OPIC, whichever is less. If a project results from the study, the costs of the study are expected to be capitalized as part of the overall project costs. If a decision not to invest is reached, OPIC will reimburse the sponsor for that portion agreed upon.

Insurance Protection

OPIC's political risk insurance is often an important factor in an investor's decision to commit funds to projects in developing nations, and to a financial institution's participation in project financing.

OPIC provides three types of insurance protection to cover the risks of (1) currency inconvertibility, (2) expropriation, and (3) loss or damage caused by war, revolution, or insurrection.

Coverage extends to 90 percent of an investor's equity, debt or other form of exposure. Typical insurance contracts run up to 20 years at a combined annual premium of 1-1/2 percent for all three coverages, although in most cases any one or a combination of the three coverages may be taken. OPIC insures new investment or the significant expansion or modernization of an existing enterprise. In all cases, foreign government approval is a prerequisite to OPIC insurance.

Project Financing

As a source of medium and long-term funds for project financing in countries where conventional financial institutions are often reluctant or unable to lend on such a basis, OPIC can provide a portion of a project's debt requirements. OPIC's financing commitment in a new venture is usually 35 to 45 percent of total project costs. It cannot exceed 50 percent.

OPIC participates in project financing through:

- Loans from its Direct Investment Fund, generally ranging from \$200,000 to \$3 million, repayable over a term from 5 to 12 years following a suitable grace period, with interest rates depending on OPIC's assessment of the financial and political risks involved;

*Current figures available from OPIC

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- Guarantees of loans made by private U.S. financial institutions from \$2 to \$25 million.
- A combination of these financing instruments.

In all cases, the project must be commercially and financially sound. It must be within the demonstrated competence of the proposed management and the U.S. investor, who must have a proven record of success in the particular business as well as a significant financial risk in the enterprise. The project must be approved by the host country.

OPIC encourages joint ventures between local citizens and U.S. firms. However, in projects involving OPIC financing, U.S. investors must own at least 25 percent of the voting shares or equivalent risk-taking interest and the U.S. sponsor is expected to have a continuing management role. (There is no minimum U.S. equity participation required in connection with OPIC insurance protection.)

Special Assistance for Small Business

The 1978 amendments to OPIC's charter call for preferential measures to encourage investment by U.S. small and medium-sized companies interested in the growing market potential of the developing nations.

Consistent with this mandate, OPIC provides several specific services to smaller U.S. companies, defined as those not ranked in the "Fortune 1000", that are not available to larger companies. These include a reduced insurance registration fee, OPIC payment for the services of licensed insurance brokers to smaller companies in obtaining OPIC insurance, grants for certain project reconnaissance travel, expanded funding of up to 75% of agreed costs of feasibility studies, assumption by OPIC of certain legal or consultant's fees incurred in establishing or operating a project, assistance in setting up financial controls, and support of private U.S. voluntary organizations and cooperatives in developing small-scale private enterprises. (Call 1-800-424-OPIC).

Application Process

In all cases, to be eligible for OPIC services, investors should contact OPIC early in the planning stages so they can become familiar with initial project design. In order for an investment to be eligible for insurance, the investor must obtain a Registration Notice from OPIC before the investment is made or irrevocably committed to the project.

A Typical OPIC Project

Haiti

A \$300,000 loan will provide debt financing for the expansion of this high-quality office furniture manufacturer's facilities in Port-au-Prince and Jacmel.

With a per capita income of \$130, Haiti ranks as the least developed country in the Western Hemisphere, and this project will create an estimated 400 jobs, the equivalent of one job for each \$750 of OPIC investment. Equally important is the nature of the jobs, in that employees will be able to use traditional skills in which they take justifiable pride.

Handicrafts in developing countries represent a largely untapped skill, and in Haiti, as throughout the Caribbean, the primary outlet for traditional crafts is in producing souvenirs for tourists. This project will make use of traditional weaving skills in the production of high-quality office furniture which will expand the market and dramatize the quality and originality of the native crafts. In addition, the project will enable a small U.S. business to strengthen its market position.

The project is also insured by OPIC.

For further information, call 1-800-424-OPIC.

Appendix A

U.S. Department of Commerce District Office Directory

INDUSTRY AND TRADE ADMINISTRATION

ALABAMA

Birmingham—Gayle C. Shelton, Jr., Director, Suite 200-201, 908 South 20th Street, 35205, Area Code 205 Tel 254-1331

ALASKA

Anchorage—Sara L. Haslett, Director 412 Hill Building, 632 Sixth Avenue 99501, Area Code 907 Tel 265-5307

ARIZONA

Phoenix—Donald W. Fry, Director, Suite 2950 Valley Bank Center, 201 North Central Avenue 85073, Area Code 602 Tel 261-3285

ARKANSAS

•**Little Rock (Dallas, Texas District)**—1100 North University, Suite 109 72207, Area Code 501 Tel 378-5157

CALIFORNIA

Los Angeles—Eric C. Silberstein, Director, Room 800, 11777 San Vicente Boulevard 90049, Area Code 213 Tel 324-7591

•**San Diego**—233 A Street, Suite 310 92101, Area Code 714 Tel 293-5395

San Francisco—Philip M. Creighton, Director, Federal Building, Box 36013, 450 Golden Gate Avenue 94102, Area Code 415 Tel 556-5860

COLORADO

Denver—Norman Lawson, Director, Room 165, New Customhouse, 19th & Stout Street 80202, Area Code 303 Tel 837-3246

CONNECTICUT

Hartford—Richard C. Kilbourn, Director, Room 810-B, Federal Office Building, 450 Main Street 06103, Area Code 203 Tel 244-3530

FLORIDA

Miami—Roger J. LaRoche, Director, Room 821, City National Bank Building, 25 West Flagler Street 33130, Area Code 305 Tel 350-5267

•**Clearwater**—128 North Osceola Avenue 33515, Area Code 813 Tel 446-4081

•**Jacksonville**—815 S. Main Street, Suite 100, 32207, Area Code 904 Tel 791-2796

•**Tallahassee**—Collins Bldg., Rm. G-20 32304, Area Code 904 Tel 488-6469

GEORGIA

Atlanta—David S. Williamson, Director, Suite 600, 1365 Peachtree Street, N.E. 30309, Area Code 404 Tel 881-7000

•DENOTES TRADE SPECIALIST

Savannah—James W. McIntire, Director, 222 U.S. Courthouse & P.O. Box 9746, 125-29 Bull Street 31402, Area Code 912 Tel 232-4321

HAWAII

Honolulu—John S. Davies, Director, 4103 Federal Building, P.O. Box 50026, 300 Ala Moana Boulevard, 96850, Area Code 808 Tel 546-8694

ILLINOIS

Chicago—Gerald M. Marks, Director, 1406 Mid Continental Plaza Building, 55 East Monroe Street 60603, Area Code 312 Tel 353-4450

INDIANA

Indianapolis—Mel R. Sherar, Director, 357 U.S. Courthouse & Federal Office Building, 46 East Ohio Street 46204, Area Code 317 Tel 269-6214

IOWA

Des Moines—Jesse N. Durden, Director, 817 Federal Building, 210 Walnut Street 50309, Area Code 515 Tel 284-4222

KENTUCKY

•**Frankfort (Memphis, Tennessee District)**—Capitol Plaza Office Tower, Room 2425, 40601, Area Code 502 Tel 875-4421

LOUISIANA

New Orleans—Edwin A. Leland, Jr., Director, 432 International Trade Mart, No. 2 Canal Street 70130, Area Code 504 Tel 589-6546

MAINE

•**Portland (Boston, Massachusetts District)**—Maine State Pier, 40 Commercial Street 04111, Area Code 207 Tel 773-5608

MARYLAND

Baltimore—Carroll F. Hopkins, Director, 415 U.S. Customhouse, Gay and Lombard Streets 21202, Area Code 301 Tel 962-3560

MASSACHUSETTS

Boston—Francis J. O'Connor, Director, 10th Floor, 441 Stuart Street 02116, Area Code 617 Tel 223-2312

MICHIGAN

Detroit—William L. Welch, Director, 445 Federal Building, 231 West Lafayette 48226, Area Code 313 Tel 226-3650

•**Grand Rapids**—350 Ottawa Street N.W. 49503, Area Code 616 Tel 456-2411/33

MINNESOTA

Minneapolis—Glenn A. Patton, Director, 218 Federal Building, 110 South Fourth Street 55401, Area Code 612 Tel 725-2133

MISSISSIPPI

•Jackson (Birmingham, Alabama District)—P.O. Box 849, 1202 Walter Sillers Building 39205, Area Code 601 Tel 969-4388

MISSOURI

St. Louis—Donald R. Loso, Director, 120 South Central Avenue 63105, Area Code 314 Tel 425-3302-4

•Kansas City—Room 1840, 601 East 12th Street 64106, Area Code 816 Tel 374-3142

MONTANA

•Butte (Cheyenne, Wyoming District)—225 S. Idaho Street, Room 101 P.O. Box 3809, 59701, Area Code 406 Tel 723-6561, Ext. 2317

NEBRASKA

Omaha—George H. Payne, Director, Capitol Plaza, Suite 703A, 1815 Capitol Avenue 68102, Area Code 402 Tel 221-3665

NEVADA

Reno—Joseph J. Jeremy, Director, 777 W. 2nd Street, Room 120, 89503, Area Code 702 Tel 784-5203

NEW JERSEY

Newark—Clifford R. Lincoln, Director, 4th Floor, Gateway Building, Market Street & Penn Plaza 07102, Area Code 201 Tel 645-6214

NEW MEXICO

Albuquerque—William E. Dwyer, Director, 505 Marquette Ave., NW, Suite 1015, 87102, Area Code 505 Tel 766-2386

NEW YORK

Buffalo—Robert F. Magee, Director, 1312 Federal Building, 111 West Huron Street 14202, Area Code 716 Tel 848-4191

New York—Arthur C. Rutzen, Director, Room 3718, Federal Office Building, 26 Federal Plaza, Foley Square 10007, Area Code 212 Tel 264-0634

NORTH CAROLINA

Greensboro—Joel B. New, Director, 203 Federal Building, West Market Street, P.O. Box 1950 27402, Area Code 919 Tel 378-5345

OHIO

Cincinnati—Gordon B. Thomas, Director, 10504 Federal Office Building, 550 Main Street 45202, Area Code 513 Tel 684-2944

Cleveland—Charles B. Stebbins, Director, Room 600, 666 Euclid Avenue 44114, Area Code 216 Tel 522-4750

OKLAHOMA

•Oklahoma City (Dallas, Texas District)—4020 Lincoln Boulevard 73105, Area Code 405 Tel 231-5302

OREGON

Portland—Lloyd R. Porter, Director, Room 618, 1220 S.W. 3rd Avenue 97204, Area Code 503 Tel 221-3001

PENNSYLVANIA

Philadelphia—Patrick P. McCabe, Director, 9448 Federal Building, 600 Arch Street 19106, Area Code 215 Tel 597-2850

Pittsburgh—William M. Bradley, Trade Specialist-in-Charge, 2002 Federal Building, 1000 Liberty Avenue 15222, Area Code 412 Tel 644-2850

PUERTO RICO

San Juan (Hato Rey)—Enrique Vilella, Director, Room 659-Federal Building 00918, Area Code 809 Tel 753-4555, Ext. 555

RHODE ISLAND

•Providence (Boston, Massachusetts District)—1 Weybossett Hill 02903, Area Code 401 Tel 277-2605, Ext. 22

SOUTH CAROLINA

Columbia—Philip A. Ouzts, Director, 2611 Forest Drive, Forest Center 29204, Area Code 803 Tel 765-5345

•Charleston—Suite 631, Federal Building, 334 Meeting Street 29403, Area Code 803 Tel 577-4361

TENNESSEE

Memphis—Bradford H. Rice, Director, Room 710, 147 Jefferson Avenue 38103, Area Code 901 Tel 521-3213

•Nashville—4014 Aberdeen Road, 37216, Area Code 615 Tel 297-5233

TEXAS

Dallas—C. Carmon Stiles, Director, Room 7A5, 1100 Commerce Street 75242 Area Code 214 Tel 749-1515

Houston—Felicito C. Guerrero, Director, 2625 Federal Bldg., Courthouse, 515 Rusk Street 77002, Area Code 713 Tel 226-4231

•San Antonio—University of Texas at San Antonio, Div. of Continuing Education 78285, Area Code 512 Tel 229-5875

UTAH

Salt Lake City—George M. Blessing, Jr., Director, 1203 Federal Building 125 South State Street 84138, Area Code 801 Tel 524-5116

VIRGINIA

Richmond—8010 Federal Building, 400 North 8th Street 23240, Area Code 804 Tel 782-2246

•Fairfax—8550 Arlington Blvd., 22031, Area Code 703 560-6460

•DENOTES TRADE SPECIALIST

WASHINGTON

Seattle—Judson S. Wonderly,
Director, Room 706, Lake Union
Building, 1700 Westlake Avenue
North 98109, Area Code 206 Tel
442-5615

WISCONSIN

Milwaukee—Russell H. Leitch,
Director, Federal Bldg/U.S. Court-
house, 517 East Wisconsin Ave-
nue 53202, Area Code 414 Tel
291-3473

WEST VIRGINIA

Charleston—Roger L. Fortner,
Director, 3000 New Federal Buil-
ding, 500 Quarrier Street 25301,
Area Code 304 Tel 343-6181, Ext.
375

WYOMING

Cheyenne—Lowell O. Burns, Di-
rector, 6022 O'Mahoney Federal
Center, 2120 Capitol Avenue
82001, Area Code 307 Tel 778-
2220, Ext. 2151

•DENOTES TRADE SPECIALIST

Appendix B**OMBE REGIONAL OFFICES**

Charles McMillan
Regional Director
Office of Minority Business Enterprise
U.S. Department of Commerce
1371 Peachtree Street, NE, Suite 505
Atlanta, Georgia 30309
404/881-5091

Henry Zuniga
Regional Director
Office of Minority Business Enterprise
U.S. Department of Commerce
1412 Main Street, Room 1702
Dallas, Texas 75202
214/749-7581

Ramon V. Romero
Regional Director
Office of Minority Business Enterprise
U.S. Department of Commerce
Federal Building, Room 15045
450 Golden Gate Avenue
San Francisco, California 94102
415/556-7234

Daniel V. Lemanski
Regional Director
Office of Minority Business Enterprise
U.S. Department of Commerce
55 East Monroe Street, Suite 1438
Chicago, Illinois 60603
312/353-8375

Newton S. Downing
Regional Director
Office of Minority Business Enterprise
U.S. Department of Commerce
Federal Office Building
28 Federal Plaza, Room 1307
New York, New York 10007
212/264-3262

Luis Encinas
Acting Regional Director
Office of Minority Business Enterprise
U.S. Department of Commerce
1730 K Street, NW Suite 420
Washington, D.C. 20006
202/634-7897

30

Appendix C

**U.S. SMALL BUSINESS
ADMINISTRATION**

1441 L Street, N.W.
Washington, D.C. 20416
202-653-6544

District Offices

ALABAMA

Birmingham
U.S. Small Business Admin.
908 S. 20th St., Suite 202
Birmingham, Alabama 35205
205-254-1344

ALASKA

Fairbanks
U.S. Small Business Admin.*
Federal Building & Courthouse
P.O. Box 14, 101 12th Ave.
Fairbanks, Alaska 99701
907-452-1951

ARIZONA

Phoenix
U.S. Small Business Admin.
112 North Central Avenue
Phoenix, Arizona 85004
602-261-3611

ARKANSAS

Little Rock
U.S. Small Business Admin.
611 Gaines St., Suite 800
Little Rock, Arkansas 72201
501-378-5871

CALIFORNIA

Fresno
U.S. Small Business Admin.*
1229 N Street
P.O. Box 828
Fresno, Calif. 93712
209-487-5000

Los Angeles
U.S. Small Business Admin.
350 S. Figueroa St., 6th Floor
Los Angeles, Calif. 90071
213-688-2356

Sacramento
U.S. Small Business Admin.*
2800 Cottage Way
Sacramento, Calif. 95825
916-484-4726

San Diego
U.S. Small Business Admin.
U.S. Federal Building,
Room 4-S-33
880 Front Street
San Diego, Calif. 92188
714-293-5446

San Francisco
U.S. Small Business Admin.
211 Main Street
Fourth Floor
San Francisco, Calif. 94105
415-556-7490

COLORADO

Denver
U.S. Small Business Admin.
721 19th St., Room 426A
Denver, Colo. 80202
303-837-0111

CONNECTICUT

Hartford
U.S. Small Business Admin.
One Financial Plaza
Hartford, Conn. 06103
203-244-3600

DELAWARE

Wilmington
U.S. Small Business Admin.*
844 King Street
Federal Building, Room 5207
Wilmington, Del. 19801
302-573-6294

DISTRICT OF COLUMBIA

U.S. Small Business Admin.
1030 15th St., N.W., Suite 250
Washington, D.C. 20417
202-655-4000

FLORIDA

Coral Gables
U.S. Small Business Admin.
2222 Ponce De Leon Blvd., 5th Fl.
Coral Gables, Fla. 33134
305-350-5521

Jacksonville
U.S. Small Business Admin.
Federal Building, Room 261
400 West Bay Street
Jacksonville, Fla. 32202
904-791-3782

Tampa
U.S. Small Business Admin.*
700 Twiggs Street, Room 607
Tampa, Fla. 33602
813-226-2594

GEORGIA

Atlanta
U.S. Small Business Admin.
1720 Peachtree St., N.W.
6th Floor
Atlanta, Ga. 30309
404-881-4325

GUAM

Agana
U.S. Small Business Admin.*
Pacific Daily News Building
Room 507
Agana, Guam 96910
671-477-8420

HAWAII

Honolulu
U.S. Small Business Admin.
300 Ala Moana Blvd.
P.O. Box 50207
Honolulu, Hawaii 96850
808-546-8950

IDAHO

Boise
U.S. Small Business Admin.
1005 Main St., 2nd Floor
Continental Life Building
Boise, Idaho 83702
208-384-1096

ILLINOIS

Chicago
U.S. Small Business Admin.
Federal Building, Room 437
219 S. Dearborn Street
Chicago, Ill. 60604
312-353-4528

Springfield
U.S. Small Business Admin.*
One North, Old State
Capitol Plaza
Springfield, Ill. 62701
217-525-4416

INDIANA

Indianapolis
U.S. Small Business Admin.
575 N. Pennsylvania St.
Room 522 New Federal Building
Indianapolis, Ind. 46204
317-269-7272

*Limited Assistance Available.

IOWA

Des Moines
U.S. Small Business Admin.
New Federal Bldg., Room 749
219 Walnut Street
Des Moines, Iowa 50309
515-284-4422

KANSAS

Wichita
U.S. Small Business Admin.
Main Place Building
110 East Waterman Street
Wichita, Kansas 67202
316-267-6311

KENTUCKY

Louisville
U.S. Small Business Admin.
600 Federal Place, Room 188
Louisville, Kentucky 40202
502-582-5971

LOUISIANA

New Orleans
U.S. Small Business Admin.
1001 Howard Avenue
Plaza Tower - 17th Floor
New Orleans, La. 70113
504-589-2611

Shreveport
U.S. Small Business Admin.*
U.S. P. O. & Courthouse Bldg.
500 Fannin Street
Shreveport, La. 71163
318-226-5196

MAINE

Augusta
U.S. Small Business Admin.
Federal Building, Room 512
40 Western Avenue
Augusta, Maine 04330
207-622-6171

MARYLAND

Towson
U.S. Small Business Admin.
Oxford Building
8600 LaSalle Rd., Room 630
Towson, Md. 21204
301-962-4392

MASSACHUSETTS

Boston
U.S. Small Business Admin.
150 Causeway St., 10th Floor
Boston, Mass. 02114
617-223-2100

Holyoke
U.S. Small Business Admin.*
302 High St., 4th Floor
Holyoke, Mass. 01040
413-536-8770

MICHIGAN

Detroit
U.S. Small Business Admin.
McNamara Building - Room 515
477 Michigan Avenue
Detroit, Mich. 48226
313-226-6075

Marquette
U.S. Small Business Admin.*
Don H. Bortum University Center
540 W. Kaye Avenue
Marquette, Mich. 49855
906-225-1108

MINNESOTA

Minneapolis
U.S. Small Business Admin.
Plymouth Building
12 South 6th Street
Minneapolis, Minn. 55402
612-725-2352

MISSISSIPPI

Biloxi
U.S. Small Business Admin.*
Gulf National Life Insur. Bldg.
111 Fred Haise Blvd., 2nd Floor
Biloxi, Miss. 39530
601-435-3676

Jackson
U.S. Small Business Admin.
Petroleum Building, Suite 690
200 E. Pascagoula St.
Jackson, Miss. 39201
601-969-4371

MISSOURI

Kansas City
U.S. Small Business Admin.
1150 Grand Avenue
5th Floor
Kansas City, Mo. 64106
816-374-3557

St. Louis
U.S. Small Business Admin.
One Mercantile Center,
Suite 2500
St. Louis, Mo. 63101
314-425-4191

MONTANA

Helena
U.S. Small Business Admin.
618 Helena Ave., Box 4819
Helena, Montana 59601
406-449-5051

NEBRASKA

Omaha
U.S. Small Business Admin.
Empire State Building
Nineteen and Farnam Streets
Omaha, Neb. 68102
402-221-4691

NEVADA

Las Vegas
U.S. Small Business Admin.
1012 E. Stewart - Box 7527
Las Vegas, Nevada 89101
702-385-6011

Reno
U.S. Small Business Admin.*
50 S. Virginia Street
Room 308
Reno, Nevada 89505
702-784-4477

NEW HAMPSHIRE

Concord
U.S. Small Business Admin.
55 Pleasant Street, Room 213
Concord, N.H. 03301
603-224-4041

NEW JERSEY

Newark
U.S. Small Business Admin.
970 Broad St., Room 1635
Newark, N.J. 07102
201-645-2434

NEW MEXICO

Albuquerque
U.S. Small Business Admin.
Patio Plaza Bldg., Room 373
5000 Marble Avenue, N.E.
Albuquerque, N.M. 87110
505-766-3430

NEW YORK

Albany
U.S. Small Business Admin.*
Twin Towers Bldg., Room 921
99 Washington Avenue
Albany, N.Y. 12210
518-472-6300

*Limited Assistance Available.

