EXPORT POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

PART 6

U.S. PROGRAMS AND FACILITIES DESIGNED TO SUPPORT EXPORTS

APRIL 5, 1978

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WEDNESDAY, APRIL 5, 1978

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 5302, Dirksen Senate Office Building, Senator Adlai E. Stevenson, chairman of the subcommittee, presiding.

Present: Senators Stevenson and Schmitt.

OPENING STATEMENT OF SENATOR STEVENSON

Senator STEVENSON. The subcommittee will come to order.

This morning we continue our hearings on exports with special attention to U.S. programs to increase and facilitate U.S. exports, including tax incentives, export promotion and marketing programs, the Edge Act and the Webb-Pomerene Act. This hearing will not focus on the Eximbank or agricultural export programs, which are being separately considered.

Our witnesses this morning come from the academic and business sectors. I urge them to provide the subcommittee with suggestions for using our legal and administrative systems to increase exports. The Edge Act and the Webb-Pomerene Act are 60 years old and have not been significantly changed since enactment. They are inadequate to the exigencies of world trade of the 1970s and beyond. Most of our marketing promotion programs have failed to reach smaller businesses and appear to be used mainly by those who already know how to export; and, general policies, such as antitrust and environmental policies, often appear to be inconsistent with our limited promotional efforts. Obviously we can't cover every aspect of today's agenda in the depth we would like, but we can obtain some valuable new insights into the problems with existing laws and administration and learn where change is most needed.

We therefore encourage the witnesses this morning to address what they consider to be the most significant impediments to U.S. export growth and U.S. export policy and suggest practical changes where necessary.

[1] This is part 6 of an eight-part series of hearings on U.S. export performance and export policy. The hearings form part of a subcommittee study which will serve as a basis for recommending action needed to ensure the competitiveness of U.S. agriculture and industry in world markets.

Our first witness this morning is Professor Fredrick Huszagh, the executive director of the Dean Rusk Center for International and Comparative Law. We are grateful to you, sir, for joining us this morning. If you would care to summarize your statement I would be happy to enter the full statement in the record.

STATEMENT OF FREDRICK W. HUSZAGH, EXECUTIVE DIRECTOR, DEAN RUSK CENTER FOR INTERNATIONAL AND COMPARATIVE LAW, SCHOOL OF LAW, UNIVERSITY OF GEORGIA

Mr. HUSZAGH. Thank you, Mr. Chairman.

I appreciate the opportunity to be here and to provide some minor insights that we have obtained in studying export promotion and impediments. The material that I have provided the committee is somewhat extensive, but I'm sure the staff will analyze that for what it's worth. I will highlight, however, a few points in that material that we feel, on the basis of very preliminary assessment, should be taken into account.

Prior to undertaking research specifically on export impediments, we engaged in some fundamental research of the structures through which Government communicates with the private sector. On the basis of this theoretical work, primarily dealing with models, we found much information about Government incentives or impediments does not reach the private sector because of the way the Government goes about doing its business in allocating responsibilities between statutory command and administrative action. Some of the greatest problems flow from the uniform approach in the laws which assumes corporate entities are alike, whether small, big, manufacturer, merchandiser or capital formation enterprise. We sought to show the differences in tasks of these various kinds of enterprises and then indicate how they assign personnel to those tasks. Basically, many corporations, because of the way they assign personnel, are incapable of receiving basic information from the Government about various incentives or impediments. As I mentioned, this was background work and we would be glad to provide the staff and the committee with information on this if they wish.

Let me summarize the prepared statement in this fashion. It seems to me that the first issue concerns the fundamental characteristics of our law system. The United States uses a basically globular approach in its legislation which fails to make distinctions between regions and markets. Other countries have a tendency to use a secular approach which tends to align laws to markets and to products. Repeatedly, the Government engages in aggregate analysis of basic flow of goods and services, whereas businessmen deal in what I call disaggregated analysis. They look at particular markets and particular allocations of resources. Thus Government and business seem to be operating from fundamentally different perceptions. This lack of agreement over common bases for analysis is inherent in much testimony presented to this subcommittee.

Another important aspect of the current law environment is that now many different agencies are asserting themselves in the foreign area, whether it be foreign relations, foreign trade or foreign economic policy. These agencies are all very different. They are staffed differently and have very different fundamental objectives. Consequently, when you sum up the total burden they impose upon the private sector there's a tremendous loss of efficiency in transmitting coherent Government objectives to the industry.

Yet another important aspect is the current Government system's lack of capacity to coordinate strategically. Theoretically, Congress coordinates, but because of the extensive delegations in previous laws, this power has really been doled out to many agencies. As far as I can tell, these agencies do not have system discipline which allows them to allocate their priorities. Certainly in the export impediment and export promotion area it does not appear the White House is asserting some kind of discipline on disagreements among various units. I feel this problem is complicated by the fact that in recent years the environment has become saturated with jurisdictional assertions by diverse agencies. No longer can several regulatory entities each with plenty of elbow room do what they want and make a few mistakes at the fringes. Rather, one can hardly move without impinging on the other, and this creates real problems.

This problem is best seen in the antitrust area where there have perennial jurisdictional problems between the FTC and the Department of Justice, although normally not publicly visible. Now there is an additional agency involved in these jurisdictional disputes. The International Trade Commission is asserting itself in the antitrust area with section 337 of the Trade Act. Further, rising pressures of regional and State interests will impose an additional problem on the regulatory environment. Many States and regions are really seeking to form their own foreign trade policy because they do not find they fare well when their interests are aggregated at the national level.

In the foreign country environments to which our products go, there is a tendency to regionalize around central cultural notions, especially in areas of greatest market potential in terms of sheer numbers and levels of development. I'm referring to Asia and South America.

As regards these environments, we feel this subcommittee and others having cognizance over foreign policy, foreign trade and foreign economic policy ought to consider several things in structuring legislative and administrative initiatives. First, differences among exporters ought to be better recognized. There is increasing dissonance between big and little exporters, although that's been percolating for quite a while. I don't feel current legislation and administrative action properly distinguish between the new-to-export and new-to-market enterprises versus the old-to-market enterprises. It seems fallacious to treat them alike because their needs are very different. Further, exporters, depending on the class of goods that they are exporting—goods or services—have very different needs. For instance, forces on large contractors [service exporters] differ markedly from consumer goods exporters. The former operates primarily in a bid market that imposes a fixed price. The latter operates in a variable price market where advertising and other things can be employed to offset the price differentials.

To some extent differences between exporters are mediated by enterprises like export management corporations. It's unfortunate, however, that laws don't deal with these distinctions in ways more subtle than proposed requirements such as 30 percent of Exim credit ought to go to small business.

In addition to the export management corporations, we find on the basis of our unscientific surveys and conversations that banks, accounting firms and some lawyers, with regard to Government programs optimized for big companies, are providing small and new-to-export companies access to Government programs and are helping them to express their views to Congress. I find that a very hopeful development.

A second major variable of importance for export legislation is market. Here I am talking about regions like the developing ASEAN group, Latin America and the Middle East, which are all distinctive markets. Laws ought to distinguish by regions and very distinctive product markets within them. Congress, in delegating responsibilities to administrative agencies, should insist on administrative structures and procedures that will permit agencies to respond to market differences across regions and market shifts over time within a region. I also feel laws should be sensitive to distinctions between Government and private markets and between bid and open markets.

A third variable is product life cycle. This is distinguishable from the exporter class variable. It is a basic proposition that every product has a life cycle in a market. Business requirements in terms of capital, personnel, skills and personnel levels differ over this product cycle. It seems unfortunate that Government activities do not show more cognizance of the very fundamental precepts that the business community has to operate under.

The fourth variable is the law implementation variable. Here the focus is on the nature of the law-implementing agencies. In the antitrust area, for instance, the dominant agency is the Department of Justice. I feel that before fashioning legislative actions to facilitate U.S. company activity in foreign environments by limiting their antitrust exposure, Congress should determine whether delegated discretion designed to balance antitrust enforcement against export promotion can effectively be employed by the Department of Justice where most personnel are prosecution-oriented and are engaged in agency analytical routines that do not favor this type of discretion. A careful look at Justice's use of the business review procedure over the years, both domestic and foreign, should provide much enlightenment on how its personnel and structural characteristics affects its utilization of discretionary power.

Similar structural issues were raised in some preliminary research on the Eximbank. We suspect that their enabling legislation, which imposes a finite lifetime, causes them to emphasize lower risk ventures and to deal with large transactions and enterprises where detailed risk calculations are feasible. Consequently, in renewal hearings they do not appear fiscally irresponsible.

In my prepared statement I refer to the importance of some basic law communication features which affect the impact of legislation.

The subcommittee's staff ought to look carefully at how law forms—formal versus informal—affects various exporters. In a formal way, the legislation embodies all the elements of legislative intent. Informal laws leave many of the elements of legislative intent to be defined by administrative agencies over time. As laws become more informal, more legal interpretation is needed. In highly complex fields like antitrust, there are just not enough legal experts to provide proper advice to all possible exporters.

One final distinction requiring attention is the difference between competition and profits. This distinction may be illustrated by current debate on DISC and to some extent section 911 of the 1976 Tax Reform Act. I feel that both sides have valid points. Surely the Treasury Department has a point when it says that certain entities now using DISC will not change their export behavior in foreign markets if DISC is eliminated. So, in essence, the United States will be losing revenue in such cases. But it's wrong to assume that because in the aggregate there's more outflow than inflow, certain types of exporters operating in certain markets will not be less active if the DISC procedure is revised. Many people have particular stories of enterprises, especially new-to-export companies in rural areas, that rely on DISC benefits to help them cope with the margin of error inherent in risk calculations pertaining to market entry.

Application of section 911 in the Middle East provides another good example of this problem. Some industry sectors have separated from the general lobbying group on this subject because they operate in a bid environment where loss of revenue caused by increased taxes directly affects their competitiveness and not just their profits. There's obviously a point where profits and competitiveness cannot be separated, but there are points where they can be separated.

We have made some tentative suggestions on possible revisions in the antitrust area and in some areas of market promotion. They are merely examples to demonstrate how the variables discussed can be taken into account. However, actual implementation will require comprehensive planning to balance all the issues involved and to work out implementation details.

Finally, speaking personally, I feel it is perhaps now the time and the place for the legislature to reassert itself in defining a specific, coherent export policy. I just don't see a coherent policy on export trade being fashioned by the maze of Government agencies and vested interests now active in the area. This subcommittee and others, by gathering the data on the variables noted through formats like the ones suggested in my prepared testimony or using more sophisticated ones, can acquire the information necessary to fashion laws that make valid distinctions between markets and certain classes of competition. Such laws will reduce disputes during legislative reviews concerning the proper courses for agency action. I would hope that over the years we could in this way reduce the confusion that now exists in the administration of export policies.

Senator STEVENSON. Thank you, sir. Your full statement with its attachments will be entered in the record.

[Complete statement follows:]

Statement by

Fredrick W. Huszagh
Executive Director
The Dean Rusk Center for
International and Comparative Law
and Associate Professor of Law
University of Georgia
School of Law

I. Deficiencies of the Past and Present

Testimony during the past year before many congressional committees and sub-committees[1] documents the (1) importance of exports to our national economy, (2) multiplication of production and marketing problems facing American exporters, and (3) increasing impact of government activities on both export volume and revenues. Presentations on these matters seem generally consistent regardless of source, while general approaches for coping with these trends are quite divergent. Specific approaches for promoting U.S. interests in the export arena evidence great conflict between entities of the public and private sectors as well as among entities within each sector.

Substantial conflict stems from differences in the primary goals of various entities tendering particular or wholistic solutions. Some units within the Department of Treasury view maintenance, if not growth, of tax revenues as the primary mission. Still other Treasury units optimize for currency stabilization goals, while segments of the Commerce Department focus on export expansion rates. Many established exporters measure success in terms of return on investment, while new-to-export companies for a period of time may dwell on market entry or market-share expansion in particular national or regional markets.

When all entities simultaneously tender prescriptions for a particular export issue, conflict is inevitable. Solutions proposed by one group necessarily entail perceived injury of the primary objectives of other groups. Furthermore, past, current and proposed legislation, while optimizing for stated goals of some, frustrate others' legitimate goals unnecessarily.

Currently, most analysis shaping export policies proposed by government units is macro in nature. Government entities dwell on export transactions aggregated according to notions of time and geography largely irrelevant to individual businesses and whole industries central to such transactions.[2] Conversely, business decision making focuses on micro analysis of consumer characteristics, competition in particular markets, marginal costs, etc. Such information is of little interest to government agencies having public missions unrelated to advancement of private interests. The paucity of shared analytical approaches may not frustrate development of government policy optimal for governmental interests. However, it does frustrate design of legislation and administrative implementation strategies that minimize unnecessary harm for the private sector entities.