Buffalo

U.S. Small Business Admin.*
Federal Building, Room 1311
111 West Huron Street
Buffalo, N.Y. 14202
716-846-4301

Elmira

U.S. Small Business Admin.*
180 State Street, Room 412
Elmira, N.Y. 14901
607-773-4686

New York City

U.S. Small Business Admin.
Federal Office Bldg., Room 3100
26 Federal Plaza
New York, N.Y. 10007
212-264-4355

Rochester

U.S. Small Business Admin.*
Federal Building
100 State Street
Rochester, N.Y. 14614
716-263-6700

Syracuse

U.S. Small Business Admin.
Federal Building - Room 1073
100 South Clinton Street
Syracuse, N.Y. 13250
315-423-5370

NORTH CAROLINA**Charlotte**

U.S. Small Business Admin.
230 S. Tryon St., Suite 700
Charlotte, N.C. 28202
704-372-0711

Greenville

U.S. Small Business Admin.*
215 S. Evans Street, Room 206
Greenville, N.C. 27834
919-752-3798

NORTH DAKOTA**Fargo**

U.S. Small Business Admin.
Federal Building, Room 218
653 2nd Avenue, North
Fargo, N.D. 58102
701-237-5771

OHIO**Cincinnati**

U.S. Small Business Admin.
Federal Office Bldg., Room 5524
550 Main Street
Cincinnati, Ohio 45202
513-684-2814

Cleveland

U.S. Small Business Admin.
1240 East 9th St., Room 317
Cleveland, Ohio 44199
216-522-4180

Columbus

U.S. Small Business Admin.
Federal Bldg., U.S. Courthouse
85 Marconi Boulevard
Columbus, Ohio 43215
614-469-6860

OKLAHOMA**Oklahoma City**

U.S. Small Business Admin.
200 N.W. 5th St., Suite 670
Oklahoma City, Okla. 73102
405-231-4301

OREGON**Portland**

U.S. Small Business Admin.
1220 S.W. Third Ave., Fed. Bldg.
Portland, Oregon 97204
503-221-2682

PENNSYLVANIA**Bala Cynwyd**

U.S. Small Business Admin.
1 Bala Cynwyd Plaza, Suite 400
East Lobby - 231 St. Agaphs Rd.
Bala Cynwyd, Pa. 19004
215-697-3311

Harrisburg

U.S. Small Business Admin.*
1500 North 2nd Street
Harrisburg, Pa. 17102
717-782-3640

Pittsburgh

U.S. Small Business Admin.
Federal Building, Room 1401
1000 Liberty Avenue
Pittsburgh, Pa. 15222
412-644-2780

Wilkes-Barre

U.S. Small Business Admin.*
Penn Place
20 N. Pennsylvania Avenue
Wilkes-Barre, Pa. 18702
717-826-6497

PUERTO RICO**Hato Rey**

U.S. Small Business Admin.
Chardon and Bolivia Streets
Hato Rey, P.R. 00919
809-753-4216

RHODE ISLAND**Providence**

U.S. Small Business Admin.
57 Eddy Street, 7th Floor
Providence, R.I. 02903
401-526-4580

SOUTH CAROLINA**Columbia**

U.S. Small Business Admin.
1801 Assembly Street
Room 131
Columbia, S.C. 29201
803-765-5376

SOUTH DAKOTA**Rapid City**

U.S. Small Business Admin.*
Federal Building, Room 246
515 9th Street
Rapid City, S.D. 57701
605-343-5074

Sioux Falls

U.S. Small Business Admin.
National Bank Bldg., Room 402
8th & Main Avenue
Sioux Falls, S.D. 57102
605-336-2960

TENNESSEE**Knoxville**

U.S. Small Business Admin.*
Fidelity Bankers Bldg., Room 307
502 S. Gay Street
Knoxville, Tenn. 37902
615-637-9300

Memphis

U.S. Small Business Admin.*
Federal Building
167 North Main St., Room 211
Memphis, Tenn. 38103
901-521-3588

Nashville

U.S. Small Business Admin.
404 James Robertson Parkway
Suite 1012
Nashville, Tenn. 37219
615-251-5821

TEXAS

Corpus Christi
U.S. Small Business Admin.*
3105 Leopard Street
Corpus Christi, Tex. 78406
512-888-3011

Dallas
U.S. Small Business Admin.
1100 Commerce Street, Room 3C36
Dallas, Texas 75242
214-749-3961

El Paso
U.S. Small Business Admin.*
4100 Rio Bravo, Suite 300
El Paso, Texas 79901
915-543-7200

Harlingen
U.S. Small Business Admin.
222 East Van Buren Street
Harlingen, Texas 78550
512-423-8934

Houston
U.S. Small Business Admin.
One Allen Center, Suite 705
500 Dallas Street
Houston, Texas 77002
713-226-4343

Lubbock
U.S. Small Business Admin.
Federal Office Bldg. &
U.S. Courthouse, Room 712
1205 Texas Avenue
Lubbock, Texas 79401
806-762-7011

San Antonio
U.S. Small Business Admin.
727 E. Durango, Room A-513
Federal Building
San Antonio, Texas 78206
512-229-6250

UTAH

Salt Lake City
U.S. Small Business Admin.
Federal Building, Room 2237
125 South State Street
Salt Lake City, Utah 84138
801-524-5800

VERMONT

Montpelier
U.S. Small Business Admin.
Fed. Bldg., 87 State St., Rm. 204
Montpelier, Vermont 05602
802-229-0538

VIRGINIA

Richmond
U.S. Small Business Admin.
Federal Building, Room 3015
400 N. 8th Street
Richmond, Virginia 23240
804-782-2617

VIRGIN ISLANDS

St. Thomas
U.S. Small Business Admin.*
U.S. Federal Building
Johns Drive - Room 283
St. Thomas, V.I. 00801
609-774-8530

WASHINGTON

Seattle
U.S. Small Business Admin.
Federal Building, Room 1744
915 Second Avenue
Seattle, Wash. 98174
206-442-5534

Spokane
U.S. Small Business Admin.
Courthouse Building, Room 651
Spokane, Wash. 99210
509-456-3777

WEST VIRGINIA

Charleston
U.S. Small Business Admin.*
Charleston National Plaza
Suite 628
Charleston, W. Va. 25301
304-343-6181

Clarksburg
U.S. Small Business Admin.
Lowndes Building, Room 301
109 N. Third Street
Clarksburg, W. Va. 26301
304-623-5631

WISCONSIN

Madison
U.S. Small Business Admin.
122 W. Washington Ave., Rm. 713
Madison, Wisc. 53703
608-252-5261

Milwaukee
U.S. Small Business Admin.*
Federal Building
Room 246
517 East Wisconsin Avenue
Milwaukee, Wisc. 53202
414-291-3941

WYOMING

Casper
U.S. Small Business Admin.
Federal Building, Room 4001
100 East B Street
Casper, Wyo. 82601
307-265-5550

*Limited Assistance Available.

Appendix D**Case History A**

An Ohio businessman started out with a staff of ten employees manufacturing process control equipment. Over the next several years he received counseling assistance from an SBA SCORE volunteer who helped him set up proper accounting records, a credit and collection system and good cash management procedures. The firm grew to thirty employees and developed a unique product that was gaining wide acceptance in the U.S. plastics industry. Motivated by his growing domestic success, he decided to explore the sales possibilities for his product in other countries.

With the counsel of his SCORE advisor and the local Commerce Department District Office, he developed an Export Marketing Plan. Taking *A Basic Guide to Exporting and Export Marketing for Smaller Firms* as a framework for his analysis, he used Commerce's "Market Share Reports", and one of the Global Market Surveys contained in Commerce's International Marketing Information Series, which focus on foreign market opportunities for U.S. suppliers, to determine potential target markets for his products. With Commerce assistance and an SBA guaranteed loan from his local bank, he arranged to participate in a Commerce Department exhibition of process control equipment at the Paris Trade Center. He identified potential sales agents at this show and at similar exhibits at the London and Milan Trade Centers. By utilizing Commerce's Agent/Distributor Service, he has identified and appointed additional representatives overseas. The firm also has a Master FCIA Insurance Policy which covers most of its short and medium term export sales made during one year. Today, the company does business in 22 countries, employs 60 persons, and exports account for over 50 percent of its multi-million dollar business.

Case History B

A small New York City manufacturer of electronic production equipment was doing a significant business with the U.S. Government and other larger prime contractors. Using Commerce's Export Mailing List Service as an initial source of potential overseas buyers, he developed a sizeable export business with many European firms. With the help of the Commerce Department's Bureau of East-West Trade and by exhibiting in trade fairs in Eastern Europe and the Soviet Union, the firm has developed exports which account for over half of its annual sales and a million dollar business with the Soviet Union and other countries in Eastern Europe. The Commerce Department's Office of Export Administration is continuing to provide this firm with information concerning appropriate export licensing requirements and procedures.

Case History C

A small California manufacturer of vacuum technology was experiencing good domestic sales but had some excess production capacity which was not being utilized. The President of the company found out that the Commerce Department and the SBA were cosponsoring an export marketing seminar. She attended. During the program she learned that her industry was one which the Commerce Department had identified as a Target Industry with significant export potential.

She requested from the SBA a team of Small Business Institute students to help her do an export marketing feasibility and analysis study. The SBI student team recommended that she send catalogs of her products to certain U.S. Foreign Service Posts and the U.S. Trade Centers overseas. Through subscribing to the Trade Opportunities Program of the Commerce Department, she also was able to identify a significant number of prospective buyers and agents.

During the next two years, she signed up four overseas agents and negotiated several sizeable contracts for her products. Many of her overseas buyers have used the Cooperative Financing Facility extended from Eximbank to their local banks. Now, exports account for over 20 percent of her business and her firm is selling in 21 countries.

Appendix E**For a Trial-Run or Permanent Assistance,
Consider the Export Management Company**

More and more American manufacturers are using an Export Management Company (EMC) to penetrate the profitable business of world trade. Small companies, just beginning to consider exporting their products, may be reluctant to embark on an overseas business venture which seems—at least on the surface—to be complicated, even hazardous. Companies such as these may find it helpful to let an EMC take full responsibility for the export end of their business, while they test its profitability and/or until they acquire the expertise and the personnel to handle it themselves. Others—many of them larger and extremely successful—have found it preferable to continue the EMC arrangement which relieves them of all the details except filling the orders.

**What is an Export Management Company?
How does an EMC work?**

An EMC is exactly what its name implies. It is the specialist for companies who want export profits but do not have experience in selling abroad. It acts as the export department for manufacturers, and can provide most of the required services for successful foreign trade, from market research through financing, advertising, shipping, and documentation. An EMC will appoint distributors or commission representatives, exhibit the client's products at international trade shows, and handle the routine details required to get the American product to the foreign customer. In short, it will—for a fee or a percentage—serve as the foreign trade division of the company which contracts for its assistance. It will take over the responsibility for as many, or as few, of the requisites to successful overseas trade as the manufacturer requires. For more information about EMCs, and assistance in locating and selecting the proper EMC for a specific product, contact the U.S. Department of Commerce District Office.

Appendix F**(Foreign Credit Insurance Association)****FCIA Offices**

Export-Import Bank
811 Vermont Ave. N.W.
Washington, D.C. 20571
202-566-2117

One World Trade Center, 9th Floor
New York, New York 10048
212-432-6311
Terence J. Dolan, Manager

1210 S. Ornni International
Atlanta, Georgia 30303
404-522-2780
John R. Van Laays, Manager

1425 H Street, N.W., Suite 336
Washington, D.C. 20005
202-638-5028
William L. Wight, Manager

700 North Water Street, Suite 1200
Milwaukee, Wisconsin 53202
414-224-9393
W. Robert White, Regional Manager

10 South Riverside Plaza, Suite 656
Chicago, Illinois 60606
312-641-1915
Dan M. Kimberly, Manager

55 Public Square, Suite 1300
Cleveland, Ohio 44113
216-523-1520
James E. Pulbratek, Manager

700 North Water Street, Suite 1200
Milwaukee, Wisconsin 53202
414-224-0240
John D. Willyard, Manager

707 Wilshire Boulevard, Suite 3080
Los Angeles, California 90017
213-624-8412
Ernest L. Kangas, Regional Manager

One Houston Center, Suite 1210
Houston, Texas 77002
713-759-1114
David I. Brunson, Manager

707 Wilshire Boulevard, Suite 3080
Los Angeles, California 90017
213-624-8412
Jerome F. Luff, Jr., Manager

Mr. WEAVER. You have heard some of the reasons why some small businesses will not export successfully. No. 1 is the mind set of the small business person. It has been said before small business people are not, for one reason or another, in their minds ready to export, at least a great many of them.

I have had personal experience in this line. My father had a small business in Miami manufacturing venetian blinds and the metal venetian blind came into vogue and they could not shift very easily to metal and he established an export business to Cuba. He was not a high school graduate and perhaps the two classes of persons he got along least with were bureaucrats and college professors.

I think that still remains true for many of the small business people today. My father had no trust for these people and any exporting he did, he went to Havana and made personal contact and they bought the goods from my father. He did not get to Puerto Rico or any other country because he personally did not have the time to go that far and they personally did not have the time to come to Miami, Fla., with cash to pay in advance.

If we are going to have the small business community begin to make significant exports, the small business community, the most independent lot of the human race in my view, are going to have to start trusting the Government, the banking community, the Eximbank and those institutions to work for them. If they do not, I see no significant progress.

No. 1, they have to start changing their attitudes toward the rest of the world and toward the Government and, No. 2, they have to find out what is available.

This pamphlet that you have put in the record I think, at least, in one booklet puts forth the services of the four agencies.

I would like to mention the international trade training programs in fiscal year 1978. The total number of training programs that saw over 11,500 business people involved was 195 in the last year. Of the special seminars jointly sponsored by the 4 agencies, we had 14 in the last two quarters of 1978, 10 in the first quarter of 1979, and have scheduled 30 for the rest of 1979.

I agree that seminars are not the answer. At least they will stimulate the persons that attend and we always pass out the booklet to at least let them know we have offices around the country.

Senator MORGAN. Those seminars, I think, serve a useful purpose. Let us say we have 100 or 300 people attending. Even if you encourage one, two, or three small businesses to get involved, that is beneficial.

The only difficulty I found with them is that sometimes the small businessman comes with the expectation that the SBA or the Department of Commerce is going to hand them some contracts and they go away a little disappointed. Nevertheless, I think they are good and they do serve a purpose.

Mr. WEAVER. Yes, sir.

Senator MORGAN. We had one in my State with regard to doing business with the Government, and as I said, we had a tremendous turnout, but they all came with the expectation that they wanted to go away with a contract.

Mr. WEAVER. As you know, we are having the White House Conference in 1980 and are holding 57 meetings in advance of the 1980

meeting. At our recent meeting in New York City, which was a regional meeting, Frank Weil was the speaker and did talk on this subject. He was well received. We had 950 people attending that meeting.

In Baltimore 2 days ago we had a meeting where we expected 350 and got 750.

At every one of these meetings we break out into small groups. One of the subjects discussed at every regional White House Conference is international trade.

I guess I will pause here, Mr. Chairman, and try to answer your questions.

Senator MORGAN. I believe you did mention in your report that you do have one person assigned in each one of your SBA district offices that deals with international trade on a collateral duty basis.

Mr. WEAVER. That is in place.

Senator MORGAN. Mr. Jack Osmar from my home State in North Carolina's Department of Commerce told the subcommittee last week that the Commerce Department is particularly responsive in providing material to exporters, but that companies need day-to-day help for specific problem areas. Is SBA equipped to give this concentrated assistance to small exporters or potential exporters?

Mr. WEAVER. Except through our lending programs and our management assistance programs, we are not equipped to do that kind of job at the present time. Let me call on Dr. Pat Burr. Perhaps she would like to add something.

Dr. BURR. Mr. Chairman, we do have an extra layer of support systems throughout the country. We do have in the district offices one person assigned, on a collateral duty basis, international trade responsibilities.

In addition to that, we have identified within a group of 12,000 volunteers, 275 who have direct experience in international trade. They are volunteers. Some of those are retired, some are actively involved in international trade. At this point, we are attempting to take advantage of the skills they have acquired and accumulated in international trade and export.

We have conducted training sessions for them and we will be conducting more training around the country for those volunteers. For the small businesses who need some degree of help for several days in a row we will attempt to provide that through these volunteers.

We have involved these SCORE volunteers. Many are millionaires and have become so through export activity and do have a sense of the activity involved.

Senator MORGAN. I am familiar with that program and some of your volunteers, and the ones I know particularly are thrilled at the prospect of spending their own money to do it.

Dr. BURR. We have one other system that might be of interest. Within the procurement office at SBA we have the procurement automated source system which is a program which was reported in "Nation's Business" in the most recent edition.

We have a code in that system, Mr. Chairman, to identify small businesses that do have some interest in international trade.

What we are hoping to do is take that system and I do not want to speak for the procurement office, but our aim is to work with the group and connect it to the system Mr. Weil referred to.

Senator MORGAN. What is the difference between the SCORE people and the ACE people?

Dr. BURR. The SCORE people are the service corps of retired executives. The others—ACE—are the professionals currently involved in business.

Senator MORGAN. SCORE is voluntary. Do they get expenses?

Dr. BURR. They are reimbursed for their expenses the same as Government employees, but they receive no pay from SBA and are not allowed to collect any fee.

Senator MORGAN. And the other acronym ACE is a paid professional?

Dr. BURR. No, sir. They are volunteers too, but they are actively involved in business at this point.

Senator MORGAN. They are not retired. The real difference is the SCORE volunteer is retired and the ACE volunteer is not.

Dr. BURR. That is right. ACE also receives reimbursement for expenses but they do not receive a fee from SBA nor can they collect one from the client.

Senator MORGAN. Senator Levin?

Senator LEVIN. Do you consider the voluntary program sufficient?

Dr. BURR. I think we are so new to international marketing and what we can achieve in SBA and international trade that I am not sure of an answer to that at this time. We are very fortunate to have a group of volunteers who have been through this experience to help us.

Senator LEVIN. How many people work in the Office of International Trade?

Dr. BURR. In the Washington office we have two professionals and one clerical and we have an accumulation of other activities assisting the Washington office.

Senator LEVIN. Can you add up all the man-hours?

Dr. BURR. The man-hours total 8.

Senator LEVIN. Eight people?

Dr. BURR. Not exactly—a total of 8 work years of effort for the past fiscal year. I suspect that will be higher because of the new assignment at the district levels of the international trade designees.

Senator LEVIN. Somehow that seems like an awfully small number.

Mr. MAUK. What she was speaking to is that there are two full-time professional people in Washington and right now we have identified for the future the need for 10 full-time positions in the regions to leverage the specific people identified in each district office having many other duties so that a client can be referred to the proper place for help.

I think the number of people involved, on a part-time basis, is more than eight.

Senator LEVIN. In terms of man-years you are talking about 8?

Dr. BURR. At the district level. I suspect it will be greater in the future.

Senator LEVIN. Is that going to be sufficient with these new negotiations opening up for procurement, that kind of staff level?

Mr. MAUK. In terms of your first question as far as our effort at this point of time is concerned, the answer is no.

We can mention, however, that the basic intent of the SBA and what it is providing is basic backing and delivery of other resources, referrals to the Department of Commerce, referrals to OPIC and the Export-Import Bank; also, referring people to SCORE programs.

We have our small business institutes where people can get counseling.

We are using universities to provide a whole range of services to the small businessman. We would be the first to admit that these resources are not up to snuff in the sense we would like them to be but that is how we are trying to build resources to help the small business person.

Mr. WEAVER. We are not going to duplicate what the Department of Commerce is doing for all businesses.

Senator LEVIN. You have a goal of \$100 million in loan guarantees for this purpose?

Mr. MAUK. For fiscal 1979.

Senator LEVIN. Is that the first year that quota has been set?

Mr. MAUK. Yes, sir.

Senator LEVIN. Do you expect to meet it?

Mr. WEAVER. We hope to meet it.

Mr. MAUK. The answer to that is it would be highly unlikely we would meet that goal.

Senator LEVIN. What is the figure likely to be?

Mr. MAUK. Let me quote again the figures.

Senator LEVIN. I heard the \$5 million figure. What do you predict it will be at the end of the year?

Mr. MAUK. I do not know. If we keep on the current trend for the last quarter we will be up to \$15 or \$20 million.

Senator LEVIN. Do you actively seek out firms which could increase their export business for these loans?

Mr. WEAVER. Ninety-five percent of our business lending is done through the banking community. We try to talk to the banks about their customers.

Senator LEVIN. You think we should be seeking out small business firms who could make use of these loan guarantees?

Mr. WEAVER. I think we should make all exporting firms aware of the fact we do have this target. To actually go out and seek someone to get a loan is something we do not do.

Mr. MAUK. I should say to some extent we do have an outreach program. The seminars and joint training sessions obviously make people aware of the type of programs we have and, in fact, they can go to banks. It was earlier mentioned that we have a computerized system where firms indicate the activities in which they want to be involved. One of the key codes is international trade interest and when that system is up and running, we will be able to have some basic data.

Dr. BURR. One other aspect. In the cosponsored international trade programs with the four agencies on every program we have had an SBA person describe our lending process. We have reached a very large number of people in terms of awareness.

Senator LEVIN. What does it mean to target \$100 million? Let me use the word quota, or goal.

Mr. WEAVER. Target means the same thing as a goal.

Senator LEVIN. If it is not used, is it available for other purposes?

Mr. WEAVER. Yes; it is not set aside, as such.

Senator LEVIN. Do you think that is going to be an adequate goal for next year?

Mr. WEAVER. It seems to be a goal that we are having a hard time reaching. What is adequate among the 10 million small businesses in

the United States? We do not know how many are even interested in export.

Senator LEVIN. That seems like a modest sum of money. The eight people seem modest in terms of what our goals are for export. What percent of your total loan authority does that represent?

Mr. WEAVER. We have about \$3.3 billion in 7(a) business loan guarantee authority so it is rather small.

Senator LEVIN. If you had \$50 million—\$50 million that would be what?

Mr. MAUK. A little less than 2 percent.

Senator LEVIN. Do you have a program to reach out to people?

Mr. MAUK. I think as we described it.

Senator LEVIN. Is that program set forth anywhere in writing? I do not want to ask to duplicate it.

Mr. MAUK. It is.

Mr. WEAVER. It is in the booklet that I put in the record, in the export field.

Mr. MAUK. I think it describes particularly what the interagency groups are trying to do.

I think in terms of what the SBA is doing itself, it describes in a little detail. Dr. Burr can provide more information as to the real, specific levels below the summary type.

Senator LEVIN. I take it that the \$100 million goal we talk about is important to reach and the question is what steps are we going to take to try to reach that goal?

Dr. BURR. One piece of useful information in addition to the interagency cosponsored training sessions is that we had about 181 other SBA programs last year in foreign trade. Those, in some cases, were cosponsored with other departments, but they are not necessarily a part of the agreement that we made with the other agencies to do something very structured that we would all appreciate in.

We have been doing international trade outreach at SBA as a part of our ongoing activity and will continue to do so just as Commerce will.

We think an important part of achieving a high-level of activity is working with the other agencies. A critical thing is not duplicating but assisting in what the Department of Commerce is doing.

Senator LEVIN. Let me interrupt for a moment. Do we, or does SBA do a survey for small business people to try to find out what their attitudes are toward exports, to see what the impediments are?

Mr. WEAVER. We do not send out such a survey as a matter of routine.

In 1974, the National Federation of Businesses sent out a survey to a segment of their membership. The organization presently has over 500,000 members.

Senator LEVIN. Small business?

Mr. WEAVER. All small business.

Senator LEVIN. Could you submit a copy of the results of those surveys as they relate to the psychological or real impediment?

Mr. WEAVER. If there is one I will.

[The survey referred to follows:]

EXPORT INFORMATION SURVEY ANALYSIS

MARCH 1975

Data Source: National Federation of Independent Business
150 West 20th Avenue
San Mateo, Calif. 94403
Prepared by: Michael E. Deegan
Small Business Administration
Washington, D.C. 20416

I. BACKGROUND

In the Report of the Small Business Administration on a Foreign Trade Assistance Program, transmitted to the Subcommittee on Government Procurement of the Select Committee on Small Business, United States House of Representatives, on April 18, 1973, data on the extent of small business participation in foreign trade, particularly exporting, was developed. Some of the findings of the Report included the following:

1. According to Bureau of the Census 1967 Enterprise Statistics and figures developed for the United States Senate Select Committee on Small Business, of the 263,479 manufacturing companies having between 0 and 499 employees, it is estimated that 16,606 companies (6.3 percent) were exporters;
2. Of the 3,506 manufacturing firms employing 500 or more persons, 2,354 (67.1 percent) of these companies were involved in exporting to some degree;
3. Based on the total number of exporters (18,960), 87.6 percent (16,606) employed between 0 and 499 persons; and
4. Of the 266,985 manufacturing companies, those with between 0 and 499 employees numbered 263,479 (98.7 percent.) However, these same companies accounted for only 25.9 percent of the estimated distribution of all manufacturing shipments.

The following Table 1 represents the percentage of exporters in each size class.

It is readily apparent that as the size of the manufacturing firm increases, the likelihood of it becoming involved in exporting increases significantly.

The following Table 2 lists 1967 data on wholesale firms involved in exporting. Wholesalers in export business include merchant wholesalers, merchant agents,

TABLE 1

MANUFACTURING COMPANIES: EXPORTERS AND NONEXPORTERS BY EMPLOYMENT SIZE CLASSES, 1967

Employment Size of Company	Number of Companies 1/	Estimated Distribution of Manufacturing Shipments 1/ (Million Dollars)	Percent of Total Shipments	Percent of Exporters in Size Class 2/	Number of		-percentage Distribution of Total Nonexporters Exporters .
					Nonexporters (Estimated)	Exporters (Estimated)	
All Companies, Total	266,985	558.1	100.0	-----	248,025	18,960	100.0
<u>Small Business</u>	(263,479)	(144.6)	(25.9) 3/		(246,873)	(16,606)	(87.6)
0 employees	13,487	4/	4/		13,487	4/	4/
1- 9 employees	138,414	10.1	1.8	2.7	171,328	4,754	25.1
10- 19 employees	37,668	11.7	2.1				
20- 49 employees	40,837	27.3	4.9	12.1	51,721	7,120	37.6
50- 99 employees	18,004	26.8	4.8				
100-249 employees	11,315	38.0	6.8	31.4	10,337	4,732	24.9
250-499 employees	3,154	30.7	5.5				
<u>Large Business</u>	(3,506)	(412.9)	(74.0)		(1,152)	(2,354)	(0.5)
500-999 employees	1,625	27.3	4.9	56.2	712	913	4.8
1000 and more employees	1,881	385.6	69.1	76.6	440	1,441	7.6

Note: Detail may not add to total due to rounding.

1/ Bureau of the Census, 1967 Enterprise Statistics, Part 1 (Washington, D. C.: U. S. Government Printing Office), pp. 45 and 168-69.

2/ United States Senate, Select Committee on Small Business, Twenty-Second Annual Report (Washington, D. C.: U. S. Government Printing Office, 1972), p. 113.

3/ The total small business share of manufacturing is estimated at 30 percent of manufacturing shipments. This distribution of companies does not include manufacturing production of concerns in other industry groups. Small manufacturing concerns also include some companies with over 500 employees and exclude some with fewer than 500 employees.

4/ Insignificant

TABLE 2
WHOLESALE FIRMS IN EXPORT BUSINESS: NUMBER AND SALES, 1967

Employment Size of Firms and Percent in Export Business	Number of			Sales			Average per		Percent of Total	
	Firms	Establishments	Export Establishments	Total (Million \$)	Average per Firm (Million \$)	Export (Million \$)	Export Establishment (Million \$)	Percent for Export Firms	Export Sales	
All Firms. Total	10,723	24,993	11,340	\$76,708	\$7.2	\$13,479	\$1.2	18	100.0	100.0
Export Sales 50 Percent or More of Total	2,950 ^{1/}	3,231	2,970	13,141	4.5	10,153	3.4	77	100.0	100.0
Export Sales Less Than 50 Percent of Total	7,773	21,762	8,370	63,567	8.2	3,326	0.4	5	100.0	100.0
Firms With 250 or More Employees	226	12,366	598	49,090	217.2	5,251	8.8	11	2.1	38.9
Export Sales 50 Percent or More of Total	10	234	49	5,552	555.2	3,760	76.7	68	0.3	37.0
Export Sales Less Than 50 Percent of Total	216	12,132	549	43,538	201.6	1,491	2.7	3	2.8	44.8
Firms With 100-249 Employees	343	1,541	523	7,857	22.9	1,776	3.4	23	3.2	13.2
Export Sales 50 Percent or More of Total	27	88	63	1,859	68.8	1,298	20.6	70	0.9	12.8
Export Sales Less Than 50 Percent of Total	316	1,453	460	5,999	19.0	479	1.0	8	4.0	14.4
Firms With Fewer Than 100 Employees	10,154	11,086	10,219	19,761	2.0	6,452 ^{2/}	0.6	33	94.7	47.9
Export Sales 50 Percent or More of Total	2,913	2,909	2,858	5,731	2.0	5,095	1.8	89	98.8	50.2
Export Sales Less Than 50 Percent of Total	7,241	8,177	7,361	14,030	1.9	1,356	0.2	10	93.2	40.8

Note: Wholesalers in export business include merchant wholesalers, merchandise agents, brokers and assemblers of farm products. They do not include sales branches and offices of manufacturers or mining companies or petroleum bulk plants and terminals. The definitions of wholesalers are given in appendix C.

Detail may not add due to rounding.

^{1/} Nearly 75 percent of these firms are classified as exporters and the remainder as export agents.

^{2/} This figure is not a value of exports attributed to small business, for the exports of small wholesalers include products of large and/or small business.

Source: Special tabulations of the 1967 Census of Business, Wholesale Trade.

brokers and assemblers of farm products. They do not include sales branches and offices of manufacturers or mining companies or petroleum bulk plants.

Analysis of export activity by wholesale firms revealed that:

1. Of the total number (10,723) of wholesale firms, 2,950 (27.5 percent) export 50 percent or more of their total sales;
2. Of the total sales of all wholesale firms, approximately 18 percent are export sales--an average of \$1.3 million per firm. Average total sales per firm are \$7.2 million.
3. The average total sales and export sales per firm in each size class are as follows:

Table 3

SELECTED STATISTICS FOR 1967 WHOLESALERS

<u>Employment Size</u>	<u>Av. Total Sales/ Firm (Million \$)</u>	<u>Av. Export Sales/Firm (Million \$)</u>	<u>Percent Export Sales</u>
250 or more employees	\$217.2	\$23.2	11%
100--- 249 employees	22.9	5.2	23%
Fewer than 100 employees	2.0	.61/	33%1/

1/ This figure is not truly attributable to small business production, for the exports of small wholesalers include products of large and/or small business.

Thus by size classification, it is apparent that the trend toward greater export involvement (export sales as a percentage of total sales) is the opposite of that for manufacturers. That is, the smaller the wholesale firm exporting, the greater the percentage of export sales to total sales.

4. In terms of numbers of establishments, firms which primarily engaged in exporting averaged 1.1 establishments each. Firms with less than 50 percent of their sales in export trade averaged 2.7 establishments.

5. Approximately 95 percent of the total firms (10,154) had fewer than 100 employees and accounted for 48 percent of the total value of export sales but only 25.8 percent of total sales of all wholesale firms involved in export trade.
6. In 1967 wholesale firms of fewer than 100 employees with 50 percent or more of their total sales in export trade had average sales of \$1,967,000; those with less than 50 percent of their sales in exporting averaged \$1,938,000. However, when further classified by kind of business, the group which derived less than 50 percent of their sales from exporting had larger export sales in the majority of cases.

II. RECENT SURVEY FINDINGS

In an attempt to ascertain further information on the extent of small business involvement in exporting, the Small Business Administration requested the National Federation of Independent Business to conduct in September 1974 an Export Information Survey of a segment of its membership. The Survey (OMB No. 100-R0067) is included as Attachment 1.

The Federation, headquartered in San Mateo, California, is composed of approximately 300,000 businesses representing all segments of business operations and ranging in size from a very few employees to 800-900 employees, with some larger firms also members. The majority of its membership employ below 250 persons. The Survey was sent to a random selection of approximately 8,300 firms in the manufacturing, wholesale, and non-professional service sectors of the membership. This represented about ten percent of the total membership in these types of business activities. 2,688 surveys were received--approximately a 33% return.

Respondents were asked to indicate their one primary business activity. Distribution of respondents by primary business activity was as follows:

Table 4

DISTRIBUTION BY PRIMARY BUSINESS ACTIVITY

<u>Primary Business Activity</u>	<u>Number of Respondents</u>	<u>Percent of Total</u>
Manufacturing	928	34.5%
Wholesale	503	18.7%
Service	1,132	42.1%
Other	<u>125</u>	<u>4.7%</u>
Total	2,688	100.0%

A summary of the tabulated responses by primary business activity and a total response tabulation is included as Attachment 2.

Tables (5) and (6) summarize the overall export level of the respondents in each primary business activity. The percentages indicated are based on the number of actual responses to questions one and two of the survey. Approximately 95% of the respondents answered both questions. It should be noted that when based on a following question of actual percentage of export sales the number of firms indicating some export involvement is greater.

Table 5

(EXTENT OF EXPORT INVOLVEMENT (QUESTIONS (1) and (2))

<u>Appropriate Exportable Product</u>	<u>Total Responses</u>	<u>Primary Business Activity</u>			
		<u>Manuf'g</u>	<u>Wholesale</u>	<u>Service</u>	<u>Other</u>
<u>% Yes</u>	21.7%	43.0%	23.2%	4.8%	6.3%
<u>% No</u>	78.3%	57.0%	76.8%	95.2%	83.7%
<u>Current Exporter</u>					
<u>% Yes</u>	11.8%	25.7%	8.4%	2.2%	2.4%
<u>% No</u>	88.2%	74.3%	91.6%	97.8%	97.6%
<u>% Ex- porters of those with appropriate product</u>	51.4%	57.6%	35.5%	43.1%	28.6%

Table 6

DISTRIBUTION OF EXPORTERS (QUESTION 2)

Primary Business Activity	Total No. Respondents	Number of Exporters	Percent of Total Exporters
Manufacturing	928	221	77.8%
Wholesale	503	39	13.7%
Service	1,132	22	7.8%
Other	<u>125</u>	<u>2</u>	<u>0.7%</u>
Total	2,688	284	100.0%

Since not unexpectedly the majority of the firms actually engaged in exporting and/or having exportable products are manufacturers, the main focus of this analysis will be on the manufacturing segment of the respondents. The information that follows is based on the number of specific responses (i.e., yes or no) to the individual questions in the survey. In the cases pertaining to statements asked, a very significant percentage did not answer the question and therefore presents a potentially significant bias in the findings.

It should be noted that based on the correlation between gross sales and percent of export sales (Questions 5 and 6), 345 firms indicated they exported at least one percent of their gross sales. When based on the correlation between numbers of employees and percent of export sales (Questions 6 and 7) 348 firms said they participated in export trade. Distribution of exporters according to these correlations is as follows:

Table 7

DISTRIBUTION OF EXPORTERS

(ACCORDING TO QUESTION CORRELATION)

Primary Business Activity	Total Sample No.	Current Exporters ^{1/}		Question (2)
		Questions (6) & (7)	Questions (5) ^a (6)	
Manufacturing	928	254	254	221
Wholesale	503	54	53	39
Service	1,132	36	35	22
Other	<u>125</u>	<u>4</u>	<u>3</u>	<u>1</u>
Total	2,688	348	345	284
% of Total	100.0%	12.9%	12.8%	10.6%

^{1/} These numbers represent the number of firms which indicated some export activity based on the correlation between the indicated survey questions.

A. Export Organization

Based on the 284 respondents who answered question two (of which 221 were manufacturers), the following information is apparent:

1. 74.6% export through their own sales organization--76.5% of the manufacturers;
2. 22.5% use export management companies--20.4% of the manufacturers;
3. 44.0% export through overseas agents or distributors--49.3% of the manufacturers;
4. Those firms which said that they exported to some degree did not use one type of export organization exclusively;
5. Fifty (50) of the exporting firms (17.6%) have formed Domestic International Sales Organizations (DISC's) as allowed under the Revenue Act of 1971--Title V of P.L. 92-178. Forty-one (41) of these DISCs (82%) were organized by manufacturers. It is noted that of the 185 firms which said that they were aware of the DISC concept, 27% (50 firms) have formed them;

6. Very few of the exporters (18) are listed with the American International Traders' Register. Thirteen (13) of these are manufacturers. Among the uses of the AITR is as a base for attracting U.S. business representation in U.S. Department of Commerce sponsored overseas exhibitions, fairs, and trade missions.
7. Of those firms which encountered export difficulties, 25.2% had difficulty in knowing export procedures, 20.5% in finding foreign markets, 15.6% in competing with foreign suppliers, and 11.4% in financing export sales.

B. Reasons for Not Exporting

Table (8) represents the significant reasons for not exporting. It should be noted that a very large number of firms did not answer any of the statements and 724 indicated other reasons for lack of interest in exporting; 149 manufacturers indicated other reasons.

Table 8

SIGNIFICANT REASONS FOR NOT EXPORTING

<u>Significant Reason</u>	<u>Rank by All Non-exporters</u>		<u>Rank by Non-exporting Manufacturers</u>	
		<u>%</u>		<u>%</u>
More concerned with developing domestic markets	1	56.2%	1	64.1%
Don't know where good markets exist	2	51.9%	2	63.8%
Don't have the necessary capital	3	50.1%	6	56.2%
Financial aspects are too complicated	4	49.7%	4/5	57.4%
Transportation considered too costly	5	49.0%	4/5	57.4%
Don't have the productive capacity	6	44.4%	7	49.3%
Lack the required knowledge	7	43.9%	3	57.8%
Not interested in export sales	8	38.3%	8	40.9%
Profitability considered too low	9	33.8%	9	38.6%

	<u>Rank by All Non-exporters</u>	<u>%</u>	<u>Rank by Non-exporting Manufacturers</u>	<u>%</u>
Believe there is too much risk involved	10	30.7%	10	38.3%
Believe there is too much competition	11	26.2%	11	32.2%
Unable to obtain banking assistance	12	23.6%	12	24.0%

C. Awareness of Export Assistance

Approximately 70% of all respondents answered either yes or no to questions pertaining to their awareness of the following:

Table 9

<u>AWARENESS OF EXPORT ASSISTANCE</u>	<u>Of Those Answering Yes/No</u>	
	<u>National Percent Unaware</u>	<u>Manufacturing Percent Unaware</u>
Department of Commerce Programs	78.3%	69.2%
Export-Import Bank Programs	87.9%	84.1%
Foreign Credit Insurance Association Programs	91.7%	89.2%
DISC Concept	89.9%	85.1%
Export Management Company Concept	91.6%	88.7%
Export Services of many large banks	82.4%	75.9%

It is apparent that much more needs to be done to make more small companies aware of export assistance programs of the public and private sectors. Since a large percentage of the respondents do not export, it is not surprising that so few are aware of these sources of export assistance. If more of the manufacturing respondents, indeed of all the business community were aware of these services, the extent of small business involvement in export trade might be significantly increased.

D. Gross Sales of Respondents

The survey question pertaining to gross sales was arranged by sales breaks. In compiling the total gross sales of the respondents, a base figure representing the mean dollar value of the individual sales range was used and

then multiplied by the total number of responses to estimate total gross sales.

TABLE 10
GROSS SALES (ATT Respondents)

<u>Gross Sales Range</u>	<u>Base Figure</u>	<u>Total Responses</u>	<u>Est. Total Gross Sales</u>	<u>Total Employees</u>	<u>Average No. of Employees</u>
\$ 10 - \$ 25,000	\$ 17,500	186	3,255,000	1,807	9.7
\$ 25 - \$ 50,000	\$ 37,500	221	8,287,500	1,869	8.5
\$ 50 - \$100,000	\$ 75,000	310	23,250,000	1,886	6.1
\$ 100 - \$200,000	\$150,000	348	52,200,000	2,772	8.0
\$ 200 - \$500,000	\$350,000	438	153,300,000	7,605	17.4
OVER \$500,000	\$750,000	805	603,750,000	46,236	57.4
		<u>2,308</u>	<u>844,042,500</u>	<u>62,175</u>	<u>26.9</u>

It is estimated that the above firms generated gross sales of approximately \$844,042,500. This represents an average gross sales/firm volume of \$365,703.

E. Export Sales of Respondents

In the correlation between respondents who indicated their gross sales range and percentage of export sales (Questions 5 and 6), the total gross sales of these 2,197 firms is estimated at \$814,417,500. This represents an average gross sales/firm volume of \$370,695.

The Table 11 represents the aggregate display of the number of these respondents.

TABLE 11
 PERCENTAGE OF EXPORT SALES RANGE (All Respondents)

Gross Sales Range (\$)	(Base # Figure)	PERCENTAGE OF EXPORT SALES RANGE (All Respondents)										Total Resp.	Total No. Exporters	% Exporters of Total
		0%	1-5% (2.5%)/	5-10% (8.0%)/	11-15% (13%)/	16-25% (20.5%)/	26-35% (30.5%)/	36-50% (43.0%)/	50%+ (75%)/					
10 - 25,000	(17,500)	166	10		1	1	2			1	181	15	8.3%	
25 - 50,000	(37,500)	201	4								208	7	3.4%	
50 - 100,000	(75,000)	261	10	5	2	2	2	1		1	282	21	7.4%	
100 - 200,000	(150,000)	301	13	4	3	2	2	1		3	325	24	7.4%	
200 - 500,000	(350,000)	349	40	16	2	2	2			4	418	69	16.5%	
OVER 500,000	(750,000)	574	123	24	16	7	12	12		12	783	209	26.7%	
		1,852	200	52	24	20	15	17	17	17	2,197	345	15.7%	

1/ These figures represent the mean percentage of the export sales range.

TABLE 12

NUMBER OF EXPORTERS (% RESPONDENTS)

<u>Primary Business Activity</u>	<u>Total No. Resp.</u>	<u>Number of Exporters</u>	<u>% of Exporters</u>	<u>% of Total # of Exporters</u>
Manufacturing	849	254	29.9%	73.6%
Wholesale	449	53	11.8%	15.4%
Service	875	35	4.0%	10.1%
Other	<u>24</u>	<u>3</u>	<u>12.5%</u>	<u>0.9%</u>
Total	2,197	345	15.7%	100.0%

These 345 firms which indicated export involvement generated an estimated gross sales volume of \$186,600,000 or 22.9% of the total gross sales volume of all 2,197 respondents. Their export sales are estimated to be \$23,131,663 or 12.3% of their gross sales. This represents an export sales/firm average of \$67,048/firm. The following Table (13) summarizes the estimated gross sales and export sales of these 2,197 respondents.

TABLE 13
TOTAL GROSS SALES VS EXPORT SALES (All Respondents)

Gross sales Range	No. Resp.	Estimated Total Gross Sales 1/	No. Exporters	% Exporters	Estimated Total Gross Sales of Exporters	Estimated Total Export Sales 2/	% Export Sales of Total Sales
\$ 10-25,000	181	3,167,500	15	8.3%	\$ 262,500	34,038	13.0%
25-50,000	208	7,800,000	7	3.4%	262,500	12,750	4.9%
50-100,000	282	21,150,000	21	7.4%	1,575,000	161,525	10.3%
100-200,000	325	48,750,000	24	7.4%	3,600,000	342,000	9.5%
200-500,000	418	146,300,000	69	16.5%	24,150,000	2,747,500	11.4%
Over 500,000	783	587,250,000	209	26.7%	156,750,000	19,833,750	12.6%
Total	2,197	814,417,500	345	15.7%	186,500,000	23,131,663	12.3%

1/ In compiling the total gross sales of the respondents, a base figure representing the mean dollar value of the individual sales range was used and then multiplied by the total number of respondents to estimate the total gross sales.

2/ In compiling the estimated total export sales, figures developed in Table 11 were used. The mean percentage of export sales range was multiplied by the base gross sales dollar figure and then multiplied by the number of respondents in each range. The values were then summed for each gross sales range.

Those firms which indicated manufacturing as their primary business operation comprise 73.6% of the total number of exporters. The following table summarizes the estimated gross sales and export sales of the 849 manufacturing respondents, of which 254 indicated some export sales.