Previously, U.S. export opportunities were sufficiently large and diverse to permit government agencies and industry to debate from polar positions. Resulting solutions either reflected a Solomon compromise or optimized either for government revenues or business freedom. Seldom have policy debates produced the mid-range facts needed to engineer solutions that efficiently accomodate both public and private sector interests. Apart from substantial profit margins and favorable trade balances before the 1970's which permitted adoption of inefficient solutions, our own domestic government structure pertaining to international exports lacked the capacity to synchronize and coordinate in order to implement strategic decisions. This deficiency remains today and has become more serious since many administrative units have expanded the periphery of their jurisdictions. Such expansion means that most export business activities are subject to several non-coordinated governmental demands.[3] These agencies are disparate in terms of chain of responsibility to cabinet-level personnel, legislative oversight committees, and bodies of judicial doctrine. Consequently, there is no forum to measure adverse impacts of this lack of coordination, to shape coordinated agency action plans, or to impose the administrative discipline necessary to implement such plans. In summary, our current governance structures are unable to coordinate efficiently the trade promotion plans of Commerce; market data acquisition of State; revenue collection of Treasury; credit services of Ex-Im, OPIC and the Commodity Credit Corporation; antitrust enforcement of Justice; disclosure requirements about marketing activities of the SEC and Commerce; and export sales restrictions administered by Commerce. In contrast, countries like Germany and Japan that view exports as central to their vitality, are able to achieve considerable coordination on these matters.

Unfortunately, major export markets are no longer virgin territory capable of absorbing undisciplined marketing initiatives. Competition among exporters of different national origins is keen, import controls are often intense, and the consumers of exported goods and services are demanding as regards price, quality, service, delivery time and credit. U.S. regulation of exporters now limits their freedom of action on all of these matters. The cumulative effect of this regulation compared to that of other nations threatens the vitality of U.S. exporters in many established as well as incipient markets. Even if exchange rate solutions perform as promised, they cannot efficiently minimize harmful elasticities of government actions affecting credit, delivery time, servicing, non-price marketing strategies, etc. Further, universal programs regarding collection and dissemination of world market data, taxation of U.S. personnel abroad, suppression of anticompetitive practices, and maintenance of ethical business practices often appear insensitive to export environments that are highly variegated in terms of exporter organization and practices, destination country laws and customs, export product consumers and export competitors.

II. General Changes Needed in the Future

This diversity requires an enlightened departure from the American preference for universal laws and limited administrative discretion applied uniformly to diverse citizen characteristics. These enlightened departures can be consistent with basic tenents of American government and existing jurisdictional claims of legislative, executive and judicial entities. These entities need not compromise promotion of their respective primary goals within the core of their jurisdiction. However, they must carefully coordinate their actions at the fringes of this jurisdiction, especially when it overlaps recognized jurisdictions of other entities with fundamentally different primary objectives, and it impairs substantially the basic vitality of legitimate business endeavors. This approach is already employed by the Supreme Court to cope with conflicts between private and public interests in the administrative law field.[4]

It may be sound for the Treasury Department to raise revenue by uniformly taxing the income of American personnel abroad, even if it does indirectly affect the rate of return on investment of American companies. However, it seems unsound in terms of national economics to condone a tax strategy which makes it impossible, given acknowledged inelasticities of human behavior, for certain American industries to compete in particular regions at even a minimally acceptable rate of return on investment over a proper period of time.

Regulations must also distinguish among the different business practices characteristic of company size, industry and operating region. These practices have different potentials for restraining commerce or improperly influencing consumer decisions or regulatory actions. Risks of suit and sanction should be demonstrably lower for industries in regions at particular times where the probability of such restraint or influence is low, and there is high potential for expanded American exports being vigorously fostered by other government units.

Procedures for providing export credits should be sensitive to the diverse timing realities of credit commitments for smaller companies operating in various regions. Tax incentives for exports, while perhaps properly denied to many companies or industries whose export efforts are shaped by factors independent of such incentives, ought not be denied to companies or industries clearly stimulated by such incentives. Aggregate export gain versus revenue loss calculations do not provide insights on incentive differentials related to company size, export experience, industry and product destination. Thus, blanket policies based on such figures will necessarily be less than optimal.

Analytical tools and data are available to identify companies, industries and regions which merit differentiation as to taxation, regulation and promotion. Knowledge, tools and experience regarding the dynamics of legislation and administration are also available to fashion approaches for making these differentiations in order to achieve efficiently goals of revenue collection, export expansion, private sector expansion in export markets, and equitable treatment of our nation's competing interests. Continued disregard of the importance of these differences can only entail costs this country can now ill afford.

The Dean Rusk Center is most concerned with these unnecessary costs, whether they flow from ignorance or miscalculation. We are studying quantitatively and comparatively government involvement in various export related activities. Our research and consultations with domestic and international business personnel, while far from complete, suggest that traditional, incremental mutation of current export-related government policies and their administration will not enable us to maintain export preeminence. Reliance on normative assertions, uncoordinated administration, and advocacy-motivated evaluations which ignore valid geographic and functional differences can only further impair our export position. What follows are some basic factors we believe are critical to the formulation and evaluation of goals and administrative strategies to maintain the vitality of our nation's export activities.

III. Specific Analysis Needed for Future Law-Making and Administration.

A. Introduction

The capacity of an individual entity to participate in export activities is largely determined by such variables as an entity's structure and size, the region targeted for exports, the nature of relationships between entity and market, and the structures and procedures of agencies implementing U.S. government policy regarding these activities. Consequently, accurate assessment of the impact, short and long term, of various legislative and administrative initiatives concerning exports requires careful examination of these variables. Theoretically, the testimony of interested parties should provide this information on the impact of laws. However, most testimony dwells on the general impact upon the business community. It seldom quantitatively differentiates the impacts on sub-units within these groups. Only when a particular law such as §911 of the 1976 Tax Reform Act has a unique and substantial impact on a particular industry, such as overseas construction companies, does testimony document specific impacts.[5] Unfortunately, even here relevant distinctions within the industry are seldom explored thoroughly enough to shape legislative policy that accomodates simultaneously governmental and private sector interests.

B. Exporter Characteristics

Legislative hearings and staff studies evaluating old programs or designing new ones pertaining to export activities should seek systematic disclosure of data on these particular variables. Differentials in probable impacts upon various consumer products (durable, non-durable and services) should be contrasted with impacts on distinctive industrial products like raw materials, parts and processed components, machinery, equipment and supplies, and services and ideas. Each category has somewhat distinctive production, marketing and credit requirements that ought not be unnecessarily burdened by government action. At times it may prove enlightening to disaggregate each category in terms of relative level of technical sophistication because of inherent diversity in the labor/capital investments involved.

C. Market Characteristics

Another primary variable affecting export flow is the nature of the export market. Currently, many U.S. laws anticipate a foreign market model characteristic of Western Europe, while most future growth of American exports will occur in the Far East, Middle East and South America. Practices relating to procurement and utilization of products are quite different in each of these areas. Therefore, appropriate constraints on selling practices for

Western Europe may severely handicap American enterprises operating in these markets. For example, this sub-committee and the House Ways & Means Committee have been fully briefed on the unique personnel maintenance costs in the Middle East. These costs make uniform application of the §911 amendments severely discriminatory in terms of actual impact. Furthermore, SEC rules regarding questionable payments impose a real handicap upon American exporters of certain types of goods and services in the Middle East, Asia and South America. Cognizance of these regional as well as product and industry distinctions will produce optimal export programs.