TABLE 14

TOTAL GROSS SALES VS. EXPORT SALES (MANUFACTURER RESPONDENTS)

<u>Gross Sales Range</u>	<u>No. Resp.</u>	<u>Estimated Total Gross Sales 1/</u>	<u>No. Exporters</u>	<u>% Exporters</u>	<u>Estimated Total Gross Sales</u>	<u>Total Export Sales</u>	<u>% Export Sales</u>
10-25,000	24	420,000	8	33.3%	140,000	11,550	8.3%
25-50,000	35	1,312,500	3	8.6%	112,500	4,875	4.3%
50-100,000	70	5,250,000	12	17.1%	900,000	73,125	8.1%
100-200,000	129	19,350,000	19	14.7%	2,850,000	283,500	9.9%
200-500,000	181	63,350,000	46	25.4%	16,100,000	1,424,500	8.8%
Over-500,000	410	307,500,000	166	40.5%	124,500,000	14,733,750	11.8%
TOTAL	849	397,182,500	254	29.9%	144,602,500	16,531,300	11.4%

1/ In compiling the total gross sales of the respondents, a base figure representing the mean dollar value of the individual gross sales range was used and then multiplied by the total number of respondents to estimate total gross sales.

F. Size of Respondents

The following Table (15) is based on the correlation between gross sales and numbers of employees (questions 5 and 7). Respondents indicated on the survey questionnaire the number of paid employees in their firms. The following is a breakdown by primary business activity of the firms comprising the two largest gross sales ranges:

TABLE 15

<u>Gross Sales</u>	<u>Gross Sales vs Size of Firm (All Respondents)</u>		
	<u>Total Responses</u>	<u>Total Employees</u>	<u>Average No. Employees/Firm</u>
10-15,000	186 (1)	1,807	9.7 (3.4)
25-50,000	221 (2)	1,869	8.5 (3.7)
50-100,000	310 (3)	1,886	6.1 (5.1)
100-200,000	348	2,772	8.0
200,500,000	438	7,605	17.4
OVER 500,000	<u>805</u>	<u>46,236</u>	<u>57.4</u>
Total	2,308	62,175	26.9

Note 1) 4 manufacturing firms employing 1,192 were tabulated in this sales break. Excluding these firms, the total number of employees is reduced to 615 or 3.4/firm.

2) 1 wholesale, 1 service and 1 manufacturing firm employing 1061 persons were tabulated in this sales break. Excluding these firms, the total number of employees is reduced to 808 or 3.7/firm.

3) Two manufacturing firms employing 325 persons were tabulated in this sales break. Excluding these firms, the total number of employees is reduced to 1561 or 5.1/firm.

The following is a breakdown by primary business activity of the firms comprising the two largest gross sales ranges.

TABLE 16

Summary of Business Activity/Employment
Size of Firms with \$200 - \$500,000 Gross Sales

<u>Primary Business Activity</u>	<u>No. of Resp.</u>	<u>% of Total</u>	<u>Total No. of Employees</u>	<u>% of Total</u>	<u>Average No. of Employees/firm</u>
Manufacturing	195	44.5%	4,412	58.0%	22.6
Wholesale	106	24.2%	903	11.9%	8.6
Service	131	29.9%	2,205	29.0%	16.8%
Other	<u>6</u>	<u>1.4%</u>	<u>84</u>	<u>1.1%</u>	<u>14.0</u>
	438	100%	7,605	100%	17.4/firm

TABLE 17

<u>Primary Business Activity</u>	<u>No. of Resp.</u>	<u>% of Total</u>	<u>Total No. of Employees</u>	<u>% of Total</u>	<u>Average No. of Employees/Firm</u>
Manufacturing	418	51.9%	27,834	60.2%	65.6/FIRM
Wholesale	263	32.7%	12,925	28.0%	49.1/FIRM
Service	113	14.0%	5,110	11.1%	45.2/FIRM
Other	11	1.4%	367	0.7%	33.4/FIRM
	805	100. %	46,236	100. %	57.4/FIRM

TABLE 18

SUMMARY OF RESPONDENTS BY EMPLOYMENT SIZE

<u>EMPLOYMENT SIZE</u>	<u>TOTAL RESP.</u>	<u>% OF TOTAL</u>	<u>TOTAL EMPLOYEES</u>	<u>% OF TOTAL</u>	<u>AVERAGE NO. OF EMPLOYEES/FIRM</u>
0-49 EMPLOYEES	2,040	88.3%	23,113	37.2%	11.3/FIRM
50-99 EMPLOYEES	153	6.6%	10,118	16.3%	66.1/FIRM
100-249 EMPLOYEES	93	4.0%	13,779	22.2%	148.1/FIRM
250-499 EMPLOYEES	16	0.7%	5,065	8.1%	316.6/FIRM
OVER 499 EMPLOYEES	6	0.3%	10,100	16.2%	1,683/FIRM
TOTAL	2,308	99.9%	62,175	100.0%	26.9/FIRM

Based on an arbitrary size standard of 249 employees in the respondent firms (not included in the total may be the parent corporation or branches or subsidiaries), approximately 98.9 percent of these firms may be considered small business.

G. Level of Export Sales VS Employment Size of Respondents

The following Tables (18) and (19) reflect the extent of export sales and corresponding employment size of all firms which indicated both.

Table(19) reflects the extent of export sales and corresponding employment size of all manufacturing firms which indicated both.

The Table (19) reflects the extent of export sales and corresponding employment size of all manufacturing firms which indicated both.

Not unexpectedly, a much greater percentage of manufactures are involved to some degree in exporting than are businesses engaged in another type of business activity - 29.4 percent of manufacturers vs 6.9 percent of other business concerns. It is particularly significant to note that over 70 percent are not involved in exporting and these now exporting manufacturers include three (3) firms employing over 500 persons each (2,100 in total) and nine (9) firms employing between 250 and 499 persons (2,720 in total).

As the size of the firm increases, there appears to be more of a tendency to export (although there is an apparent decrease in the 250 - 499 and over 500 size range, which might be due to the limited number of respondent firms in these size ranges.) Within the individual size ranges, the spread of export percentage is relatively equal over all percentage breaks; however, the majority of exporting firms within the size ranges reported export sales percentages of between one (1) and five (5) percent of total gross sales.

Some 1967-68 statistics presented by the United States Senate in its Twenty-Second Annual Report of the Select Committee on Small Business (Report No. 92-1280) include the following:

Comparing the export involvement the manufacturing respondents to the export involvement of manufacturers in 1967-68, there has been a significant increase in export activity by manufacturers. Of prime significance the fact that the majority of the increased activity has been in by small manufacturers employing between 100 and 500 employees.

H. Desire for Further Export Information

The survey asked the question "Would you like to receive further information on courses, conferences, and publications explaining export opportunities and procedures?" 91.6 percent of the total respondents answered this question and of these approximately one-third answered "yes." Approximately 46 percent of the manufacturers also answered "yes." Approximately 46 percent of the manufacturers also answered in the affirmative. Although approximately fifty percent of the manufacturers stated that they did not have the necessary productive capacity to export, if more of the non-exporting manufacturers could receive this information, they could very well make a significant contribution to increasing U.S. export trade.

III. Summary of Survey Findings

1. Of current exporters, 20.5 percent continue to experience difficulty in securing information on export procedures.
2. The primary reasons for respondents not exporting are:
 - a. They are too concerned with developing domestic markets.
 - b. They don't know where a good overseas market exists for their products. Among manufacturers a significant additional reason was that they lacked the required knowledge to export.

3. Approximately 13 percent of all respondents were involved in exporting. Approximately 30 percent of manufacturers were generated some export sales, however. The extent of manufacturer involvement in exporting is significantly greater than would be expected based on past statistics.
4. The majority of exporters export through their own sales organization (74.6 percent) and overseas agents or distributors (44.0 percent). Some use export management companies (22.5 percent). It appears that exporters use a combination of methods to generate export methods.
5. Very few respondents are listed with the American International Traders Register. The AITR serves many purposes including a base list for attracting business representation in U. S. Department of Commerce sponsored overseas exhibitions, fairs, and trade missions.

TABLE 19
Percent of Export Sales vs Employment Size
of All Respondents

Percent of Export Sales	Total Responses	Total No. Employees	Average No. Employees	Employment Size					Over 500 Employ.
				0-49 Employ.	50-99 Employ.	100-249 Employ.	250-499 Employ.	500 Employ.	
0%	1842	43,458	23.6	1,687	93	46	11	5	
1-5%	196	11,044	56.3	131	31	29	4	1	
6-10%	54	1,860	34.4	41	11	1	1		
11-15%	21	877	41.8	14	4	3			
16-25%	20	986	49.3	12	4	4			
26-35%	15	698	46.5	11	1	3			
36-50%	17	709	41.7	12	3	2			
OVER 50%	18	753	41.8	15		3			
Total	2,183	60,385	27.7	1,923	147	91	16	6	
Exporters	341	16,927	49.6	236	54	45	5	1	
Non-Exporters	1,842	43,458	23.6	1,687	93	46	11	5	
% Exporters	15.6%	--	--	12.2%	36.7%	50.5%	31.3%	16.7%	

TABLE 20
Percent of Export Sales VS Employment Size of Manufacturers

Percent of Export Sales	Total Responses	Total No. Employees	Average No. Employees/ Firm	Employment Size					OVER 500 Emp.
				0-49 Emp.	50-99 Emp.	100-299 Emp.	250-499 Emp.	OVER 500 Emp.	
0%	596	20,278	34.0	499	55	30	9	3	
1-5%	147	9,939	67.6	85	30	27	4	1	
6-10%	37	1,615	43.6	26	9	1	1		
11-15%	15	754	50.3	9	3	3			
16-25%	19	978	51.4	11	4	4			
26-35%	10	656	65.6	6	1	3			
36-50%	11	651	59.2	6	2	2			
OVER 50%	9	671	74.6	6		3			
Total	844	35,542	42.1	648	105	73	14	4	
Exporters	248	15,264	61.5	149	50	43	5	1	
Non-exporters	596	20,278	34.0						
% Exporters	29.4%	---	--	23.0%	47.6%	58.9%	35.7%	25.9%	

TABLE 21
EXPORTER DISTRIBUTION BY SIZE 1967, 1976

Number of Employees	Total Manufacturing Companies	Estimated		Survey Findings	
		% Exporters	% Exporters	Total Man Cos.	% Exporters
1 to 19	176,080	2.7%	2.7%		
20 to 99	58,840	12.1%	12.1%	753	26.4%
100 to 499	15,070	31.4%	31.4%	87	55.2%
500 to 999	1,620	56.2%	56.2%		
1,000 to 4,999	1,350	69.6%	67.1%	4	25.0%
5,000 or more	530	94.3%	94.3%		
Total	253,490	7.4%	7.4%	844	29.4%

NATIONAL FEDERATION OF INDEPENDENT BUSINESS



150 WEST 20th AVENUE • SAN MATEO, CALIF. 94403

LEGISLATIVE OFFICE
920-22 WASHINGTON BLVD.
WASHINGTON, D. C. 20505

September 16, 1974

EXPORT INFORMATION SURVEY

Dear Federation Member:

Our country is staring right into the eyes of what could become a most critical international balance of payments problem, one which might seriously further weaken the dollar - at home as well as abroad.

Other countries are increasing sharply the prices for raw materials - petroleum, tin, etc. - which they ship to us. We have no choice but to step up our own export activity, to hold the line, by paying for our increased costs.

There's a strong conviction at Washington that the small business sector could play a critically important role in providing additional export activity - far greater than it is now doing, and at a rewarding profit.

This is the reason why we're sending this survey to you - to determine exactly what small business is now doing in the export field, and to find ways and means of involving additional independents in this field.

The survey questions on the following pages have been carefully phrased for understandability. Their number has been kept to an absolute minimum. The information secured will be published only in aggregates. You will not be identified in connection with it. We will use your name only if you respond "yes" to Question No. 9.

We ask, and thank you for, your immediate cooperation. The country has a big job on its hands, and you can help. The enclosed postal return envelope is for your convenience.

Sincerely,

Wilson S. Johnson
President

Enc

EXPORT INFORMATION SURVEY

Please check or circle appropriate boxes

	<u>Yes</u>	<u>No</u>	
1. a) Is your primary product appropriate for export?	<input type="checkbox"/>	<input type="checkbox"/>	1
b) Do you feel your product would enjoy a competitive advantage in the export market?	<input type="checkbox"/>	<input type="checkbox"/>	2
2. Do you now export any of your products?	<input type="checkbox"/>	<input type="checkbox"/>	3
If your firm DOES export:			
a) Do you export through your own sales organization?	<input type="checkbox"/>	<input type="checkbox"/>	4
b) Do you have a Domestic International Sales Corporation?	<input type="checkbox"/>	<input type="checkbox"/>	5
c) Do you export through an export management company?	<input type="checkbox"/>	<input type="checkbox"/>	6
d) Do you export through an overseas agent or distributor?	<input type="checkbox"/>	<input type="checkbox"/>	7
e) Are you listed with the American International Traders' Register?	<input type="checkbox"/>	<input type="checkbox"/>	8
f) Are you encountering export difficulties such as:			
1) Financing export sales?	<input type="checkbox"/>	<input type="checkbox"/>	9
2) Finding foreign markets?	<input type="checkbox"/>	<input type="checkbox"/>	10
3) Competing with foreign suppliers?	<input type="checkbox"/>	<input type="checkbox"/>	11
4) Knowing export procedures?	<input type="checkbox"/>	<input type="checkbox"/>	12
5) Other?	<input type="checkbox"/>	<input type="checkbox"/>	13
3. If your firm DOES NOT export, is it because of the following significant reasons?			
a) Don't have the knowledge you think is required?	<input type="checkbox"/>	<input type="checkbox"/>	14
b) Not interested in export sales?	<input type="checkbox"/>	<input type="checkbox"/>	15
c) Too concerned with developing domestic markets?	<input type="checkbox"/>	<input type="checkbox"/>	16
d) Believe there is too much risk in selling abroad?	<input type="checkbox"/>	<input type="checkbox"/>	17
e) Don't know where would be a good market?	<input type="checkbox"/>	<input type="checkbox"/>	18
f) Don't have the productive capacity?	<input type="checkbox"/>	<input type="checkbox"/>	19
g) Don't have the necessary capital?	<input type="checkbox"/>	<input type="checkbox"/>	20
h) The financial aspects are too complicated?	<input type="checkbox"/>	<input type="checkbox"/>	21
i) Unable to obtain banking assistance?	<input type="checkbox"/>	<input type="checkbox"/>	22
j) Too much competition?	<input type="checkbox"/>	<input type="checkbox"/>	23
k) Profitability too low?	<input type="checkbox"/>	<input type="checkbox"/>	24
l) Transportation too costly?	<input type="checkbox"/>	<input type="checkbox"/>	25
m) Other?	<input type="checkbox"/>	<input type="checkbox"/>	26

- | | <u>Yes</u> | <u>No</u> | |
|--|--------------------------|--------------------------|--------------------------|
| 4. Is your firm aware of: | | | |
| a) The export programs of the U.S. Department of Commerce? | <input type="checkbox"/> | <input type="checkbox"/> | 17 |
| b) The export credit programs of the Export-Import Bank? | <input type="checkbox"/> | <input type="checkbox"/> | 20 |
| c) The programs of the Foreign Credit Insurance Association? | <input type="checkbox"/> | <input type="checkbox"/> | 20 |
| d) The Domestic International Sales Corporation concept? | <input type="checkbox"/> | <input type="checkbox"/> | 20 |
| e) The export management company concept? | <input type="checkbox"/> | <input type="checkbox"/> | 21 |
| f) The export services of many large banks? | <input type="checkbox"/> | <input type="checkbox"/> | 22 |
| 5. What are your gross yearly sales? <input type="checkbox"/> \$10-25,000 <input type="checkbox"/> \$25-50,000 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> \$50-100,000 <input type="checkbox"/> \$100-200,000 <input type="checkbox"/> \$200-500,000 <input type="checkbox"/> Over \$500,000 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | 22 |
| 6. What is the approximate percentage of your firm's gross sales that are generated through export sales? <input type="checkbox"/> 0% <input type="checkbox"/> 1-5% <input type="checkbox"/> 6-10% <input type="checkbox"/> 11-15% | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 16-25% <input type="checkbox"/> 26-35% <input type="checkbox"/> 36-50% <input type="checkbox"/> Over 50% | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | 24 |
| 7. How many paid employees in your firm including yourself? | _____ | | 25-26 |
| 8. What is your ONE PRIMARY business activity? <input type="checkbox"/> Manufacturing | | | |
| <input type="checkbox"/> Wholesale <input type="checkbox"/> Services | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | 26 |
| 9. Would you like to receive further information on courses, conferences, and publications explaining export opportunities and procedures? | | | |
| <input type="checkbox"/> Yes <input type="checkbox"/> No | <input type="checkbox"/> | <input type="checkbox"/> | 26 |

Please complete the following:

Your Name _____

Your Position _____

Firm Name _____

Address _____

_____ Zip _____

Telephone Number: Area Code (_____) _____

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling information)



Additional Comments: _____

Signature

Senator LEVIN. Could you ask them to include some questions on that in the next survey?

Mr. WEAVER. Surely.

Senator LEVIN. Thank you.

Senator MORGAN. Mr. Weaver, we appreciate your coming. As I understand your testimony, you have done a number of things. Let me recapitulate.

You have established an Office of International Trade. You have signed an agreement with the Department of Commerce to establish methods for Commerce personnel to refer to your agency businesses needing financial assistance in the export trade. You have targeted, as Senator Levin has pointed out, \$100 million in fiscal 1979 for loan guarantees for small exporters although you do not expect to reach that goal or target.

You are holding international trade seminars; foreign training programs. You have assigned one person in every SBA district office the collateral duty of helping in international trade responsibilities. You have about 275 volunteers, either retired or active businessmen, who are willing to work and counsel small business. You are registering small businesses interested in exporting. You are establishing the procurement automated source system for all those companies wishing to do business.

Mr. WEAVER. Yes, sir.

Senator MORGAN. Thank you, very much.

Mr. Weaver, we hope to continue to pursue this matter right on throughout the entire session and we will be calling on you again.

Our next witness is Mr. John L. Moore, Jr., President and Chairman of the Export-Import Bank.

Mr. Moore, we are delighted to have you with us and appreciate your taking the time to come over and help us explore possibilities of increased trade for small business and try to explain to us, as best you can, how you go about financing. I am never quite certain I understand the Export-Import Bank and how you operate. I was 4 years on the Banking Committee, and I am still not sure I understand it. I can understand why the small businessman has difficulty understanding it.

**STATEMENT OF JOHN L. MOORE, JR., PRESIDENT AND CHAIRMAN,
EXPORT-IMPORT BANK, ACCOMPANIED BY JOHN BIERMAN,
SENIOR VICE PRESIDENT, EXPORT-IMPORT BANK**

Mr. MOORE. Mr. Chairman, may I introduce John Bierman who is Senior Vice President of Eximbank for Exporter Credits, Guarantees and Insurance.

I have submitted my statement for the record, Mr. Chairman.

Senator MORGAN. We have your longer statement for the record, and I notice you do have a summary. Your statement will be printed in full in our record at this point.

Mr. MOORE. Thank you.

[The prepared statement of Mr. Moore follows:]

Statement of
John L. Moore, Jr.
President and Chairman
Export-Import Bank of the United States
Before the
Subcommittee on Government Procurement
Senate Select Committee on Small Business

April 12, 1979

Mr. Chairman, Members of the Committee:

I am pleased to have this opportunity today to testify on behalf of the Export-Import Bank of the United States regarding its role in support of small business exporters, and the smaller U.S. commercial banks. Eximbank provides export financing assistance in the form of loans, guarantees and insurance to private buyers and foreign governments or government agencies.

The need for export financing to be competitive in foreign markets is an established fact of business life. The availability of credit can sometimes be as important as pricing in making a sale overseas. The natural reluctance of smaller U.S. banks and exporters to extend credit to unknown foreign buyers can be largely overcome through the protection offered by Eximbank programs.

The statute under which Eximbank operates requires "that the Bank shall accord equal opportunity to . . . small commercial banks in the formulation and implementation of its programs; that the Bank shall give due recognition to the policy stated in section 2(a) of the Small Business Act that 'the Government shall aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise' and that in furtherance of this policy the Board of Directors shall designate an officer of

the Bank who shall be responsible to the President of the Bank for all matters concerning or affecting small business concerns and who, among other duties, shall be responsible for advising small businessmen of the opportunities for small business concerns in the functions of the Bank and for maintaining liaison with the Small Business Administration and other departments and agencies in matters affecting small business concerns; that the Bank should give emphasis to assisting new and small business entrants in the agricultural export market. . ."

Mr. Chairman, since I became President and Chairman of the Bank 23 months ago, Eximbank has given strong emphasis to these mandates of our statute. These are not tasks that can be done once and forgotten for long periods of time. What is required is a continuing effort on the part of the management and staff of the Bank to make sure that we are faithfully carrying out the intent of the law.

I am pleased to be able to report to you that no segment of the economy is being given more attention and encouragement by Eximbank than the small business concerns of this country. We have in operation a number of on-going programs through which small business export sales are supported. Currently, we are conducting a special series of conferences throughout the country to help inform small businesses how Eximbank can assist them in export financing.

We estimate that about 50,000 smaller American firms have export sales potential, but fewer than half that number are actually exporting. Only 100 firms account for 50 percent of all American export business. About 250 firms sell more than 75 percent of U.S. exports. We believe

small business concerns can develop a great deal more export business, earn themselves more profits and contribute toward a stronger U.S. economy and a more favorable balance of trade.

I must add, however, that we do not want to deceive you or the public by implying that exporting is appropriate for all small businesses. We strongly advocate that exporting be encouraged primarily for those small businesses which are sufficiently experienced in efficient and profitable business operations that the somewhat more complex marketing, documentation, tax, shipping and financial aspects of exporting can be handled with hard work and the assistance available from government and private sources.

For record-keeping purposes, Eximbank defines small business as an entity, together with its affiliates, which is independently owned and operated and which does not have net worth in excess of \$5 million or annual sales in excess of \$10 million.

Based on this definition, on December 31, 1978, Eximbank had on its books a substantial amount of export sales being supported for small businesses. Included were 3,279 transactions involving 964 small businesses. The Bank's authorizations for these transactions totalled \$1.95 billion supporting exports worth \$2.94 billion. This "small business" support was 15 percent of the total business on the Bank's books on December 31. It should be noted that these figures take into account only those transactions in which a small business is the exporter of record. Not included are the many thousands of small businesses which benefit from Eximbank financing support as subcontractors or

subsuppliers on larger orders where the major contractor is listed on our books as the supplier of record.

In order for Eximbank to meet the needs of small business more fully, we have established some new programs and modified some old ones. The new programs and modifications of existing programs are as follows:

Small Business Short-Term Comprehensive Insurance Policy

On June 12, 1978, the Bank completed negotiation on an agreement with our commercial insurance arm, the private Foreign Credit Insurance Association (FCIA), to offer a new short-term (1-180 day) insurance policy. The purpose of the policy is to meet more adequately the particular credit requirements of smaller, less experienced exporters. Under the Policy, Exim assumes a substantially greater share of the commercial and political risks involved in extending credit to the exporter's overseas customers. This policy frees the smaller exporter from the "first loss" commercial risk provisions that are usually found in insurance policies. Many small businesses with potential for exporting feel impeded by inadequate insurance risk coverage. This new policy is designed to offer greater protection to more vulnerable firms.

Firms which have never been covered by an Eximbank guarantee or an FCIA insurance policy and which have a maximum net worth of \$2 million and average annual export sales of no more than \$350,000 for the two previous years are eligible for these special policies. Through March of this year 102 applications had been received, 38 policies issued, 17 quotes made to applicants, 6 applications declined and 41 applications were under consideration.

Medium-Term Guarantee Program

The Bank has made a series of modifications to its medium-term (181 days to 5 years) Commercial Bank Guarantee Program. The program now provides appeal to a broader range of banks. Guarantees will be issued in the name of the Bank to cover credit offered for export sales of capital goods. As with the short-term insurance program, Eximbank will assume a greater share of the credit risks involved in the transaction. Small businesses have been reluctant to enter or expand in the capital goods market because of the longer financing terms required by foreign buyers, and the proportionately greater credit risk involved. The adjusted Guarantee program relieves them from a substantial portion of that risk and encourages the smaller bank to become involved with Eximbank based on lower risk assumption. These changes would meet the specific requirements of small and minority businesses. While they will still have to face tough price competition in the international marketplace, we hope the stronger financing aspects of this plan will offer them considerably more competitive edge.

The Interagency Small Business Conference Program

Last spring, the Bank joined with other agencies to form a new interagency educational effort which was designed to assist and inform small and minority firms interested in export sales. Working with the Department of Commerce, the Small Business Administration, and the Overseas Private Investment Corporation, Eximbank helped to organize what is now known as the Small Business Export and Investment Committee. Through informal discussions we have developed a coordinated program of

informational and assistance services. The overall theme of our public effort is "The Small Business Market is the World: Entering International Markets."

The Small Business Export Committee membership includes: the Administrator of the Small Business Administration, the Assistant Secretary of Commerce for Industry and Trade, the President of the Overseas Private Investment Corporation, and the President of Eximbank.

We have organized a number of one-day conferences in major commercial centers throughout the country which have been followed by a series of longer, more intensive workshops. At the conferences and workshops, the participants are introduced to all aspects of exporting and overseas investments. Presentations are made by senior agency officials. We have also gained the support of and participation by small businessmen who have export experience. Rather than a pure theoretical presentation, the participants at the conference hear case studies from men and women who have succeeded in the export market. Following the conferences, personal counseling is being given to those firms willing to make a serious effort with their overseas sales programs.

A public "kick-off" of the nationwide program was held last spring in five major cities: Atlanta, Dallas, Boston, Cleveland, and Los Angeles. Nearly 1200 participants attended the kick-off conferences with a substantial number signing up for the following workshops. At the end of March, the Bank, along with the other agencies, had held 29 conferences and workshops in 20 additional cities. Ten more conferences are scheduled through June and six more for this fall. More than 5,000

businesspersons, bankers, educators and local and state government officials from all sections of the country have now participated in the program. Many conferences have been scheduled at the requests of Congressional delegations and governors' offices.

Indirect Support of Small and Minority Business Exports

While the benefits of the Bank's direct support to exporters are more quantifiable, it is our belief that the indirect support the Bank extends to the small and minority business communities is significant. This indirect support originates principally from the Bank's lending programs which assist larger export sales. Many smaller companies serve as subcontractors and subsuppliers to the large U.S. firms which normally win these kinds of contracts abroad. For example, large infrastructure projects normally involve one or two primary U.S. suppliers but literally hundreds of subsuppliers are affected.

All of the supply contracts, of course, represent American jobs. The Department of Commerce estimates that one in eight American manufacturing jobs is supported by export sales. The fact that exports so clearly make an impact on employment provides strong motivation to meet the official export financing competition that has developed in recent years.

In addition to the financing programs and the nation-wide series of conferences, Eximbank has continuing service available at no cost to small businesses, as well as to other exporters. The newest of these is a Small Business Hotline. This is a free telephone line for incoming

calls to Eximbank from exporters or would-be exporters who need information and guidance about export financing. During the first eight weeks of operation, more than 700 calls were received, recorded and processed by our staff. By far, the majority have been from smaller manufacturers or exporters with substantive export financing questions to be answered or problems to be solved.

This Hotline supplements and enhances the Small Business Advisory Service of the Bank. This service is maintained to encourage smaller export firms. Eximbank provides information on the availability and use of export credit insurance, guarantees, discount loans, and foreign bank credits to buy U.S. goods and services overseas.

On a regular schedule of every two weeks, Eximbank also offers a two-day briefing program which is open to representatives of small businesses and banks. Usual attendance for these sessions is 15 to 20 persons. Selected speakers present a full description of the Bank's programs and services.

Mr. Chairman, in closing, I want to emphasize that Eximbank needs no new authority to implement our support for small business. The present mandate is clear and we believe that our efforts reflect our recognition of that clear mandate. We will continue to encourage small business to become involved in exporting with our assistance. We will continue our efforts to communicate the information needed to every small business in this country. This is a never-ending task as businesses change, as new ones develop, and as the people who run them change. Eximbank is committed to maintaining a strong initiative to assure small business the greatest possible consideration and assistance for export financing.

Mr. MOORE. Mr. Chairman and members of the committee, I am pleased to have this opportunity to testify on behalf of the Export-Import Bank of the United States with regard to its role in support of small business exporters and the smaller U.S. commercial banks. Eximbank provides export financing assistance in the form of loans, guarantees and insurance to private buyers and foreign governments or government agencies. The natural reluctance of smaller U.S. banks and exporters to extend credit to unknown foreign buyers can be largely overcome through the protection offered by the Eximbank programs.

No segment of the economy is being given more attention and encouragement by Eximbank than the small business concerns of this country. We have in operation a number of ongoing programs through which small business export sales are supported.

Currently, we are conducting a special series of conferences throughout the country to help inform small businesses on how Eximbank can assist them in export financing.

Eximbank defines small business as an entity which is independently owned and operated and which does not have net worth in excess of \$5 million or annual sales in excess of \$10 million.

Based on this definition on December 31, 1978, Eximbank had on its books a substantial amount of export sales being supported for small business. Included were 3,279 transactions involving 964 small businesses. The Bank's authorization for these transactions totaled \$1.95 billion to support exports worth \$2.94 billion.

Senator MORGAN. How much?

Mr. MOORE. It was \$1.95 billion of our support which enabled exports valued at \$2.94 billion to go forward.

It should be noted that these figures take into account only those transactions in which a small business is the exporter of record. Not included are the many thousands of small businesses which benefit from Eximbank financing support, as subcontractors or subsuppliers on larger orders, where the major contractor is listed on our books as the supplier of record.

We have designated one of the senior vice presidents of the Bank as a small business officer. To meet the needs of small business more fully, Eximbank has established new programs and modified some old ones. Together with our privately owned commercial insurance arm, the Foreign Credit Insurance Association which we call FCIA, Eximbank now offers a new short-term, that is up to 180 days, insurance policy. Firms which have never been covered by an Eximbank guarantee or FCIA insurance policy and which have a maximum net worth of \$2 million and average export sales of not more than \$350,000 for the 2 previous years are eligible for these special policies. Through March of this year 102 applications have been received, 38 policies issued, 17 quotes made to applicants, 6 applications declined, and 41 applications are under consideration.

The Bank has also made a series of modifications to its medium term, that is 181 days to 5 years, commercial bank guarantee program. The program now provides an appeal to a broader range of banks. This program relieves small businesses from a substantial portion of risk and encourages the smaller bank to become involved with Eximbank on lower risk.

Last spring, the Bank joined with other agencies to form a new interagency educational effort designed to assist and inform small and minority firms interested in export sales. Eximbank helped organize the small business export and investment committee. We organized a number of 1-day conferences in major commercial centers throughout the country followed by a series of longer, more intensive workshops. At the conferences and workshops, the participants are introduced to all aspects of exporting. By the end of March, the Bank, along with the other agencies—SBA, the Commerce Department, and OPIC—had held 29 conferences and workshops in 25 cities. Ten more conferences are scheduled through June and six more this fall.

More than 5,000 business persons, bankers, educators, and local and State government officials from all sections of the country have now participated in the program. Many conferences have been scheduled at the request of congressional delegations and Governors' offices.

In addition to the financing programs, Eximbank has continuing services available at no cost to small business as well as other exporters. The newest of these is a small business hotline. This is a free telephone line for incoming calls to Eximbank from exporters or would-be exporters who need information and guidance about export financing. During the first 8 weeks of operation, more than 700 calls were received. This enhances the Small Business Advisory Service through which Eximbank provides information on the availability of export credit insurance, guarantees discount loans, and foreign bank credits to buy U.S. goods and services abroad.

Every 2 weeks Eximbank offers a 2-day briefing program which is open to representatives of small businesses and banks. Usual attendance is 15 or 20 persons who hear a full description of the Bank's programs and services.

Mr. Chairman, in closing I want to emphasize that Eximbank needs no new authority to implement our support to small business. The present mandate is clear and we believe that our efforts reflect our recognition of that clear mandate. We will continue to encourage small business to become involved in exporting with our assistance. We will continue our efforts to communicate the information needed to every small business in this country. This is a never ending task as businesses change, as new ones develop, and as the people who run them change.

Eximbank is committed to maintaining a strong initiative to assure small business the greatest possible consideration and assistance for export financing.

Thank you.

Senator MORGAN. Thank you, Mr. Moore.

If I could emphasize Senator Levin's earlier request, it would be helpful to us if you can submit to us later on two or three examples of small businessmen doing export business with your assistance. Would you give us two or three examples?

Mr. MOORE. Surely.

[Subsequent information was received and follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

SMALL BUSINESS POLICIES

Although it is difficult to select three small business insurance policyholders that would be typical of the kind of firm supported under the small business program and the kinds of financing problems these firms face, the following three case histories are illustrative of specific problems facing small exporters and how Eximbank may provide some assistance.

Ameriko Industries Corp. of Pasadena, California is a small export management company that exports various products including floor coverings, chemicals and dyes. The exporter has sold only to Korea in the past but will open new markets, beginning in the near future. Ameriko's problem was that its foreign buyers were requesting that Ameriko use other than secured credit terms (confirmed irrevocable letter of credit) so as to reduce transaction costs and increase purchases from Ameriko but the exporter was unable to assume the risk involved on unsecured terms. One substantial loss could easily have impaired Ameriko's limited capital to the point where continuation in business was impossible. Ameriko recently applied for, and has been issued, a comprehensive short term small business insurance policy which covers 100 percent of the political risks and 95 percent of the commercial risks in its insured export sales on terms of up to 180 days open account. The exporter will now be able to consider other than secured terms of sale thereby potentiating higher export sales.

Industrial Trading International Inc. of Morehead City, North Carolina began operations in 1977 and exports copying machines and supplies, cleaning equipment, chemicals, etc. to numerous buyers in Latin America. The two principals had extensive export experience in other firms but had a difficult time raising operating funds from commercial banks because of the newness of the operation and their limited resources. A small business policy was requested and issued with the dual purpose of providing insurance coverage and facilitating financing of operations. The latter is facilitated by the exporter assigning any proceeds of the policy to its commercial bank which then advances additional operating funds to the U.S. firm with the knowledge that the bulk of the exporter's sales are insured against commercial and political risks. The exporter is now better able to finance its operations and extend larger lines of credit to its overseas buyers thereby facilitating increased sales.

Omni Optics Inc. of Los Angeles, California sells new and reconditioned optical machinery to numerous buyers worldwide. The exporter had been selling on very short terms because its small size and limited resources prohibited giving extended terms. The principal of the firm knew that providing terms of up to 180 days to his dealers would have a very favorable impact on his sales because the foreign dealers would then be able to demonstrate a larger line of products and provide the end user with repayment terms. Eximbank recently approved a comprehensive small business policy which the exporter can assign to its commercial bank thereby facilitating the needed financing.

Senator MORGAN. I assume what happens if a businessman finds a customer, then you have to finance the customer. Is that essentially correct?

Mr. MOORE. In our medium- and short-term programs, which are almost exclusively what the small business would use because the product financing abroad would be on cash or short-term financing, we would, in fact, insure the exporters or the exporters' banks that they would not lose because of the credit of the foreign buyer. So we are not directly financing the private sector in the United States, but the big risk on commercial credit or on political risk abroad would be taken by us for the Government of the United States.

Senator MORGAN. How do you determine how much risk you will take, or how much you will insure?

Mr. MOORE. We are required by statute to find a "reasonable assurance of repayment" in all of our transactions and that is the standard we try to apply.

In the private sector and small transactions abroad, we take significant risk. From the beginning of our guarantee and insurance programs, we have about broken even. We have paid for our losses with the insurance premiums. Judged on that it is a satisfactory degree of risk.

One could say that the Government should make more of an investment than a break-even program. Philosophically, up to now the United States has not felt that way.

Senator MORGAN. Well, tell me how OPIC fits into your operation, or distinguish between.

Mr. MOORE. OPIC insures investment typically in equity, that is, in setting up of a new enterprise abroad.

Senator MORGAN. Overseas?

Mr. MOORE. Overseas. We may be involved in the same transaction because that new enterprise abroad may want to buy technology or goods from the United States in which case that new enterprise could apply to us for financing of one sort or another to build the plant or to buy technology or capital goods from the United States. We deal only in loans, guarantees, and insurance directly related to the value of exports from the United States.

OPIC is insuring you will not lose money if you invest in an enterprise abroad.

Senator MORGAN. I notice in your statement that in your seminars you do work closely with OPIC in trying to disseminate this information.

Mr. MOORE. Yes. We frequently work together because if you have an American business going abroad to make investment, it is highly likely that they will want to have American technology follow, and we regard it as a good method of stimulating exports from the United States.

Senator MORGAN. A couple of questions here from the staff.

Do you believe the export financing assistance that you provide is and will continue to be competitive with that offered by foreign governments to their exporters?

Mr. MOORE. Within the framework in which we operate, Mr. Chairman, including a limited and finite budget, I think we do the best job we can to be competitive. But to answer your question quite truthfully, the United States as a Government and as an exporting community has never attached the importance to exporters that all of our industrialized competitors abroad have. As a result, you will have massive programs of support in the countries of our competitors and we are not matching every aspect of that.

I just visited Tunisia, for example, where the French have what is called a mixed aid credit line, a mixed line of credit. The entire export value on any export from France will be covered under the line. Half of that cover is extended at 3.75 percent per annum, not just a set 3.75 percent, repayable over 25 years with 7 years' grace. One-half of the credit is offered at normal export credit terms, which would be the kind of offer we would make. Depending on the project, this type of financing probably takes 10 years to repay with interest at 7.5 percent, which is the lowest percentage you could charge Tunisia under the export credit understanding we have among the nations.

The French line is matched by the Japanese and matched also by the Germans, although there is some indication the German line may not be tied to exports from Germany.

The Tunisian market was \$620 million last year of imported capital goods. It is not a big country, but \$620 million is substantial business. The United States won \$25 million of that business. France had over 30 percent or approximately \$200 million. The question we have before us at this point is, do we match that kind of credit? The U.S. exporters do not try in Tunisia. There is no reason to try if your financing is going to be 8 or 9 percent against 3.75 percent.

We do not approve of the French system and would like to have them stop. But you have to realize that, in almost every situation, you face an attitude like that and the U.S. position so far has been that Government export credit should be extremely limited and should address only the largest projects that require terms longer than our private banks will agree to extend. In that limited context, if all of us played that same game, I am very much in agreement.

To answer directly, the United States cannot hold itself out as fully competitive in all situations around the world. We are not. We do a good job within the resources devoted to us.

Senator MORGAN. From what you say and from what every witness has said today and last week, including Ambassador Strauss, it seems in years past we have not been too concerned because we did not have to be, whereas countries like France and Japan and others depend upon exports and have been very generous in their efforts. I think what this committee is going to be interested in the rest of this year is trying to find ways and means in which we can become more aggressive in this area.

Mr. Moore, I am going to turn it over to my colleagues and I want to say before I do that I am going to have to leave. I am on another committee and will have to leave, unfortunately, so I will leave it to them, but I do want to thank you Mr. Lewis, Mr. Zayas, and Mrs. Dickerman for being here and assure you your testimony will be helpful to us and the staff and the committee as a whole as we try to find ways and means of helping in this area.

Mr. MOORE. Thank you, Mr. Chairman.

Senator MORGAN. I will ask Senator Stewart to preside.

Senator STEWART [presiding]. I just have one question of you.

I would like to know if you will come to Alabama with the Commerce Department and the small business seminar we plan to have down there. I would like to have you or some member of your staff join us.

Mr. MOORE. We will be down there May 21, in Montgomery. I will not be there personally but Eximbank staff members will explain our programs.

Senator STEWART. What we are talking about is putting together a seminar for small business for 1 day or 1 day and a half. The Commerce folks are going to be there, and it would be good if we could have a representative from your organization.

Mr. MOORE. We will be happy to participate.

Senator STEWART. Senator Levin, did you have questions?

Senator LEVIN. I would like to invite you to come to Michigan, too.

Mr. MOORE. We have a seminar planned in Grand Rapids on May 22.

Senator LEVIN. I am glad you told me.

Mr. MOORE. We hope you will attend. If we can get a few Senators, that is always helpful.

Senator LEVIN. You talked about what you call the mixed program involving credit and foreign aid. I was not sure of your answer. Do you think we ought to compete with France or not?

Mr. MOORE. I think we ought to compete with France in some instances to make the point. We have been unsuccessful at the negotiating table in persuading them to stop that practice, so we would hope to discourage them from the practice they have followed in the past.

In fairness, they feel they cannot support aid to less developed countries unless there is a direct benefit to labor in France. They feel their political situation is not strong enough for aid programs.

All the rest of the countries I really think would desist from this kind of an approach in projects that can pay for themselves where they think export credit terms apply if the French would, but it is very difficult so our decision up to now in the administration is that we must go ahead and match some of these.

Our eventual objective would be to eliminate them entirely, Senator.

Senator LEVIN. Will you need legislative authority for that?

Mr. MOORE. No. It was voted last year. The question is one of budget. Can we do it within a finite budget.

Senator LEVIN. There are things that banks of other countries do that you cannot do. Insurance against exchange rate fluctuations can apparently be provided by other countries; performance bond guarantees. Are there other things like that?

Mr. MOORE. We could do either of those now as far as statutory authorization. Until it is absolutely necessary, I think the Government will be opposed to taking the exchange risk because of expense.

The French, again, are the heaviest in that area. I believe they spend the equivalent of \$500 million a year just on that support. If they would just stop the practice, we could always force the buyer to take the exchange risk.

Senator LEVIN. Do these subjects come up at the trade negotiations?

Mr. MOORE. Yes. That specific one comes up in the context of the International Arrangement on Export Credit, which is sort of carved out of GATT as a separate subject, but they, of course, know about it and our position is very strong that everybody should stop exchange risk programs.

Again, we have not succeeded so far. I think the French are the ones who have done the most of it. The Italians started it and it was so expensive they abandoned it. The British and Germans have a program but it is pretty well limited, and the value is not that great to the exporters.

Senator LEVIN. Have you set aside a certain percentage of lines of credit that you are authorized to provide and be available to small business?

Mr. MOORE. No, we have not. There is really no way to do that because in terms of lines of credit those would be operated under our direct credit program where the small businesses are generally not directly involved. The larger projects requiring financing under our

direct credit program tend to be bid by larger groups of companies in this country, and the small businesses will come in under one tier or another as subcontractors or suppliers.

Senator LEVIN. I see.

Mr. MOORE. We try to interest the small businessmen to get into it. We are not limited in any way in the support we can give small businessmen.

Senator LEVIN. Those lines of credit are not eaten up by the large companies?

Mr. MOORE. I think they are if you look at the prime contractor. It is hard to say that the lines of credit, which generally involve minimum purchases of \$5 million, are used directly by small businesses. They may in some instances, especially in the high technology small business because we do aggressively support the supply of engineering and design services and many of those are by small businesses.

Senator LEVIN. How much does your operation cost the American taxpayer?

Mr. MOORE. Zero. Eximbank makes a profit annually and we returned a dividend of \$35 million to the Treasury last year. We have paid slightly in excess of \$1 billion in dividends into the Treasury since the beginning of our programs. We have never had any appropriations from Congress.

Senator LEVIN. You had a \$4.1 billion loan authorization for 1980.

Mr. MOORE. That is correct.

Senator LEVIN. Is that going to be adequate for your anticipated loans? Would you like more?

Mr. MOORE. Well, as I have indicated, any finite figure creates difficulties for us. We are trying to do everything we can to try to get private business to assume portions of the credit on a competitive basis.

We have been working in cooperation with companies in close-bid situations to make some of the funds available at a fixed rate of interest and be competitive. Putting all this together, we have a chance to do a good job with that amount of money.

To answer truthfully, if we are going to support everything without trying to keep the lid on or tight as possible, we would have to have more than \$4.2 billion. However, in view of the need of the U.S. Government to reduce the budget deficit, I think it is the right figure.

Senator LEVIN. Would that figure increase the budget deficit?