Identification of specific export opportunities in incipient U.S. export markets is more important than in markets where such products are already purchased in large numbers. Furthermore, in these new market areas there is great need for timely and accurate data on available financial and service facilities. Such information, not normally available from other sources, is needed by new-to-market companies and new-to-export companies to make valid business decisions.

D. Product Characteristics

Apart from source and market destination variables, optimal design of many laws affecting our exports requires sensitivity to product life cycles within the destination region. General market information, credit facilities and tax incentives may be especially helpful to exporters during the introductory and growth stages of a product's life cycle. Such information is of considerably less value in the maturity and decline stages, where native product substitution often presents an insurmountable challenge. This product life cycle distinction is also important to proper application of the antitrust laws, since it may be necessary for certain companies to employ particular business practices normally viewed as anti-competitive to gain market access at the introductory stage. These practices are not needed to maintain an acceptable market position once access has been gained. Restrained application of the antitrust laws at this early phase can facilitate entry of our exports into new markets. At this entry point such practices pose the least threat of restraint on U.S. trade.

E. Law Implementation Characteristics

If legislative proposals are built on quantitative data regarding these major variables, then legislation and administrative enforcement thereof can be focused for maximum beneficial impact to our export interests. Legislative construction on this data base can simultaneously minimize application in areas where the beneficial effects would be minimal and the detrimental effects for export expansion would be severe.

The public record now suggests enforcement of the proposed §911 amendment in the Middle East would be ill-advised. Application of similar provisions in Europe for product and service exports not requiring American nationals may pose limited danger to our competitive positions. Even in the Middle East the proposed §911 amendment could be phased in for certain industries without endangering competitiveness if American firms have gained an adequate market share and are able to establish efficiently sales and service routines easily mastered by third or host country nationals. This would be most likely for low technology, capital intensive industries and least likely for high technology, labor intensive industries.

If legislation and administration further distinguish new-to-market or new-to-export companies from experienced exporters in the region, government restraint and promotion programs can be tailored to increase substantially the number of small and medium sized companies engaging in export trade. Without such tailoring they will normally decide that exporting embodies risks that overwhelm potential gains from proceeding beyond a domestic business environment.

The processes associated with these export entry decisions have been the subject of several studies.[6] Apart from obvious factors such as surplus production and fortuitous relationships, these studies indicate that evaluation of risk in entering a foreign market is the critical factor. If foreign market entry for a small company logically entails business practices that have been labelled anti-competitive in a domestic context, the decision-maker may well avoid export initiatives unless potential antitrust liability is clearly ruled out. Unfortunately, only a small group of experts from major cities can provide such advice. Many small, new-to-export and new-to-market companies residing outside major cities do not have practical access to such expertise, although common trade publications will sufficiently alert them to possible dangers. This being the case, they will not normally make a positive assessment of risk.

Similarly, many small companies need highly focused data on credit analysis and market opportunities as well as the distribution system to make pro-export assessments of risk. This information is available to those who are knowledgeable as to the scope and location of government information. However, the process for securing this information, like that of securing credit for foreign sales, is very complex for the neophyte. Many government programs do not take these factors into proper account. Rather, they gear their administrative practices for "repeat players" who know how to access and manipulate the system. These are the very people who have least need for services.

Even if distinctive factors of source and destination environments are used to focus government promotion and restraint efforts toward the highest cost/benefit ratio, other problems remain. Most important, legislative initiatives need to be assigned to administrative agencies with staff personnel and procedures compatible with these variegated approaches emphasizing differences in product life cycle, exporter characteristics and export market characteristics. Legislative mandates for "defined" restraint in the application of antitrust resources as regards competitive practices by new-to-export and new-to-market businesses will not be vigorously implemented through personnel and procedures which are optimized for high prosecution rates and indifferent to export expansion. Similarly, specially tailored export promotion programs for small business now inactive in international commerce will not be applied with fervor by government units who rely on large, well-organized external pressure groups to facilitate acceptable levels of growth in their annual budgets. Thus, it is essential that programs designed especially for new-to-export and new-to-market companies and industries be implemented through organizations, personnel and procedures that have goals congruent with those of the program.

Apart from the implications of agency structure and procedure, program effectiveness may often be directly related to the basic communication characteristics of the laws and the entities intended to respond to them. A basic research project funded by the National Science Foundation (NSF) has developed a detailed model of this process as it relates to broad business classes, i.e., manufacturers, merchandisers and extractors.[7] This model and related research indicate that a company's response to laws is often substantially shaped by these basic communication characteristics. Many current laws intended to stimulate particular responses apparently go unnoticed by businesses within their ambit. A major cause is that legal provisions are poorly designed for detection and assimilation given the receptory equipment of these business enterprises. For example, receptory equipment suggests the need for legally skilled staff members assigned decision-making responsibilities on organization tasks subject to legal regulation. Without such skills many promotional programs such as those relating to credit and market information have marginal impact on enterprises lacking either skilled personnel or access to facilities for detecting and interpreting these laws. Although this NSF project focused on laws at all levels of government having a variety of subject emphases, it is clearly applicable to the broad range of export related laws of interest to this sub-committee.

Systematic examination of the above-mentioned variables in their current state will not in isolation insure design of export related laws that efficiently achieve the nation's revenue and international trade goals. Congress should carefully observe fundamental shifts in export opportunities. Much current legislative analysis is based on past and current export volume and revenue figures. Thus, laws are often shaped around current trade needs and opportunities. However, fundamental business theory suggests that volume and revenues alone are not keys to business success. Attention must be given to issues of market entry and maintenance of appropriate market share. If market entry is not made in a timely fashion or market share is not maintained, exporters may well be closed out of a whole region. Based on current export performance data, the Asian Basin and Latin America are two regions which, compared to Europe, would not seem to be important targets for export incentives. However, these regions in the long term have enormous capacity for consuming particular types of American products. If we are not diligent in allocating resources to pursue efficient entry into these markets, then at a later date we may be pre-empted by countries such as Japan. Our entry costs may be prohibitive, especially if entry is attempted at a point in the product cycle for that region where much demand is satisfied by domestic sources. The development of native competitive industries within the foreign market and the simultaneous growth of political pressure by these domestic producers would greatly increase protectionist activity by the foreign government. The resulting effects may further preclude "tardy" U.S. market entry.