Mr. MOORE. It does not in terms of outlays from tax funds because we borrow and relend at a profit to the Government, but we are a part of the Government budget and, therefore, we do count as part of the deficit.

Senator LEVIN. If you take in as much as you lend out, how would that increase the budget deficit?

Mr. MOORE. Because we are counted as part of the budget receipts and expenditures in each fiscal year, although our disbursements are loans and not true expenditures. We do not increase the tax load, however. At one point in time, the Bank's programs were taken out of the Federal budget for that reason. It is a different kind of program. Presently we are in it, and I would have no brief for having us taken out because I think the effect of having us in it is to cross all the difficult bridges in advance rather than have us run on our own for a period of time and suddenly people in Congress learn what is happening espe-

cially in times when we disburse more than we collect, and I would rather that not happen.

Senator LEVIN. Thank you.

Senator STEWART. Thank you very much for your testimony. We look forward to seeing you in Alabama.

Our next witness is Mr. John Lewis representing the Small Business Legislative Council.

Mr. Lewis, before you begin making your presentation, I have read over your testimony, and I assume it is not just your testimony, but the testimony of the group you represent?

STATEMENT OF JOHN LEWIS, REPRESENTING THE SMALL BUSINESS LEGISLATIVE COUNCIL, ACCOMPANIED BY HERBERT LIEBENSON, AND HERMAN DIRECTOR

Mr. LEWIS. Correct.

Senator STEWART. Since Senator Levin and I are the only members of the panel here, would it be all right with you if I took the liberty of asking you some specific questions to get what I feel is the heart of your testimony?

We will insert your statement in the record at this point and there are things you have had to say that I think are fairly important and that we ought to stress in your testimony and save us all a little bit of time.

Mr. LEWIS. That is all right with me, Mr. Chairman.

Senator STEWART. Very well. Your full statement will appear in the record at this point.

[The prepared statement of Mr. Lewis follows:]

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STATEMENT
OF THE
SMALL BUSINESS LEGISLATIVE COUNCIL
BEFORE THE
SUBCOMMITTEE ON GOVERNMENTAL PROCUREMENT
SENATE SELECT COMMITTEE ON SMALL BUSINESS
HOLDING HEARINGS ON
MULTILATERAL TRADE NEGOTIATIONS
APRIL 12, 1979

"It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise...."

*(P.L. 85-536, as amended,
Section 2(a), Small Business Act.)*

*Of the National Small Business Association

STATEMENT
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APRIL 12, 1979

Mr. Chairman and Members of the Subcommittee:

My name is John Lewis. I am President of the National Small Business Association, a multi-industry association representing approximately 50,000 small businesses nationwide. I am appearing today on behalf of the Small Business Legislative Council (SBLC), an organization of national trade and professional associations whose membership is primarily small business. SBLC focuses on issues of common concern to the entire small business community. The SBLC membership and their affiliates represent approximately four million small business firms nationwide. The SBLC supports an increased share for small business in Federal procurement, and this position is supported by 40 national associations. With me today is Herbert Liebenson, Associate Executive Director of the SBLC, and Herman Director, Federal Contract Procurement Specialist for National Small Business Association.

On behalf of the nation's small business community, we wish to express our displeasure with the approach taken in the Administration's negotiated Multilateral Trade Agreement (MTA). This Agreement restricts many of the long-standing programs gained after many years of effort by small business.

Soon the Administration will be sending to the Hill the Multilateral Trade Agreement.

Before action is taken on MTA, we express our concern about two aspects of the Agreement which would repeal, for all practical purposes:

- (1) The Buy American Act under which foreign companies must underbid U.S. firms by specified percentages to obtain

Federal procurement contracts;

- (2) The Labor Surplus Procurement Program which restricts competition on certain contracts to firms which will perform a substantial proportion of the production under the contract in a high unemployment area.

It is true that total emasculation of these two laws -- Buy American and Labor Surplus Program -- will not occur since there are exemptions included in the MTA.

However, Ambassador Strauss is unable to say just how much of the current small business sales to Federal agencies will be lost by the MTA. We believe it will be substantial.

In spite of the set-aside changes already made in MTA, the business community in the United States is bound to be affected by provisions still in the Treaty. If the door is shut to big business by the elimination of the Buy American Act, considerable subcontracting to small or minority business by large business or by government may be lost. The total government procurement that could be affected permanently in sales to Civilian Executive Agencies is \$22.417 billion.

Ambassador Strauss has testified that a number of products and agencies will be excluded from the Code. In addition, purchases by certain governmental agencies, not covered by the Code, are excluded tentatively.

If a foreign producer sell's to one agency of the Federal government at a price lower than an American firm, the pressure will be on all agencies of government, whether or not they were included in the MTA, to purchase from the foreign producer -- Canada is a good example.

Here is the breakdown by program: minority business enterprises subcontracting to large business -- \$1.207 billion; small business subcon-

tracting to large business -- \$863,652,000; prime procurements from other than small business -- \$20.12 billion. Procurements in the labor surplus area would also be affected. Presently, under preference procedures for labor surplus areas an additional \$227 million in contracts would be affected. (See Attachments A,B,C,D.)

We believe it important that, in light of the tentative exemptions in the MTA, Congress should demand line-by-line specificity as to the amount of government procurement that will be affected with respect to current domestic sales by large and small business to agencies of the U.S. government.

The present Federal Procurement Regulations provide as follows:

§1-6.104-4 Evaluation of bids and proposals

- (a) Unless otherwise determined by the head of the agency in accordance with the Buy American Act, where the procedures in this §1-6.104-4 result in the acquisition of foreign end products, the acquisition of domestic source end products would be (1) unreasonable in cost or (2) inconsistent with the public interest (see §1-6.103-3).
- (b) Except as provided in paragraph (d) of this section, bids and proposals shall be evaluated as provided in this section so as to give preference to domestic bids. Each foreign bid shall be adjusted for purposes of evaluation by adding to the foreign bid (inclusive of duty) a factor of 6 percent of that bid, except that a 12 percent factor shall be used instead of the 6 percent factor if the firm submitting the low acceptable domestic bid is a small business concern or a labor surplus area concern (as defined in §1-1.701 and 1-1.801 respectively), or both. However, if an award for more than \$100,000 would be made to a domestic concern if the 12 percent factor is applied, the case shall be submitted to the head of the agency for decision as to whether the award to the small business concern or labor surplus area concern would involve unreasonable cost or inconsistency with the public interest (see §1-6.103-3). If the foregoing procedure results in a tie between a foreign bid as evaluated and a domestic bid, award shall be made on the domestic bid. When more than one line item is offered

in response to an invitation for bids or request for proposals the appropriate factor may be applied to any group of items as to which the invitation for bids or request for proposals specifically provides that award is to be made on a particular group of items.

It is important to note that Federal procurement with certain exceptions must go to a U.S. small business if its bid is within 12 percent of the foreign offer. The 12 percent differential represents partial offsetting of the lowered cost of doing business by foreign competitors who are not subject to compliance with wage laws, U.S. government regulations, pension programs, etc.

The MTA scraps this 12 percent differential in favor of competition by businesses from some 98 nations which, in practical effect, will subsidize this competition.

Ambassador Strauss' defense that contracts of \$190,000 or less are exempt should be given no weight since he has produced no figures to show the average contract under the Buy American Act or the Labor Surplus Procurement Program.

(This same exemption of \$190,000 was trumpeted by the Ambassador in advocating elimination of set-asides as negating any material effect on that program. He withdrew that defense when it was established that the average minority set-aside is \$222,357, and the average set-aside for manufacturers is \$526,821. As you know, the proposed MTA until approximately three weeks ago severely limited the present small and minority business set-aside program. After vigorous opposition by members of the House Small Business Subcommittee on Government Oversight and Minority Enterprise this limitation on set-aside was removed. Ambassador Strauss was able to accomplish this in 48 hours in negotiations with 98 nations!)

The erroneous answer of the Ambassador to those who question the provisions of MTA is that there will be no loss to small business but a gain, since the "quid pro quo" is that sales to the procurement offices of some 98 foreign nations (Japan is an exception) will now be opened up to U.S. business. The export "opportunities" are supposed to total \$20 billion,

but this means little to small business for these reasons:

- (1) The \$20 billion of export opportunities is not exclusively for U.S. business, but for 98 nations competing for that \$20 billion;
- (2) Many firms in the 98 nations can underbid U.S. business -- and still make a sizeable profit -- because they don't have the added costs of compliance with U.S. mandatory regulations. (See Attachment E.) We know of no requirement that foreign firms will have to comply with such regulations;
- (3) U.S. small business does not have the wherewithal or the marketing expertise to penetrate the foreign market. U.S. big business, including their already in-place multinational companies, are in a preferred position to take advantage of MTA. (See Attachment F -- Journal of Commerce, March 3, 1979.)

After years of practice we have established a successful SBA program that certifies whether small business has the competency to compete on a government contract. Will the many thousands of foreign businesses, who may want to compete on U.S. government contracts, be subjected to the same certification program? Who will administer the program to ensure competency?

At the White House Conference on Small Business in Dallas, Texas, on January 23, Ambassador Strauss said:

"President Carter has recognized the enormous potential for small business in international trade. A principal part of the expanded export promotion policy announced by the President last September was the channeling of up to \$100 million of Small Business Administration loan guarantees to small business exporters to provide seed money for entry into foreign markets."

A review of the appropriations does not indicate an additional request for loan guarantees for the purpose of exporting.

Other major industrialized nations have long histories of aggressive export promotion and blocking imports of consumer goods, not through trade sanctions but through customs rules, subsidies, distribution complications, and all manner of delays. Will the Strauss "Open Door" change this? Are the \$20 billion phantom opportunities -- the birds in the bush -- offered by Mr. Strauss actually better for American business than the business in hand?

One member of our Association made this comment about the proposed MTA action:

"If I were responsible for a U.S. company that was seeking Federal contracts and had not been successful, I would move my Headquarters to San Marino, Bermuda, or Haiti, where I would not be concerned with OSHA, Social Security, income taxes, labor standards, minimum wages, or labor unions, and find myself in a better position to compete and actually obtain U.S. government contracts."

The end result of the MTA if adopted by Congress will mean a sizeable loss to U.S. small and large business which now sells, or hopes to sell, to Federal agencies; loss of U.S. jobs to cheap labor abroad; and a step backward for U.S. small business.

More than Federal procurement is involved. Once the door is opened more widely to U.S. Federal procurement to the nations abroad, the next step will be for foreign business to further exploit the U.S. state-county-city-metro government market.

When Members of Congress stated their strong opposition to limiting the set-aside program under MTA, Ambassador Strauss was able to remedy the situation quickly. He can do the same with respect to the Buy American Act and the Labor Surplus Program if Congress strongly registers its oppo-

sition. Unless the MTA is amended to correct these two inequities, we urge you to vote against its adoption.

The proposed MTA in reducing small business' share of Federal procurement runs counter to the position of 40 members of the Small Business Legislative Council who support an increased share for small business of Federal procurement. These 40 members are the following trade and professional organizations:

American Association of Nurserymen Washington, D.C.	Independent Business Association of Washington Rellevue, Washington
American Textile Machinery Assoc. Washington, D.C.	Independent Sewing Machine Dealers of America Hilliard, Ohio
Association of Diesel Specialists Kansas City, Missouri	International Franchise Association Washington, D.C.
Association of Physical Fitness Centers Bethesda, Maryland	Institute of Certified Business Counselors Lafayette, California
Automotive Warehouse Distributors Association Kansas City, Missouri	Local and Short Haul Carriers National Conference Washington, D.C.
Building Service Contractors Association International McLean, Virginia	Machinery Dealers National Association Silver Spring, Maryland
Business Advertising Council Cincinnati, Ohio	Manufacturers Agents National Assoc. Irvine, California
Direct Selling Association Washington, D.C.	Marking Device Association Evanston, Illinois
Electronic Representatives Assoc. Chicago, Illinois	Menswear Retailers of America Washington, D.C.
Furniture Rental Association of America Washington, D.C.	National Association for Child Development & Education Washington, D.C.
Independent Packers Association Washington, D.C.	National Association of Brick Distributors McLean, Virginia

National Association of Plastics
Distributors
Devon, Pennsylvania

National Association of Retail
Druggists
Washington, D.C.

National Beer Wholesalers'
Association of America
Falls Church, Virginia

National Burglar & Fire Alarm Assoc.
Washington, D.C.

National Electrical Contractors
Association
Bethesda, Maryland

National Family Business Council
West Bloomfield, Michigan

National Home Furnishings Assoc.
Washington, D.C.

National Home Improvement Council
New York, New York

National Independent Dairies Assoc.
Washington, D.C.

National Independent Meat Packers
Association
Washington, D.C.

National Office Machine Dealers Assoc.
Zanesville, Ohio

National Office Products Association
Alexandria, Virginia

National Paper Trade Association
New York, New York

National Patent Council
Arlington, Virginia

National Pest Control Association
Vienna, Virginia

National Small Business Association
Washington, D.C.

National Tire Dealers & Retreaders
Association
Washington, D.C.

Printing Industries of America
Arlington, Virginia

ATTACHMENT A

MINORITY BUSINESS ENTERPRISES SUBCONTRACTING PROGRAM

MINORITY BUSINESS
ENTERPRISES
SUBCONTRACTING
TO LARGE BUSINESS

MINORITY BUSINESS
ENTERPRISES
SUBCONTRACTING
TO GOVERNMENT

TOTAL

\$ 1,359,877,000

\$ 152,204,000

\$ 1,207,673,000

Source: Procurement by Civilian Executive Agencies for the Period Oct. 1, 1977 to Sept. 30, 1978
(Prepared by General Services Administration, Office of Finance)

ATTACHMENT B

SMALL BUSINESS SUBCONTRACTING PROGRAM

	SMALL BUSINESS SUBCONTRACTING TO GOVERNMENT	SMALL BUSINESS SUBCONTRACTING TO LARGE BUSINESS
TOTAL	\$ 1,370,413,000	\$ 863,652,000

Source: Procurement by Civilian Executive Agencies for the Period Oct. 1, 1977 to Sept. 30, 1978
(Prepared by General Services Administration, Office of Finance)

ATTACHMENT C

TOTAL PRIME PROCUREMENT

TOTAL	FROM SMALL BUSINESS	FROM OTHER THAN SMALL BUSINESS	FROM MINORITY BUSINESS ENTERPRISES
\$ 28,566,252,000	\$ 8,446,206,000	\$ 20,120,046,000	\$ 579,658,000

Source: Procurement by Civilian Executive Agencies for the Period Oct. 1, 1977 to Sept. 30, 1978
 (Prepared by General Services Administration, Office of Finance)

ILLUSTRATIVE LIST OF MANDATORY REGULATIONS
REQUIRED OF FEDERAL PROCUREMENT CONTRACTORS AND SUBCONTRACTORS

Cost Accounting Standards
Audit
Renegotiation
Allowable Cost, Fixed-Fee, and Payment
Negotiated Overhead Rates
Inspection
Standards of Work
Reports of Work
Key Personnel
Foreign Travel
Competition in Subcontracting
Changes to Make-or-Buy Program
Services of Consultants
Notice to the Government of Labor Disputes
Insurance - Liability to Third Persons
Printing
General Services Administration Supply Sources
Government Property
Authorization and Consent
Patent Rights
Rights in Technical Data
Copyright Infringement
Reporting of Royalties
Private Use of Contract Information and Data
Buy American Act Supply and Service Contracts
Clean Air and Water
Required Source for Jewel Bearing
Covenant Against Contingent Fees
Officials Not to Benefit
Utilization of Minority Business Enterprises
Utilization of Small Business Concerns
Minority Business Enterprises Subcontracting Program
Small Business Subcontracting Program
Labor Surplus Area Subcontracting Program
Convict Labor
Disabled Veterans and Veterans of the Vietnam Era
Employment of the Handicapped
Equal Opportunity
Walsh-Healey Public Contracts Act
Contract Work Hours and Safety Standards Act
Overtime Compensation
Preference for U.S. Flag Air Carriers
Use of U.S. Flag Commercial Vessels
Federal Reports Act

World Trade

Defenders of Smaller US Firms Force Strauss to Amend Negotiating Plans On Procurement Practices Code

By RICHARD LAWRENCE

Journal of Commerce Staff
WASHINGTON — In these days when billions are tossed around like so much loose change (in Washington, anyway), who'd have thought that less than a half-million dollars would mean so much to so many?

It happened last week. A small band of congressmen carrying the small business banner forced Trade Representative Strauss to amend his negotiating plans. As part of the government procurement practices code about to emerge from Geneva, the Carter trade team was to open up to foreigners procurement reserved for smaller U.S. companies.

But Democratic congressmen, such as New York's John LaFalce and Joseph Addabbo and Baltimore's Parren Mitchell, protested with heat that foreigners would then grab away the small, and especially minority, contracts. U.S. trade negotiators are "guilty of complicity," Rep. Mitchell scolded Mr. Strauss, in inflicting "enormous damage" on minority enterprise.

Mr. Strauss insisted that small businessmen stood to win "substantial gains" at only "infinitesimal risk" from the proposed code. He cited estimates that only about 7 percent of federal business reserved for small business would be opened to foreign competition. In 1978 terms, that would amount to \$350,000.

Opposition Vowed

Still, Rep. Mitchell vowed to "fight hard" against the code — and implicitly against the entire Geneva trade package. Mr. Strauss hopes to bring Congress in the next month or so. But, the congressman added, "You'll probably win."

He was wrong. A few days later, Mr. Strauss — in his latest move to try to guarantee that Congress approves the Geneva package — relented, and so the business the federal government sets aside for

small and minority enterprise will not be touched by foreign hands.

Later, Mr. Strauss was said to have called the small business fuss a "tempest in a teapot," and he was right, in strict dollar terms but not in political terms — if there had been enough small business votes on Capitol Hill to threaten the code, or worse, the whole Geneva trade package.

What about this government procurement code? A lot of numbers are flying about, as people try to explain its potential impact. One official estimates it could open an additional \$30 to \$35 billion in potential exports for U.S. firms, another talks of "upwards of \$20 billion." It isn't even certain how much in foreign goods federal agencies procured last year.

At least one thing seems clear — the code is basically a creature of the U.S., which has long protested that other countries virtually exclude outsiders from government contracts. The U.S., however, has been criticized for its "Buy American" policies. But, U.S. officials counter, Washington's procurement rules are not hidden in a bureaucratic cloak. And federal purchases of foreign goods total perhaps as much as \$2 billion a year, according to one agency estimate.

Basically, the code pledges nations to open government procurement to foreign suppliers in a nondiscriminatory way through the publication of procurement rules, advertising of bid requests, and by citing technical specifications that don't arbitrarily favor local suppliers.

Hardly all government entities — here, in Europe or in any adhering country — are likely to come under the code, at least at first. The U.S., for instance, may exempt completely the Departments of Energy and Transportation, NASA, TVA, the Army Corps of Engineers, Amtrak, Conrail

and the Postal Service.

The code will cover only goods, not services, and not even goods purchases of less than \$190,000. Goods "necessary to national security" would be excluded. State and local "Buy American" practices are beyond the code.

Moreover, the Defense Department will keep buying only domestic textiles, clothing, shoes, food, specialty metals, ship and ship components, handtools and stainless steel flatware.

The General Service Administration, the federal procurement agency, will continue to grant U.S. suppliers a 50 percent "Buy American" price differential, against foreigners, in its flatware and handtool purchases for civilian U.S. agencies.

What, then, will the U.S. offer foreigners? It will waive the 6 and 12 percent price preferences GSA extends to domestic suppliers for such civilian agencies as State Department, the departments of Urban Development and Housing, Education and Welfare — in other words, those now excluded from the code.

Similarly, the Defense Department's 50 percent preference for domestic suppliers will be waived on goods other than national security items and the listed exemptions.

Foreigners Share

How much U.S. procurement will go to foreigners from these moves? Nobody can say. For one thing, negotiations are still going on. Besides, U.S. agencies have not yet assembled all the background data necessary for a good guess. All that can be said now is that foreigners would win the chance to bid on something less than an additional \$12 billion a year in federal contracts. How much less is unclear.

ATTACHMENT F

(Last year, total federal procurement — goods and services — approximated \$79 billion.)

What sales gains U.S. exporters would reap from the code is also nebulous. The European Community (EC) has offered to open procurement to outside suppliers on roughly \$10 billion a year in contracts. Japan's offer so far amounts to only \$3 to \$4 billion — quite inadequate. U.S. officials insist. Smaller concessions are expected from Canada, Switzerland and the Nordic countries.

Say, overall, that foreign nations will let U.S. and other outsiders compete on an extra \$20 billion a year in government contracts. That doesn't mean an added \$20 billion in U.S. exports. An uncompetitive U.S. might wind up with only a few billion in orders.

The same competitive factors hold true for foreigners seeking more U.S. government business.

from the
New York Journal of
Commerce
3/29/79

Mr. LEWIS. I would like to make a very brief comment, Mr. Chairman, regarding the thrust here. It will take less than 2 minutes.

Senator STEWART. That will be fine.

Mr. LEWIS. Then we will answer any questions.

Senator STEWART. I just want to pull the heart out of your statement.

Mr. LEWIS. Our major concern, Mr. Chairman and Senator Levin, is with the thrust of these hearings in that there seems to be an assumption that the MTA is an accomplished fact, particularly based on testimony of Ambassador Strauss, Mr. Weil, and Mr. Weaver.

Their testimony completely ignores the concerns of small business, particularly with the elimination of the buy American and the labor surplus program.

There was a Broadway play a few years ago called "Promises, Promises." It reminds me of the Department of Commerce and the SBA export program. It is a fact 250 companies do 75 percent of export sales. A small business export program has been promised for decades. Small business certainly cannot rely on that, and that it is going to come.

Many small businesses, Mr. Chairman, are going to suffer greatly because of the loss of the buy American provision. By the time the Department of Commerce comes up with the penicillin in the form of a workable small business export program, the small business patient will already be filled in many cases with embalming fluid. The MTA is not an accomplished fact. You should be concerned with correcting the two provisions that are going to severely damage small business.

Thank you, Mr. Chairman.

Senator STEWART. Now, that was the particular reference as far as the thrust of your testimony is concerned.

Ambassador Strauss testified before this subcommittee and I had the opportunity to be here. He did indicate there was a great new \$20-billion market available to the small businesses of this country.