A related point concerns the need for legislative drafters to observe carefully distinctions between competitiveness and profitability. Any restraint, whether taxation under §911 or time delays incurred through export clearance licenses, may lessen investor interest in export opportunities because of calculated impact on return on investment. However, reduced return on investment, especially for established operations, will not necessarily prompt market withdrawal or even curtail expansion by established exporters. However, it may deter new-to-export companies who often rely on substantial profit margins to offset uncertainties inherent in their risk calculations.

When legal impediments impose financial burdens and delay that preclude a U.S. businessman from offering goods and services which are competitive in the foreign marketplace, then government is effectively foreclosing such exports. Published articles and testimony indicate that time delays associated with export license clearances and extensions of credit have been actual barriers to effective American competition.[8] The testimony by U.S. contractors operating in the Middle East suggests a similar conclusion regarding U.S. expatriate staffing on construction projects. Our own preliminary economic examination of this issue (Appendix I) lends credence to these claims and further suggests §911 may have a different impact on established as opposed to new-to-export firms. No doubt, the evolving rules and practices concerning questionable payments will impose similar restraints on the competitiveness as contrasted to profitability of our exports in many Middle Eastern Asian and South American markets.

IV. Selective Use of a Variegated Law Approach

A. Strategic Enforcement of the Antritrust Laws

Having identified environmental variables that past and current research indicate are central to the design of laws that efficiently promote, regulate and tax export-related activities, I would like to sketch briefly the types of laws that might result from insights inherent in a close examination of these variables. My examples deal summarily with only two issues you are now exploring. With increasing frequency, government officials are suggesting that many business practices commonly employed outside the U.S. contravene both the letter and spirit of U.S. antitrust laws. These warnings have prompted many established multinational operations to seek clarification of the Antitrust Division's intentions to prosecute alleged antitrust violations involving business transactions outside the United States. Simultaneously, various business organizations have sought to enlarge antitrust exemptions now provided under the Webb-Pomerene Act. The latter efforts have produced few results;[9] no doubt partially because such enlargements would necessarily reallocate jurisdictional authority of the Federal Trade

Commission, Department of Justice and others. The former effort did produce a rather non-commital statement of enforcement intentions by the Antitrust Division concerning various categories of anti-competitive behavior.[10] This statement indicates the Justice Department has little concern for how the social utility of such anti-competitive type practices would vary depending on the industries, markets and stage of product cycle involved. Passing reference was made to whether such practices would actually restrain commerce with the U.S. If some restraint of commerce with the U.S. existed, the Justice Department did not even hint it would withhold enforcement even if the transactions would substantially expand U.S. exports.

The Department's current policy statement refrains from making broad claims of enforcement intentions in order to create undue fear among possible antitrust violators. Conversely, it does little to inform businesses, especially those not advised by expert antitrust counsel, of areas where the use of certain common competitive techniques that might substantially facilitate market entry would be condoned in the absence of clear findings of substantial impact to trade with the U.S. Continued uncertainty on these matters, especially among new-to-export or new-to-market businesses, will normally increase the adverse components of the risk calculations they make to determine whether to enter the export market.[11]

If specific categories of exports can be substantially expanded by small and medium sized companies in particular markets during certain points of time with a minimal potential for restraint upon commerce with the U.S., why shouldn't the government permit these actions in the presence of acceptable monitoring? The Department of Justice can now do this through its business review procedure,[12] but has been unwilling to employ it to provide assurances of non-enforcement for specific periods of time under particular conditions. Even in the domestic context they have protected their options by applying the procedure in ways that provide businessmen little comfort.

By employing a monitoring framework similar to that of the Webb-Pomerene Act,[13] the Justice Department could make specific rulings or general class rulings which would permit businesses of certain sizes to employ specific competitive practices in particular regional markets for a finite period in order to obtain market entry and develop an adequate market share. The businesses, regions, practices, and times could be selected in light of receptivity to U.S. products and the likelihood the activities of authorized U.S. companies in those areas would adversely affect trade with the United States in contravention of the basic Sherman and Clayton Act principles. Admittedly this procedure might not preclude suits by foreign entities or private U.S. individuals, but it would certainly encourage responsible businessmen to make reasonably accurate risk calculations for entry into particular markets. With modest economic analysis, some industries and competitive practices in market areas could be quickly identified as providing maximum export expansion for the United States while presenting minimal risk to the integrity of our antitrust laws.

B. Strategic Application of Export Promotion Services

Careful analysis of the variables previously discussed can help guide fundamental revisions of current export promotion programs that will substantially improve their beneficial impact. Such analysis should permit specific companies, industries and markets to be identified for expedited treatment regarding extensions of export credits and export license clearances. However, law revision examples in this area are not provided since other hearings will dwell especially on the export credit issue, and this is perhaps not the forum for dealing with the issue of export licenses. Thus, my example concerns current Commerce Department programs for collection and dissemination of market data. These programs are under intense criticism by congressional as well as executive branch entities.[14]

Currently, the Commerce Department has several broad-based programs for acquiring data regarding export opportunities in countries served by U.S. embassies. This data is normally collected by foreign service personnel, who often possess little expertise in analysis of such opportunities and who view such collection as low priority work in terms of their own career paths within the foreign service. Consequently, although data is collected from all locations, it often suffers from lack of texture, uneven quality, and apparent detachment from the particular needs and sales routines of various companies and industries. Also, the presentation formats and analysis are seldom optimized to best reflect differences among regions of the world, product lines, market structures, etc. (The possible exception being the Commerce Action Group for the Near East.) For example, companies operating only in developed areas have differing needs with regard to government-provided information than those companies operating in developing areas. Private sources of credit information are available in developed areas for companies but not in many developing areas. The government can provide unique assistance in areas lacking such private sources, but is wasting resources when it competes with efficient private sources in Western Europe. These wasted resources should be reallocated to improve services in developing areas, especially those suited for expansion of American exports by companies not capable of assessing credit overseas.

Units within the Commerce Department responsible for these various programs should be encouraged to allocate most resources towards regions, country markets, products and companies that have the greatest potential for expanding and maintaining U.S. exports in the short and long term. Program evaluation criteria and internal management techniques should provide administrative management latitude not normally associated with traditional government-mission programs. Certain features of the Corps of Engineers, Postal Service, etc., can be instructive. Budgeting for such units should provide incentives for efficient provision of key services in the marketing chain for certain industries and geographic markets not easily undertaken by certain segments of the private sector. Initiation, expansion and contraction of services for particular regions, industries and company classes should be clearly related to rate of entry into new markets by particular company classes, maintenance of U.S. market share in expanding markets and expansion of export volume in traditional markets.