What I am concerned about now after hearing your testimony—and you are representing the concern of the Small Business Legislative Council, as well as yours—but what I am concerned about, after listening to Ambassador Strauss and with all respect to these gentlemen from the Commerce Department and the SBA, recognizing that we do not have an export program at this time, I think it would be fair to say that would allow small businesses to take advantage of this \$20 billion market; just what are your feelings? State specifically what your feelings are for the record.

I think you make some good points and I would rather you make them in a free-form fashion where you have the opportunity to speak to the point.

Mr. LEWIS. In the first place, because of Japan's recent decision, we are not talking about \$20 billion—we are talking about \$16 billion of potential goodies.

In the second place, Ambassador Strauss' statement that we were giving up \$12 billion is seriously open to challenge. It is very important to note that when he testified before the House Small Business Committee approximately 3 or 4 weeks ago he made this statement in his formal statement:

Among the entities we have proposed not be covered are the entire Departments of Transportation and Energy, NASA, and so forth.

When he testified, however, he inserted the word "tentatively." In other words, his actual statement now reads:

Among the entities that we have tentatively proposed not be covered are the Departments of Transportation and Energy.

The addition of the word "tentatively" is most significant. In the negotiations on the procurement code, will some of the departments or agencies not now covered be brought in at the price that must be paid to gain an agreement on the procurement code?

Will Ambassador Strauss, by way of example, be forced to throw in the chip of selling to NASA as the price to be paid to get an agreement with Japan?

Mr. Chairman, Mr. Strauss says \$12 billion. Actually, if these are tentative exclusions, the price can be \$22 billion that we are giving up. The "bird in the bush" presently is \$16 billion, but it is not \$16 billion for the United States. It is \$16 billion for 98 nations to compete for.

Senator STEWART. He made some statements as to the advantages that were available to American companies from those 97 or 98 countries.

How about giving us some idea of what some of those advantages are, and what some of the problems are in gaining a great deal of that market for American small business?

Mr. LEWIS. It is amply demonstrated in the regulations that the American small business must presently comply with to obtain Government contracts. It is approximately 60 or so regulations.

Is this country going to require that the same regulations that the U.S. small businesses now must abide by in supplying the U.S. Government be binding on companies in foreign nations?

Is there any assurance here?

Senator STEWART. I do not have any idea. That is just the point that I think you ought to raise.

You indicated other countries have subsidies and other programs available to them that we do not have here which should make them more competitive for that market.

What would you suggest here?

I assume you heard the testimony of Mr. Weil from the Commerce Department and heard the testimony of Mr. Weaver, Administrator of the Small Business Administration.

What would you suggest we do in this country to make our small businesses more competitive for the export market?

Mr. LEWIS. Being responsive to your question, there are two inequities. Most certainly it is going to be very, very difficult to get small business into the international market. Our association approximately 7 years ago invested \$50,000 in a program calling face to face on the members from the Midwest, presenting them with a program wherein all their export problems would be solved, get their licensing and so forth, to get them interested in the international market.

Well, the program was a complete failure. The only way in my opinion that you are going to get small business into the international market is for a crash program wherein you expand on the exemptions in Webb-Pomerene; that you provide, in effect, trading companies with no violations of antitrust or the tax laws; promote cooperative research and these types of functions.

In other words, it would have to be a program that will actually cope with the built-in advantage of a Japanese Government which has been subsidizing exporting for years and has such a tremendous headstart.

We are going to have to say "to hell with all U.S. laws, to hell with the antitrust laws. We are going to get small business into the international market!" That is about the only way you are going to do it, Mr. Chairman.

On a one-to-one basis we are going to be talking about this problem 10 years from now. They have been talking about it for many decades already.

Senator STEWART. In other words, you do not think the seminars and symposiums and field offices of the Department of Commerce and SBA are going to do a whole lot to improve the situation of the small businessman?

Mr. LEWIS. I agree with you, Mr. Chairman. It will not do an awful lot of good.

Senator STEWART. Well, this program you all put on was basically the same kind of thing, was it not, making the information available to them and explaining how to get financing, the opportunities, and so forth.

Mr. LEWIS. Unfortunately, it was a failure.

Senator STEWART. I assume you did not have any success with it.

Mr. LEWIS. That is right. Perhaps as Mr. Weaver said there is a "mind set." You fear the unknown. That is correct.

I think, Mr. Chairman, there will be more and more small businesses going into exporting, but I do not see any real change for many, many years to come.

Senator STEWART. Well, if that is the case, to get back to what we were talking about, you are giving up a heck of a lot in this trade agreement if what we have available at this time would not make that market readily available to small business.

Mr. LEWIS. Thank you for saying it better than I can.

Senator STEWART. The other inequity you were talking about was what?

Mr. LEWIS. The preference of small businesses, particularly with the Government in the "Buy American" and labor surplus programs.

Senator STEWART. Any of you other gentlemen want to speak to this matter?

We are going to make your testimony a part of this record before we get to Senator Levin.

Mr. LEWIS. I would like to say one thing while they are gathering their thoughts together.

Mr. Stewart, I think it is very important that this committee demand line-by-line specificity from Ambassador Strauss as to impact on small business with respect to sales to every agency and department of government because all we have today is his statement that there is tentative agreement of not covering sales to the Department of Energy, NASA, and so forth.

Senator STEWART. Now you are talking about sales of small businesses to our Government?

Mr. LEWIS. Right. But more importantly, sir, than sales of small businesses—you realize, of course, that big business as well has a pref-

erence under the Buy American Act. Small businesses are engaged in subcontracting to the primes.

All this too will be gone if the larger businesses lose out on their prime contracts.

Mr. LIEBENSON. One brief comment. The way we view it, the American small business community is being sold down the river in order to benefit this international agreement. It is as simply put as that.

There should be some protection for the small business community by restoring the Buy American Act and by restoring the labor surplus provision.

Senator STEWART. Let me ask you, what participation has the small business community had in the negotiations in your opinion?

Mr. LIEBENSON. I believe in the House hearings the chairman of the House Subcommittee, Mr. LaFalce, asked the Ambassador specifically if consultation was made with agencies of government or other groups representing small business, minority interests, and the answer came back there was little or no consultation.

I do not know of any prior consultation nor am I aware of any prior consultation or anybody being communicated with by the Ambassador's office in terms of implication of this trade agreement on the small business and minority interests.

Mr. LEWIS. I think it is important, Senator Stewart, that this committee also ask the Ambassador why he was able within 48 hours to get excluded from MTA, the set-aside agreements.

He moved, and he obtained it. He completed negotiations with 98 nations in 48 hours. I think it is very important to know what he gave up for that by way of specificity.

Maybe the firms in foreign nations will now complete on sales to NASA. In every negotiation if you are going to get something, you have to give something. Even with an eleemosynary attitude on the part of foreign nations to give up something, they probably got something in return.

Senator STEWART. Do you feel some other portion of Government procurement was given up to obtain that?

Mr. LEWIS. I am quite concerned that has happened because he talked about "tentatively" in his House testimony.

Senator STEWART. That took place after the set-aside agreement was agreed to?

Mr. LEWIS. Most certainly.

Senator STEWART. The change in the verbiage took place afterward?

Mr. LEWIS. No. In his testimony he inserted the word "tentative." Within 48 hours he acted.

What did he give up to get the change? We are delighted, of course, that he was able to bring about the change, but I think it is important to know what he had to give up.

Senator STEWART. Senator Levin, did you have questions to ask?

Senator LEVIN. I wonder what mechanism we can use to contact Ambassador Strauss and ask the question?

Senator STEWART. I am going to write him a letter.

Senator LEVIN. Can we do that as a committee?

Senator STEWART. I suggest we do that through the chairman of this committee.

Ms. KLATT. The chairman can submit a letter.

Senator LEVIN. Let us pinpoint the questions. Do you think you have them all down?

Ms. KLATT. Yes, I believe so.

Senator LEVIN. We will ask those questions of the Ambassador that you have raised here this morning and send you a copy of our letter and a copy of his answers.

Mr. LEWIS. May I suggest that you also ask that he contact the General Services Administration.

Mr. Griffith is the No. 2 man with Mr. Strauss testifying before the Congress. Mr. Griffin was the No. 2 man in the negotiations.

I can assure you that the GSA should be able to supply real data to you concerning exactly what we are talking about on sales to these agencies of Government.

Senator STEWART. In other words, what the potential losses are, is that what you are talking about?

Mr. LEWIS. That is correct.

Senator STEWART. Well, let us see if we can get some data to back that up.

Senator LEVIN. I have a couple of questions. The President has proposed a fivefold increase in the labor surplus targeting program, from \$2.27 million to \$1.2 billion.

Do you believe that goal can be achieved given the constraints of the trade agreement?

Mr. LEWIS. I doubt it very much.

Senator LEVIN. Do you think that we could compensate for the lost labor or surplus targeting under the agreement by expanding the program in exempted agencies such as the Department of Defense?

Mr. LEWIS. There is a possibility, Senator, but because of the built-in procedures of the DOD, whether it could be accomplished I do not know, but it should be explored.

Senator LEVIN. Were you consulted, by the way, by any group of small independent business people, by Ambassador Strauss at any time?

Mr. LEWIS. Speaking for ourselves, we were not contacted. To the best of our knowledge, neither SBA nor other small business organizations were contacted on this program by the Ambassador.

Senator LEVIN. Does the Department of Commerce work closely with you in terms of increasing exports of small business people?

Mr. LEWIS. We have, of course, liaison but in many respects we have found it very, very difficult because they do not really have the mechanism.

In other words, they are talking more about concepts rather than actual help.

Senator LEVIN. You have any suggestion for how that could be improved?

Mr. LEWIS. Senator Levin, I would like to respond both to the question you just raised and by Senator Stewart and write both of you and the committee with ideas on how small businesses best move into the international market.

Senator LEVIN. Thank you.

Senator STEWART. Thank you very much, gentlemen, for your testimony. We will get the questions and answers out to you.

I was just talking to staff up here, and they indicate the real problem is data as a result of deficiencies in our data base.

That is going to be a problem and any way you can help us would be appreciated.

Mr. LIEBENSON. Senator Stewart, each civilian department of Government, and this has gone on for many years, is required on a quarterly basis to submit a form 37 to the General Services Administration. In fact, that form has now been expanded. All the data, at least for fiscal year 1978 has just been put together and is probably going to press now and I think you could probably obtain a copy of the data, and it gives in very specific detail the prime contract awards and the amount that goes to minority business, the amount that goes to small business and every type of detail you need in terms of what the United States will be giving up in the MTA is in the data and is available and has been for years.

Senator STEWART. All right. Any help you can give us in putting that information together will be appreciated.

Senator LEVIN. Let me ask one additional question.

Mr. LIEBENSON. The data has been put together. We are telling you that so you can obtain copies for your record.

Senator STEWART. All right.

Senator LEVIN. There was a reference made earlier this morning to the data being collected I believe, by your organization.

Mr. LEWIS. No; I believe Mr. Weaver said the National Federation of Independent Businesses which is your next witness.

Senator LEVIN. Thank you, very much.

Senator STEWART. That would be Mr. Zayas, our next witness.

Senator LEVIN. I will ask him that question.

Senator STEWART. We now welcome Mr. Edison R. Zayas, economist, National Federation of Independent Business.

We will insert your full statement in the record at this point. In the interest of time, would you give us the important points and identify who is with you.

[The prepared statement of Mr. Zayas follows:]



National Federation of
Independent Business

STATEMENT OF
EDISON R. ZAYAS
ECONOMIST
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before: Subcommittee on Government Procurement of the Senate Small Business Committee

Subject: International Government Procurement Code of the Multilateral Trade Negotiations

Date: April 12, 1979

NFIB, on behalf of its 565,000 small and independent member firms, appreciates the opportunity to present our views on the Multi-Lateral Trade Negotiations and possible contents of its implementing legislation. We applaud the Chairman, interested Members of the Committee and Subcommittee, and the staff for their prompt response to published reports regarding the content of this Agreement.

From the outset, Mr. Chairman, I believe it is only fair to say that we really don't know what the impact of the International Government Procurement Code will be on American small business. At this point in time, we can only make educated observations based on small business' historical role in world trade and in domestic federal procurement.

As we understand it, existing government programs that set aside U.S. procurement contracts for small businesses will not now be affected by the proposed international procurement code. Similarly, it is our understanding that set-aside programs for minority businesses will also be preserved. Given that

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so many small and minority-owned businesses are dependent on those government contracts for sustenance, we are pleased to see that these programs will remain in place.

Foreign Competition for U.S. Procurement

Foreign companies of the signatory countries, however, will be allowed to openly compete for federal contracts that lie outside of the set-aside programs. Given that American small businesses already compete with large American businesses for those contracts, competition with foreign companies should, theoretically, not prove to be unfair or a major hardship. This would hold true, however, only to the extent that the bids of foreign companies (small or large companies) truly reflect their real operating costs. But, many foreign firms are either heavily supported by their governments through export subsidies or are actually state-operated and owned. These firms, in contrast to privately-held and non-subsidized firms, do not necessarily operate in a manner that maximizes company profits. Almost by definition, the objective of state-owned or heavily-subsidized companies is to maximize national employment, create a specified social climate, etc. It is of minor concern to the government authorities if these companies operate at a loss, so long as they can penetrate new markets to provide additional export-led economic growth. In support of this contention is a recent article in Fortune Magazine (April 9, 1979), which showed that out of the twenty largest government-owned industrial corporations, ten operated at a loss in 1977. ^{1/} Four other government-owned companies had return on sales of less than 1% (See Table 1). In the face of such competition, American small businesses would be hard-pressed to come up with equally competitive bids. To the extent that these types of firms enter the

^{1/} "U.S. Companies in Unequal Combat," Fortune Magazine, April 9, 1979.

bidding process, American small businesses (and large businesses as well) would be placed at a severe competitive disadvantage.

In addition, it is important to recognize that most European and less-developed countries have export-led economies. Consequently, their respective governments are geared administratively and organizationally towards assisting their companies in promoting export growth. Therefore, these governments already have in place worldwide international networks that provide the necessary market intelligence required to promote successful export growth. Given this background, it is entirely possible that foreign companies may be better equipped to compete for U.S. Federal contracts than American small businesses.

Although there may be language in the Code prohibiting unfair trade practices, it is doubtful that the Code can be adequately enforced. Our inability to stop the Japanese government from subsidizing their exports should serve as a reminder that enforcement is easier said than done.

Then, there is a major question of procedure. What is a small business owner to do if he/she suspects a government contract was lost to a foreign competitor as a direct result of predatory pricing tactics or foreign government subsidization? How can small business owners prove that foreign competition is in fact engaging in unfair trade practices, and who do they report to? What can a government procurement officer do once such a complaint is filed? Can small business owners expect prompt action and how will this action affect the bidding process? More importantly, what will be done to help the small business after the contract has been lost and the damage is done?

These procedural questions are of great concern to NFIB, for a small business owner cannot afford any costly litigation or the time lost spent in addressing these grievances. As a practical matter, it seems clear that if unfair trade practices do occur, it is the small businesses that will be hurt the most. One or two government contracts lost could lead to the ultimate bankruptcy of a small

business. At that point, there is little the U.S. government could do to be of any help. We are really concerned with the ex post ramifications of a violation of this proposed International Procurement Code.

Foreign Government Procurement of U.S. Small Business Goods & Services

So far, we have discussed the impact of the International Procurement Code in terms of competition for U.S. federal contracts, and the outlook does not appear encouraging. Unfortunately, we cannot say anything differently regarding American small business contracting with foreign governments.

The foremost problem likely to be encountered by U.S. small firms seeking to obtain contracts from foreign governments is political in nature. One must recognize that government entities, especially those that are socialist, are not usually concerned about maximizing profits or minimizing costs when purchasing goods and services from the private sector. The primary concern among these foreign government entities is to maximize domestic employment and redistribute wealth and employment, etc. This is not done through reliance on the free market, but rather through direct participation in the market place. Illustration 1 demonstrates the degree to which this is true. This illustration indicates that the governments of U.S. trading partner countries, own most of the major industry in their countries. The distinction between industry and government is quite blurred. Against this backdrop, it is easy to see that these foreign governments have a major stake in their industries, and are unlikely to abide by international agreements that don't benefit their domestic firms. American small businesses seeking contracts from these governments would not stand much of a chance. It is highly unlikely that these governments will change the rules of their games to do business with a few American small businesses and risk political suicide.

Perhaps more importantly, what legal recourse would an American small business have if it was found that a government entity was not playing by the rules of the international procurement code? What prompt, remedial actions could be taken if it were believed that a foreign government was favoring domestic firms, regardless of the competitiveness of American bids? Is it politically realistic to expect the U.S. State Department to risk diplomatic strife over the complaints of a handful of American small business owners?

For example, in 1975, Pan American World Airways approached the Congress for the purpose of granting the Post Office authority to reimburse Pan Am for money owed the company by foreign governments for carrying mail. Several countries owed Pan Am millions of dollars and some were a considerable period behind. Both the Post Office and the State Department had, without much success, attempted to intervene for the company. The point of this story is -- if the American government cannot or will not bring enough pressure to bear on behalf of a large American company that was in desperate financial straits, can a small American entrepreneur reasonably expect any effective government support in competing for foreign procurement? Obviously, it is highly doubtful.

Small Business Exporting

Even if foreign governments followed an International Procurement Code scrupulously, American small business still has inherent exporting problems. The first problem is awareness of the possibilities for export. In a 1974-1975 survey of small manufacturers, wholesalers, and non-professional services conducted by NFIB and SBA, ^{2/} it was learned that the vast majority of non-exporters knew

^{2/} Export Information Survey, unpublished paper, joint project by NFIB and SBA, March, 1975.

practically nothing about exporting and had probably never investigated the possibility. For example, 90% were unaware of DISC (85% of manufacturers); 88% were unaware of Export-Import Bank programs (84% of manufacturers); and, 78% were unaware of Department of Commerce program (69% of manufacturers). That, of course, is a problem one frequently encounters in dealing with small businesses.

The foregoing is reinforced when non-exporting manufacturing respondents were asked to list the reasons from a series presented for not exporting. Of the twelve listed reasons, "No Answer" was far more frequently cited than either "Yes" or "No." (See Table 2). The most frequent "Yes" answers are ranked as follows: 1. Think you lack the required knowledge; 2. Don't know where a good market exists; 3. Concerned with developing domestic markets; 4. Don't have the productive capacity; 5. Don't have the necessary capital; 6. Financial aspects are too complicated; 7. Not interested in export sales; 8. Transportation too costly; 9. Believe too much risk involved; 10. Profitability too low; 11. Too much competition; and, 12. Unable to obtain banking assistance.

Not surprisingly, there is a direct relationship between firm size and exporting. The larger "smalls" have a much greater propensity. That is not surprising. One should expect certain economies of scale to be inherent in exporting, particularly if the sales operation is left to the individual firm. This, of course, raises the final point with respect to the International Procurement Agreement. Even assuming a balance between lost domestic markets and expanded international markets, are we really not speaking of a gain for a few very large "smalls" and a loss for a large number of small "smalls"?

In concluding, Mr. Chairman, we feel that American small businesses have little to gain and a lot to lose from the proposed International Government Procurement Code.

Table 1

THE TWENTY LARGEST GOVERNMENT-OWNED INDUSTRIAL CORPORATIONS

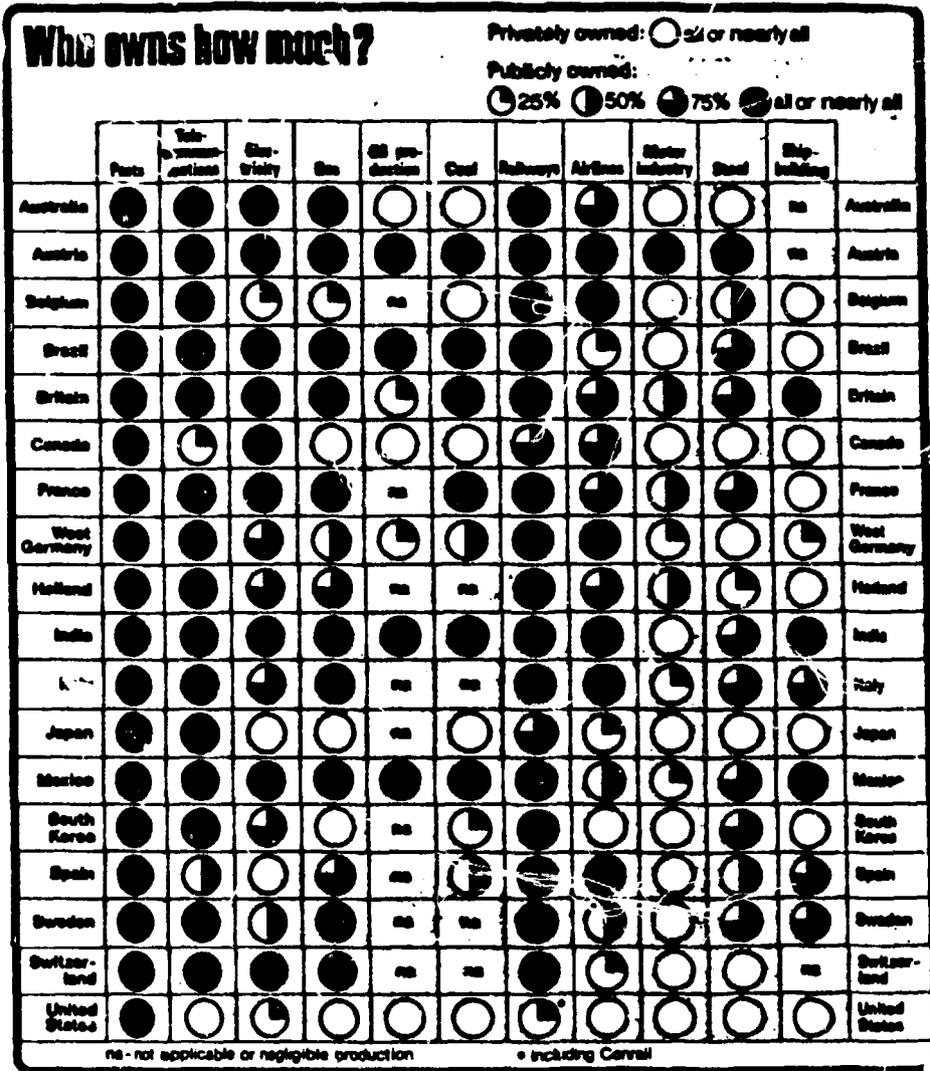
Net Income
As Percent of
Sales (1977)

Renault (France)	Motor vehicles	0.04
British Steel	Metal refining - steel	LOSS
British Leyland	Motor vehicles	LOSS
National Coal Board (Britain)	Mining - coal	1.11
Salzgitter (Germany)	Metal refining - steel; ship building	LOSS
Italsider (Italy)	Metal refining - steel	LOSS
Charbonnages de France	Mining - coal; chemicals	LOSS
Statsföretag Group (Sweden)	Paper and wood products; mining - iron	LOSS
Zambia Industrial & Mining	Mining and metal refining - copper	0.22
Aérospatiale (France)	Aerospace	LOSS
VIAG (Germany)	Metal refining - aluminum	0.93
British Aerospace	Aerospace	3.40
Saarbergwerke (Germany)	Mining - coal; petroleum	0.81
Steel Authority of India	Metal refining - steel	5.94
Tabacalera (Spain)	Tobacco	0.36
CODELCO-CHILE	Mining and metal refining - copper	12.92
Rolls-Royce (Britain)	Aerospace	2.12
Alfa Romeo (Italy)	Motor vehicles	LOSS
ENSIDESA (Spain)	Metal refining - steel	LOSS
South African Iron & Steel	Metal refining - steel, iron; coal	LOSS

AVERAGE RETURN ON SALES OF THE 500 LARGEST INDUSTRIALS OUTSIDE THE U.S. 4.10.