Legislative authorizations and administrative arrangements should permit program managers to influence substantially the selection and training of foreign service personnel who staff overseas commercial posts. Incentives for these foreign service personnel in terms of tour of duty length, salary incentives and reassignment should be substantially controlled by these program managers presumably at the geographic region level. Assignment of personnel on special investigations should also be within the responsibilities of these regional personnel.

All programs within a region should be supervised by Commerce Department executives in the field whose sole duties are managing these export promotion programs. Selection, promotion and expansion of duties of such regional personnel should be evaluated primarily on the basis of previous quarterly and semi-annual performance.

Substantive evaluation of these services by the private sector should be institutionalized. Criticisms and suggestions should be processed with integrity to encourage a steady flow of responsible comment and evaluation from the private sector exporting to various areas. Long range program activities should be coordinated among Treasury, State and various private sector personnel in policy level positions who are directly interested in U.S. export expansion. Finally, line personnel in field positions should have ready access to government support services regarding credit, export regulation and product evaluation so that these activities can be closely coordinated with specific export transactions. To the extent possible, such relationships should be maintained on a telephone communications basis so paper work requirements are kept to a minimum.

In summary, promotion programs should be tightly linked to on-going private sector activities. The programs should be designed for timely and economic mutation as private sector needs change. At the same time these programs should be relieved of as much government in-channel

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control procedures as possible, while at the same time retaining access to critical decision-makers within the government concerned with other elements of export transactions such as extension of credit and regulation of American companies and citizens abroad. Such program designs will enable the United States to compete successfully with comparable government efforts in Japan and Germany which have substantial discretion to support efficiently private sector export initiatives. This strategic type of service support is most valuable, especially to new-to-market and new-to-export companies not having ready access to government resources in terms of geographic location and expert government relations personnel. These services also entail minimal risk of violation of fundamental principles embodied in the GATT, etc.

V. Some Recommendations for Immediate Action

Though the material presented in this testimony deals with many far-reaching questions which will find solutions only after much effort and time, this sub-committee can now undertake some activities which pose few burdens and political risks, but promise to facilitate substantial efficiency in the evaluation and formulation of laws regarding business transactions. This sub-committee and others like it which undertake hearings on matters of business policy can require their staff as well as outside personnel presenting testimony to address themselves specifically to the types of variables identified. In some instances it will be clear that information on some variables is irrelevant to a particular inquiry. In other instances the importance of particular variables will become quickly obvious. Hopefully this will prompt additional investigations that gather and analyze data on such variables in a context which insures integrity of results. Most important, however, this approach will require the various interested parties to address themselves to common topics with common methods of analysis. The requirement should apply to both private and public sector entities addressing these questions. This will facilitate extensive development of the mid-range facts between traditional polar positions of government and industry which are needed to fashion efficient but complex government policies dealing with the private sector. Of course, such inquiry will not preclude the parties from providing traditional testimony in traditional formats.

Various legislative entities and their staffs can employ a variety of approaches to collect and analyze data on these issues. For example, the matrix contained in Appendix II was prepared by faculty and staff of the University of Georgia's College of Business Administration and the Law School's Rusk Center in connection with an informal analysis of current issues presented by §911 amendments. The components of the matrix seem relevant to most subjects now under consideration by this sub-committee. This matrix, modified in various ways to reflect the particular issue under study, could be distributed to all interested parties seeking to supply information to the sub-committee. They collectively could easily provide data for most cells of the matrix. These variables would then be quantified with a reasonable degree of accuracy and would provide the sub-committee with decisional data that would normally be more useful than that which can now be culled from the existing testimony on these matters. Variance in figures regarding cells of particular importance could be the subject of special staff investigations which, if properly designed, would normally take little time and money. In this regard, the questionnaire in Appendix III related to the §911 question might serve as a starting model. A questionnaire like this could easily be developed by sub-committee staff and administered to all interested parties through their representatives here in Washington prior to the actual structuring of hearings on particular matters. Information collected through such an instrument could be of substantial value in defining the most critical issues for full-scale hearings. This would facilitate disclosure of facts and opinions essential for resolving these issues to accomodate most efficiently the interests of the public sector, private sector and the nation in general.

APPENDIX I

Hardin M. Byars*

An Economic Analysis of the Impact of Section 911, Tax Reform Act of 1976

An economic analysis of the impact of Section 911 on competitiveness requires a brief discussion of the relationship between the short-run marginal cost curve and the short-run average variable cost curve for a firm. The marginal cost curve displays the addition to total cost resulting from the addition of the last unit of output. The average variable cost curve describes the total variable cost divided by the total output for given quantities of output. The intersection of these two curves (see Figure 1) represents the "shut down" point for a given firm and is explained below.[15]

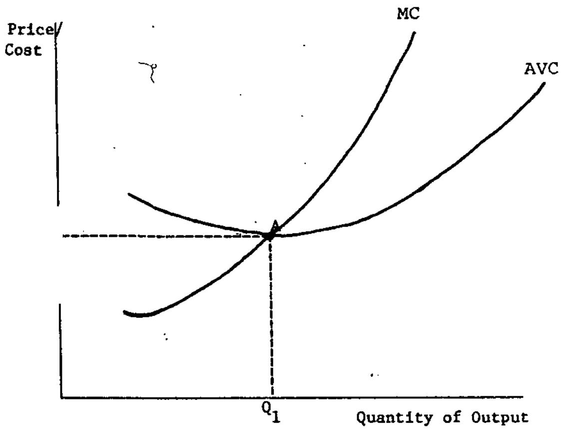
In a competitive market, as defined by economists, the amount that must be derived from the sale of a good in order to maximize profits is equal to the marginal cost at the given quantity of production. Thus, the marginal cost curve represents the line of profit maximization for a firm in a competitive market, which in turn can be used to generate the firm's supply curve. There is an exception to the marginal cost rule, however, and it relates to the already mentioned average variable cost curve. The variable costs of a firm are directly related to quantity of production, e.g., labor, raw materials, etc. (This is contrasted with fixed costs that must be paid whether production takes place or not, e.g., rent, insurance, etc.) If the price commanded by a good in the marketplace is not sufficient to cover the variable costs of production, then it would be less costly for the firm to shut down its production facility, at which point it would only be saddled with the fixed costs and not the fixed plus the portion of the variable costs not covered by the market price. This exception results in a truncation of the marginal cost curve that yields the effective supply curve for the firm (see Figure 2).