Source: "U.S. Companies in Unequal Combat", Fortune Magazine, April 9, 1979

Illustration 1



Source: "Public Sector Enterprise", The Economist Magazine, Dec. 30, 1978

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TABLE 2
Small Manufacturer Reasons for not exporting - 1974

	YES	NO	NO ANSWERS
1. Think you lack required knowledge	26%*	17%	57%
2. Not interested in export sales	18%	25%	56%
3. Concerned with developing domestic markets	23%	15%	62%
4. Believe too much risk involved	12%	22%	66%
5. Don't know where a good market exists	25%	13%	62%
6. Don't have the productive capacity	20%	17%	62%
7. Don't have the necessary capital	19%	16%	64%
8. Financial aspects too complicated	19%	14%	67%
9. Unable to obtain banking assistance	5%	21%	74%
10. Too much competition	9%	20%	71%
11. Profitability too low	11%	16%	73%
12. Transportation too costly	17%	15%	68%

Source: Export Information Survey

* rows may not add to 100% due to rounding

STATEMENT OF EDISON R. ZAYAS, ECONOMIST, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, ACCOMPANIED BY WILLIAM DENNIS

Mr. ZAYAS. At the outset, we would like to say we really do not know what is going to happen as a result of this proposed International Procurement Code.

All we can do is make educated observations based on what we know about small business' historical role in international trade and their role in Federal procurement.

Essentially we feel that small business has a lot to lose and little to gain from this proposal; namely, because of the nature of the competition that small business is faced with.

When you are talking about foreign companies coming into this country to compete for Federal procurement, you are essentially talking about firms that are either state-owned or operated, or heavily subsidized.

We do not know what safeguards are in the Procurement Code, but we see no possible way to enforce these unfair trade practices from occurring. This is our primary concern—what kind of recourse will the small businesses have in bidding for Federal procurement?

When you are talking about state-owned companies or heavily subsidized companies, one is talking about companies that do not operate by the laws of profit maximization. That is not their primary concern. Their primary concern is to promote export growth in their domestic economies. This is what they are supposed to do. Their governments are organized in such a way they promote export-led growth. The way they do this is by trying to make a dent in the market shares abroad. It is of little concern to them whether these companies make a profit. Consequently, there is no way small businesses can fairly compete against companies that operate in this manner.

Now, the same thing enters when you are talking about American small businesses competing abroad for foreign government Federal procurement. When you are talking about government abroad and industry abroad, you are in many cases talking about one and the same thing.

If you look at one of the tables in our written submission you will see that the vast majority of U.S. trading-partner countries, have governments that play a major and direct role in their economies. The distinction between government and industry is very, very blurred it is very hard for us to envisage a situation where American small businesses will be allowed to enter the bidding process in those other countries and really be given a fair shake; politically, those foreign governments cannot do it. We do not see how a fair system of procurement can be enforced and this is our primary concern.

As it is, small businesses play a very minor role in world trade for many reasons. We are not sure they can ever play a major role in world trade. Perhaps small, high technology firms, or small manufacturing companies with highly differentiated products, may be able to export. But, by and large, we do not play a major role in world trade. This is primarily because small businesses lack the necessary marketing capabilities, the sophistication, and general production capabilities required to engage in world trade. Most small businesses are

simply not concerned with exporting because of these inherent problems.

To say that this International Procurement Code is going to open up vast markets abroad simply does not face the political/economic realities.

That, essentially, sums up our statement.

Senator STEWART. You have indicated your two big problems. One, you feel some of the people would be giving up an awful lot in domestic procurement and will not be able to compete in foreign markets because of exporting problems that cannot be apparently overcome by the small businesses themselves.

Now, let me ask you this. These are some suggested questions from the staff that go right to the heart of what we hear about. What do you think this Government is doing and what do you think it can do to aid small businesses?

What can be done to assist small businesses to get into the export market?

First, what do you think they are doing?

Is anything significant going on, say, from the Department of Commerce or the SBA?

Mr. DENNIS. I am William Dennis. First, I think we should make a distinction between exports, per se, and exports to a foreign government.

Senator STEWART. Increased by what?

Mr. DENNIS. A small amount, but they are increased. When you are exporting to a government, one must remember the foreign government's purpose is not to maximize profits. Governments have all types of functions, social, economic, security, et cetera. As a practical matter, no matter what type of dispute mechanism that will be found in the international procurement agreement, we do not see it being very helpful.

Senator STEWART. Before you leave that, the gentleman ahead of you mentioned a dispute mechanism and I think he was talking specifically about disputes that might arise with regard to our Government procurement, but you are now talking about the exports?

Mr. DENNIS. That is correct.

Senator STEWART. That would be available, or the export market that will be available.

Are you dissatisfied with the dispute mechanisms that you understand are involved in the treaty itself in both instances?

Mr. DENNIS. We do not know specifically what that dispute mechanism is. It has not been fully revealed. However, there supposedly is some type of international arbitration that will go on.

Now, you have come into some real questions here. Suppose you have a situation where a small business feels it has been wronged abroad; that it has been offered very unfavorable terms and things of that nature.

All right, how does the small business take one of these disputes to an international arbitration panel of some kind? It has a series of inherent problems. The first thing is that it has to prove, or have some type of evidence, that it has been put upon.

Now, how possibly can a small American firm to acquire that evidence? It is virtually impossible, but let us say it can. Now, how are they going

to go to an international panel? It is not worth it to them. It is going to cost them more than they would have lost in the contract.

Will the American Government do it for them? Not really. We cite in our testimony an example of what happened to Pan American a few years ago. I do not want to repeat the example, but the point simply is that if the U.S. Government will not go to bat for Pan American World Airways when they were on the verge of bankruptcy and cannot collect legitimate debts from foreign governments, we cannot believe our Government will go to bat for small business.

Senator STEWART. Like \$500,000 or \$1 billion?

Mr. DENNIS. Exactly.

Senator STEWART. So, to summarize, that part of the dispute mechanism you are dissatisfied with, is that the case—

Mr. DENNIS. Yes; and we are not satisfied there is any type of dispute mechanism that can be established.

As to the second part of your question, we see very little being done by the Government. I must say in the 3 years I have been with the association we have had one Government official contact us regarding exports. About 1 year ago an individual from Exirbank came over and tried to get as much information as we had on small business exporting and things of that nature and wanted us to run a schedule of events that they were conducting around the country in our publication. That is the only contact we have had in that regard.

Senator STEWART. Well, of course, I have some more questions but I know Senator Levin has some.

Senator LEVIN. Just one question on your suggestion here. Do you do survey work of small business?

Mr. DENNIS. Yes, all the time.

Senator LEVIN. Have you asked questions about their reasons why they do not seek to export, the impediments they face?

Mr. DENNIS. Yes, we had one in 1974 and 1975 which we did in cooperation with the Small Business Administration.

In reviewing that, we are not totally satisfied with the results. However, on table 2 of our testimony we present all the non-exporting manufacturers and the reasons why they did not. We gave respondents a series of options and asked them to check each possibility as a "yes" or "no" answer.

The clearest thing that came out is that many had not even thought about it.

Senator LEVIN. When was the survey taken?

Mr. DENNIS. This was taken in September 1974, and it was analyzed by SBA in March 1975. The clearest point revealed was that a great number of them simply had not thought about it.

Then the reasons beyond that point quite frankly are all over the board.

Senator STEWART. I do not know about Senator Levin, but with regard to what can be done, I would like to have your ideas and thoughts. I will share them with the committee and other Members of the Senate because it is a problem as far as I am concerned and I think other Members may also agree.

Mr. DENNIS. There are a couple of things we can suggest right off the top of our heads.

The first one is that someone has to assume the responsibility for advising small firms that there is potential. That is not as easily done as said, by the way. Smaller firms must be told what is available in terms of markets, in terms of tax incentives and things of that nature.

In that survey, if you will look at the text of the testimony, you find that something like 88 percent of the small firms surveyed never heard of DISC.

Senator STEWART. What about a good State program?

Mr. DENNIS. That would be fine. It does not necessarily have to be one or the other.

Senator STEWART. A combination of both?

Mr. DENNIS. Yes. Obviously, they have to know about it and they have to know the potential.

The second thing you have to do is to convince them that an investment in the export market is going to be more favorable than another investment.

For example, in order to get into the export market a business generally has to have its own sales organization abroad and, indeed, most of the small firms that do export have their own direct sales operation abroad.

You have to convince the business that that investment is going to be more fruitful than, say, expanding his own plant at home. That is not the easiest thing in the world to do.

Finally, there comes the question of perhaps some type of sales mechanism. A joint sales mechanism abroad on a massive basis may be the only way it can be done.

Senator STEWART. Thank you for coming.

We have one other witness to testify who has an appointment at 12:05.

Before we call Mrs. Dickerman, let me say that we will contact Ambassador Strauss and ask him to give us benchmarks for expanding small business exports and who is going to be monitoring those exports so the benchmarks are met in the event we approve these agreements.

Now we will hear from Mrs. Lola Dickerman who represents the Smaller Business Association of New England.

STATEMENT OF LOLA DICKERMAN, REPRESENTING THE SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND

Mrs. DICKERMAN. Thank you. That last sound you heard is my sentiment about multilateral trade negotiations.

I have no written text with me. I did not learn of your kind invitation until 3 o'clock yesterday. This is getting to be a very sporty course coming down on one day's notice. It is the second occasion I have had the opportunity to do that.

Senator STEWART. We apologize on the part of the chairman.

Mrs. DICKERMAN. It was just a mixup, but I am very happy nonetheless to be here and I have had time to think and I would like to talk about three things.

I would like to talk about what small business is producing with these negotiations; I would like to talk about what the problems are that small business faces in doing export in exporting based on the

experiences of our own New England businesses and make two proposals of doing something that might help with this rather hard problem we are facing in the light of the new treaties.

Senator STEWART. I look forward to hearing from you.

Mrs. DICKERMAN. First, notwithstanding the great event of the last week or two having to do with the set-aside, the bulk of the dollars that small business does with its own government are done in that area between the weapons systems and the set-aside where they compete with large business and are successful as primes.

They will now be competing with big business and with foreign businesses so that they will lose some of those prime contracts which they now hold.

They will also lose subcontracting to American firms, who will lose to the foreign businesses who come here now to trade with our Government.

They will clearly be losing some of the subcontracting opportunities that under the new Small Business Act amendments are going to become mandatory or, we hope, an effective tool in mandating on our American primes subcontracting programs for small minority businesses.

Those I believe will be lost and then, most interesting and perhaps not thought about, they will lose subcontracting opportunities on the business done abroad by big American companies.

The reason for this is the magic word "offset" used in all foreign countries when they talk about buying from American companies who are foreign to them. That is to say all of the foreign countries and most particularly, the European ones are very sensitive to balance of payments and they are very much concerned with jobs and dollars being retained in their countries.

Senator STEWART. What did you say—that in those contracts or relationships entered into by our large primes they will be required by those countries to subcontract in those countries?

Mrs. DICKERMAN. To the extent components can be broken out, if you go to Holland in order to get your award.

Senator STEWART. This may be premature, but this is beginning to sound like the multilateral trade giveaway.

Mrs. DICKERMAN. Well, that says it rather well, but I think we are going to have this dreadful thing and I think we ought to be very realistic about what we can do about it.

We, in New England, the smaller business association, have worked privately with our Massachusetts Port, or MassPort, which is the port authority for the Commonwealth of Massachusetts and we have put together and we are working with MassPort on some trips abroad for trade opportunities and it has worked out rather well.

A few of our members who have gone on these trips have brought back over \$10 million worth of sales achieved. It was done with up front market research done by MassPort without any Federal help.

Senator STEWART. How did you put that together?

Mrs. DICKERMAN. By sitting down with MassPort.

Senator STEWART. How was MassPort put together?

Mrs. DICKERMAN. It is one of those private authorities that runs the Port of Boston in the same way that you have one that runs it in Mobile. It is a port authority that does its own bonding.

Senator STEWART. But they did the research and everything?

Mrs. DICKERMAN. Yes, and did the up front market studies and made the arrangements.

Senator STEWART. What kind of products do you sell?

Mrs. DICKERMAN. We are a high technology kind of place up in New England and some of these people—I know one had ancillary systems that go on air vehicles, helicopters, and things of that type. Another chap makes surgical blades and I know he was active in it. So we had kind of a spread of products all the way from disposable surgical blades to super sophisticated defense systems, if you will, or sub-systems.

Now, I talked to my good friend there who went on the trips and asked for what they found to be the problems in doing export business and they talked and let me run quickly, if I may have the time, through them, this list of things they mentioned.

They talked about the lack of exporters' handbook that the British have one and we do not.

Senator STEWART. Who put that together?

Mrs. DICKERMAN. What?

Senator STEWART. Who put that together in Britain?

Mrs. DICKERMAN. I do not know. I got the impression that the British Government did.

Senator STEWART. Maybe Mr. Weil should be doing something like that.

Mrs. DICKERMAN. It might be a good thing. They talked of the first and primary problem about the lack of market information.

Put another way, we do not have a common business daily for foreign sales.

They talked also about the lack of information on how customs regulations worked here and abroad and the confusing terms and abbreviations that are used in getting goods into and out of customs.

There is a big concern about servicing what is sold and how one does that, provide services for that which is sold and concurrent with that would be spare parts availability and the lack thereof.

There are confusions about the lack of adoption of the metric system on the part of many of our manufacturers.

Small businesses who go abroad to do business are concerned about, and have a problem with, the fluctuation in the money exchange rates. I know major primes handle that in the same way. They get clauses written into their major contracts which provide for, in effect, a kind of escalation clause that provides for the balance of the dollars against the foreign money. They have a problem of collection, letters of credit, and mechanisms of that sort.

I heard someone talk about international disputes and international arbitration and I hope before I finish, I do not have it on my list, but I have to tell you about this. I saw one once where the cost of arbitration once got to \$3.5 million. That is the cost to the parties conducting the arbitration but we will talk about that later on.

There is a lack of information and concern about foreign drafts and time sequence on payments, packaging for overseas shipment and by the way, there are very prohibitive freight charges that are proving to be a problem and we are working in New England to see if we can do something about the freight charges.

Working with freight forwarders is a confusing problem and we have the problem of documenting to foreign governments. There is language, geography, and ways of doing business, all of which pose difficulties.

Even communication, the cost of a phone call to a foreign country from here is very expensive. The cost of a phone call from a foreign country to this country is terribly expensive. Therefore, they are reluctant to call. Therefore, you have to do business by TWIX but maybe they do not have a TWIX. Maybe our friends at the Department of Commerce can help us with these kinds of problems.

I asked about the assistance that we get from the Commerce Department and the feeling was that there is very little support being given.

Senator STEWART. You mean these people are actually involved in the exporting business?

Mrs. DICKERMAN. Exactly.

Senator STEWART. What about the SBA?

Mrs. DICKERMAN. I got the impression there was none. Let me give you an example.

Senator STEWART. To summarize for the record what you said, there is not much help to those people exporting in your group from the Commerce Department and none for the SBA.

Mrs. DICKERMAN. In our group.

Senator STEWART. All right.

Mrs. DICKERMAN. Let me tell you about the kind of problems that come from the help at Commerce, well intentioned though it may be.

Commerce has to identify businesses some way or another and they use ZIP codes in which they lump all kinds of business. They have this whole system they use through the census in which ashtrays and water glasses all get in and get numbered and maybe one number covers water glasses and ashtrays and through this technique in trying to match market opportunities you find somebody who has a very sophisticated heat sensing device that is used on perhaps an airborne missile matched up with somebody whose real concern and interest is in heat sensitive elevator buttons that turn bright when you touch them that is one and the same ZIP code, but it is not proper market research at all.

These are the kinds of trouble they have. There is a problem also on the cost of marketing. It costs \$700—I checked today—to go from Boston to some place in Europe. It costs \$50 or more to stay in a hotel and marching around Europe is an expensive thing for the small businessman to do. When he gets there if he does not have an offset, he is going to get nowhere.

I talked with a man who runs the export arm of one division of a major American company. He has 700 people reporting to him and he plans all of his procurement abroad based on planning his offset. He will license technology and get offsets for that. He will leave jobs there. He will buy parts. He will provide these things as part of the way in which he gets to sell his massive department to foreign countries. He represents only one division of that company. Now, there you have it.

Value added, which is the European technique of taxing when they go into customs and the things go into customs and comes out it has value added. It has a tax impact which is economically disadvantageous to the American businessman.

In any event—I said I would be short—the whole thing is a mess. What do we do about it? Since 3 o'clock yesterday afternoon has not given us all that time to think about it, I can think of two things. One is if we do not have a governmental infrastructure that helps small business, a very real, honest place, realistic infrastructure then we have another bad joke on our hands.

No. 2, we have recently devised, and I think it may be an analogue, through the efforts of the Small Business Committees of the House and Senate, in the new amendments a technique of getting our primes here to do something real rather than the fanciful imaginary clause that we have always had about subcontracting and the OFDB is writing some regulations and now the prime, of course, we are going to have foreign competition that will not be involved in this, but now the prime when we get those new regulations off the drawing board will come in and show what it is doing by way of a plan and goals for subcontracting in the big weapons system.

It occurred to me, therefore, on the plane this morning that in addition to a governmental infrastructure and very real with such things as the market opportunities, the things in languages that people can read, the metric problem, customs and all of these things—and this is just a quick list, and does not purport to be complete—and I know I am suggesting supposing we get our prime contractors who are doing business abroad and who are going to, I think, gain vitally by these negotiations.

Senator STEWART. I am surprised at that.

Mrs. DICKERMAN. What?

Senator STEWART. I am surprised at that.

Mrs. DICKERMAN. That they will not gain?

Senator STEWART. That they will gain. I am surprised that the larger interests in the country will gain in the multilateral trade negotiations and the small business community is going to have some difficulty.

Senator LEVIN. There is iron in his voice.

Mrs. DICKERMAN. All right, very good. I have a plan for that.

Senator LEVIN. There is iron in his will, too.

Mrs. DICKERMAN. I have a little plan, not well thought out, but nevertheless that I analyzed. Supposing we impose on these big primes, and by the way, must have permission of our Government to go over and sell these missiles and whatever—suppose we imposed on them an obligation to give purchasing assistance to their subs? Suppose they take 10 or 12 of their subs, get them set up in these countries and balance of payments arrangements and so forth, and they know what it takes to do it, and supposing we were to require of them just as we have now for socio-economic reasons required in the amendments that they do something on the domestic side under subcontracting—I have the unhappy feeling that the commercial attaches will not know where these business opportunities are. You know business, it is well to talk

about selling pencils on a continuing basis, but actually the requirements of these governments change. They are in flux. They are up and down and knowing what they are is critical.

Commercial attachés have not been famous for knowing what is going on but these big primes know and if we could get them to do some kind of assistance program and give them whatever they might need by way of legal lessons of the Attorney General, that says they are not involved in antitrust or whatever, maybe something like this will help out.

I do think we are going to get those treaties and I think we are going to have to do something about them. We must do something constructive and so therefore, those are my two recommendations—governmental infrastructure and an infrastructure that uses the knowledge and talent of our major big companies to help our small companies and for someone who did not have a speech, I guess I have talked long enough.

Thank you, very much. I will be glad to answer your questions if you have any.

Senator STEWART. I have no questions. I want to give Senator Levin an opportunity to ask some questions. He said something to me about you. He said you were contagious. I think you are, too. You make a fine witness, and I appreciate your remarks.

Mrs. DICKERMAN, Thank you, very much.

Senator STEWART. Frankly, I think they are helpful to us who hopefully will have something to do with this matter as far as small businesses are concerned.

Senator LEVIN. I think we ought to give you a couple more days on the way home and maybe you can come up with a few more ideas. If half the people appearing in front of us representing Government agencies had your enthusiasm, I think we would be a lot better off.

I think it is quite an extraordinary determination you have here, and we will try to do what we can to respond to your suggestions and enthusiasm, in general.

Mrs. DICKERMAN, Thank you, very much. All of this was so secret that I did not know anything about it until I got a call.

Senator STEWART. We are finding out a little bit about what is going on now as we go along with these hearings.

Mrs. DICKERMAN. But we, up in New England, have had the sense that maybe there is a wave of the future which calls for free trade and maybe protectionism, as we have understood it and kind of nurtured it in New England, is gone and over with and if some great nationalistic purpose is served by that philosophical approach, then we are going to have to learn to live with it, but we want to live and not just die of the problems.

If there is anything we can do to help, we will be most happy to.

Senator STEWART. Thank you, very much.

Let me thank the other witnesses also for coming and Senator Levin for remaining with me. I do appreciate that very much.

We stand adjourned, subject to the call of the Chair.

[Whereupon, the subcommittee adjourned at 12:19, subject to the call of the Chair.]