In a truly competitive market, the individual firm is a price taker and must accept the price of the marketplace as a given. While the concept of competitive markets used in this analysis contains elements of the idealistic economic definition, it is more pragmatically oriented. The concept differentiates between bid markets (i.e., governmental purchases, construction) and general sales markets. In the former, specifications are rigid allowing minimal cost reducing substitutions. The latter allows greater fungibility and the introduction of advertising and other non-price related promotional techniques to offset a lack of price competitiveness. Given these conditions, the firm must choose that quantity of output that coincides with the given price on its supply curve. It is at this point that the impact of Section 911 can be seen.[16] Since the additional tax liability represents an additional variable cost, *ceteris paribus*, the result is an upward movement in both the average variable cost and the marginal cost curves (AVC to AVC' and MC to MC' in Figure 3). Consequently, the firm is faced with a "higher" shutdown price and an altered supply curve (A to B and SC to SC' in Figure 4).

The nature of an industry and its degree of dependence on American personnel will determine the magnitude of the shifts in Figures 3 and 4 and therefore the impact of Section 911. The effects may vary from the extremes of reduced market share to exclusion from a given foreign market. In the case of reduced market share, the new supply curve (SC' in Figure 4) dictates the production of Q_2 quantity of goods at the Market X determined price, P_1. Since Q_2 is less than Q_1, the result is a reduction in the market share for the firm since it is willing to supply fewer goods at the market price.[17] The more extreme case of exclusion from a given market occurs in personnel-intensive industries where the imposition of Section 911 would cause a critical shift in the marginal and average variable cost curves. In this situation the higher shutdown point (B in Figure 4) exceeds the Market Y determined price, Z_1, whereas prior to the increased tax liability, the firm produced L_1 quantity of goods at price Z_1. The only option open for the firm under these conditions is to discontinue sales or operations in Market Y.

The impact of a measure like Section 911 varies as well with regard to differences between established and new-to-export firms. The beginning exporter has a higher variable cost function than that of the established exporter due to the start-up costs that are incurred. Because of the higher variable costs experienced by the potential new entrant, the imposition of Section 911 may be enough added cost to push the firm beyond its shutdown point and therefore preclude market entry. Alternatively, the established firm would experience only a decline in market share as a result of the increased tax liability. The above analysis, of course, applies only to those industries that do not fall within the critical industry category, i.e., those that are totally excluded from a market by Section 911 due to their personnel-intensive nature. The effect on the critical industries would be uniform exclusion regardless of new-to-export or established status.

Figure 1: Average/Marginal Cost Curve Relationship

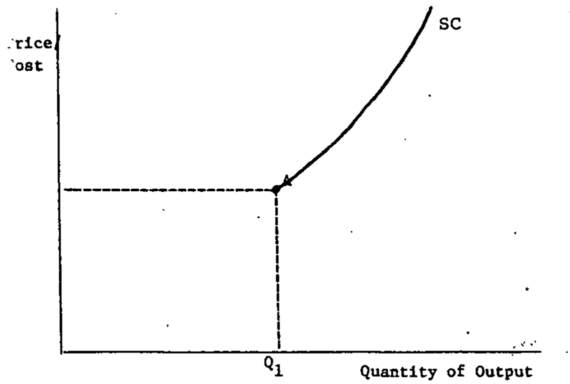


MC = Marginal Cost Curve

AVC = Average Variable Cost Curve

A = Shut-down Point

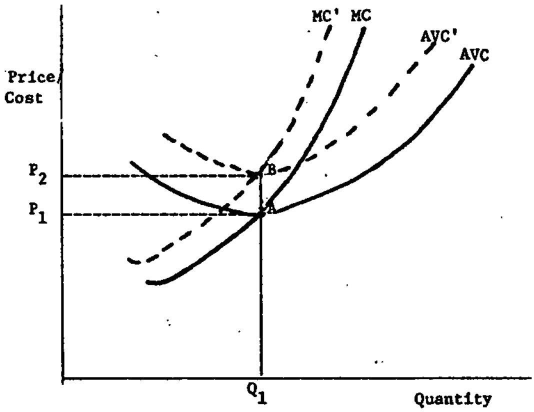
Figure 2: Effective Supply Curve



SC = Effective Supply Curve for Firm

A = Shut-down Point

Figure 3: Shifts Caused by Additional Variable Costs



AVC = Original Average Variat
Cost Curve

AVC' = Post §911 Average Vari
Cost Curve

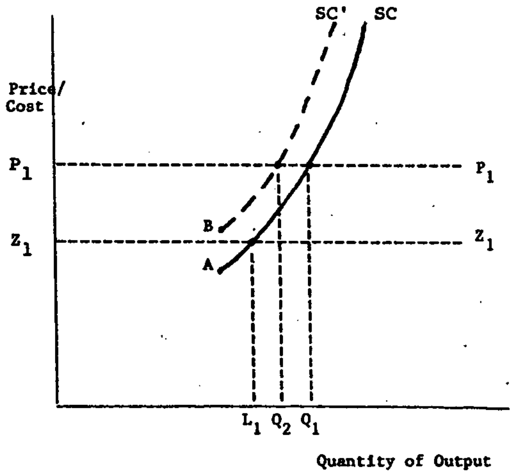
MC = Original Marginal Cost
Curve

MC' = Post §911 Marginal Cos
Curve

A = Original Shut-down Poi

B = Post §911 Shut-down Poi

Figure 4: Pre-& Post-Shift Effective Supply Curves



SC = Original Effective Supp
Curve

SC' = Post §911 Effective Sup
Curve

A = Original Shut-down Point

B = Post §911 Shut-down Poi

P_1 = Market Price In Market X

Z_1 = Market Price in Market Y

Q_1 = Pre §911 Production for
Firm in Market X

Q_2 = Post §911 Production
for Firm in Market X

L_1 = Pre §911 Production for
Firm in Market Y

Appendix II **

Negative Effect of Section 911 on U.S. Competitiveness Overseas[18]

Classification of Products

Regions[19]

Consumer[37]		Far East				Middle East				Western Europe				South America				Northern Africa			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Durable	I																				
	II																				
	III																				
Nondurable	I																				
	II																				
	III																				
Services	I																				
	II																				
	III																				

Keys:

Effects on Competitiveness:

H - Highly negative effects on competitiveness.
M - Moderately negative effects.
L - Low effects on competitiveness.
NA - Not applicable.

Four major stages of Product Life Cycle:

1 - Introduction
2 - Growth
3 - Maturity
4 - Decline

Nature of Product:

I - Nontechnological
II - Medium Technology
III - High Technology

Negative Effect of Section 911

on U.S. Competitiveness Overseas

Classification
of Products

Regions

Industrial[40]		Far East				Middle East				Western Europe				South America				Northern Africa			
Raw Materials	I																				
	II																				
	III																				
Parts and Processed Components	I																				
	II																				
	III																				
Machinery, Equipment and Supplies	I																				
	II																				
	III																				
Services	I																				
	II																				
	III																				
Ideas	I																				
	II																				
	III																				
Keys:		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4

Effects on Competitiveness:

H - Highly negative effects on competitiveness.
M - Moderately negative effects.
L - Low effects on competitiveness.
NA - Not applicable.

Four major stages of Product Life Cycle:

1 - Introduction
2 - Growth
3 - Maturity
4 - Decline

Nature of Product:

I - Nontechnological
II - Medium Technology
III - High Technology

APPENDIX III

Questionnaire***

Company Name ______________________ Headquarters/ Location ______________________

Contact Name ______________________ Phone ______________________

Secretary ______________________ Major Geographical Region(s)

Total Employees ______________________ 1)______________ 4)______________

Fortune 500 Position ______________________ 2)______________ 5)______________

3)______________

QUESTIONS:

1. What are the major product types for the regions in which your firm operates?

Region 1 ______________________ Region 4 ______________________

Region 2 ______________________ Region 5 ______________________

Region 3 ______________________

2. How many people are employed by your firm overseas?

	Region 1	Region 2	Region 3	Region 4	Region 5	Total
a. Americans						
b. Host Country Natls.						
c. 3rd Country Natls.						

3. In what capacity are they employed?

REGION 1	Americans	Host Country Nationals	3rd Country Nationals
a. Sales/Marketing			
b. Management			
c. Production			
d. Services (other than sales or mktg.)			

3. Continued.

	Americans	Host Country Nationals	3rd Country Nationals
REGION 2			
a. Sales/Marketing			
b. Management			
c. Production			
d. Services (other than sales or marketing)			
REGION 3			
a. Sales/Marketing			
b. Management			
c. Production			
d. Services (other than sales or marketing)			
REGION 4			
a. Sales/Marketing			
b. Management			
c. Production			
d. Services (other than sales or marketing)			
REGION 5			
a. Sales/Marketing			
b. Management			
c. Production			
d. Services (other than sales or marketing)			

4. Are there features in the job descriptions of positions held by Americans that necessitate the use of U. S. personnel? If so, explain. Does any one geographical region necessitate the use of U. S. personnel more than other regions?

5. Given your current situation, can your American personnel be replaced within three years by:

	Sales					Management					Production					Service (other than sales)				
Region:	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Host Country Nationals																				
3rd Country Nationals																				

6. Do you provide tax equalization plans for overseas personnel?

7. What effect has the revised Section 911 had or do you envision it having on your ability to maintain U.S. personnel abroad? What impact will this have on corporate planning? (Please comment by region and product line.)

8. Do you project that Section 911 will have an impact on your competitive position in foreign markets? Will any geographic area or product line be affected more than others?

9. What do you anticipate as your general strategy for dealing with Section 911?

_____ A. Replace all or most U. S. personnel.

_____ B. Reduce direct involvement overseas.

_____ C. Increase the use of "outside" consultants abroad.

_____ D. Increase the use of joint ventures, licensing arrangements, or other organizational strategies.

_____ E. Fight the permanent enactment of Section 911 in Congress.

_____ F. Other (please specify) ______________________________

Footnotes

1. See generally Hearings before the Joint Economic Subcommittee on International Economics, Joint Committee on Economics, October 11, 1977; Hearings before the Subcommittee on Trade, Committee on Ways and Means, House of Representatives, November 3, 1977; Hearing before the Commerce, Consumer and Monetary Affairs Subcommittee, Committee on Government Operations, House of Representatives, March 22-23, 1977.

2. For a specific industry example of such problems, see the solicited letter of Fred L. Bernheim (Bernheim, Kahn & Lozano/Architects, Ltd.) to Merrit E. Freeman of the Office of Export Development, U.S. Department of Commerce as cited in Hearings before the Commerce, Consumer and Monetary Affairs Subcommittee of the Committee on Government Operations, House of Representatives, March 22-23, 1977, pp. 217-220. In general, see the Interagency Report on U.S. Government Export Promotion Policies and Programs, Office of Management and Budget, July 1975.

3. For example, see the memorandum prepared by the law firm of Burt & Gray, Marblehead, Massachusetts, on the problems associated with conforming to Treasury and Commerce anti-boycott controls, International Trade Reporter's U.S. Export Weekly, No. 187, December 20, 1977, pp. N1-11.

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4. See generally Arnett v. Kennedy, 416 U.S. 134 (1974); Mathews v. Eldridge, 424 U.S. 319 (1976).

5. See generally, testimony before the House Ways and Means Committee, March 23-24, 1978, regarding impact of §911 on the U.S. overseas construction and engineering industries.

6. James E. McConnell and Donald R. Hoyte, Exporting, Business Decision Making and Trade Policy, final report submitted to The Institute for Public Policy Alternatives (State University of New York at Buffalo, Department of Geography, 1975); and Claude L. Simpson, Jr. and Duane Kujawa, "The Export Decision Process: An Empirical Inquiry," Journal of International Business Studies, Spring 1974, pp. 107-117.

7. Sandra M. Huszagh and Fredrick W. Huszagh (University of Montana), "Enterprise Function as a Determinant of Responsiveness to Legal Principles and Implementing Institutions," NSF GS-43801, 1974.

8. For example, South Korea reportedly is considering switching from U.S. to European suppliers for two nuclear reactors worth about $1 billion because of anticipated difficult with Ex-Im Bank financing; Atlanta Constitution,

March 2, 1978, p.11-D. Also, Congressman Bingham's subcommittee on Trade and Economic Policy has been holding a series of general and case hearings regarding the difficulty encountered by U.S. exporters in obtaining strategic export licensing.

9. See "A Study to Determine the Feasibility of the Export Trading Company Concept as a Viable Vehicle for Expansion of United States Exports, Appendix B (Legal Review of the Webb-Pomerene Export Trade Act), U.S. Department of Commerce (Report prepared in March, 1977 by Hay Associates, Philadelphia, Pennsylvania under contract No. 6-36234). Also see Chapman, "Exports and Antitrust: Must Competition Stop at the Water's Edge?" 6 Vand. J. Trans. Law 399, 419-23 (1973); U.S. Chamber of Commerce, Final Report on U.S. Antitrust Laws and American Exports (February 26, 1974).

10. Antitrust Guide for International Operations, Antitrust Division, U.S. Department of Justice, U.S. Government Printing Office, 1977 (revised March 1, 1977). See generally Seki, "The Justice Department's New Antitrust Guide for International Operations--A Summary and Evaluation, 32 Bus. Law 1633-56 (1977); Griffin, Book Review, 8 Ga. J. Intl. & Comp. Law (1978).

11. For good quantitative discussion of these risk calculations, see McConnell and Hoyte, supra note 6 at 126-165.

12. Department of Justice Business Review Procedure (28 C.F.R. §50.6).

13. Webb-Pomerene Export Trade Act of 1918, 15 U.S.C. §§ 61-65 (1970). Also see generally Chapman, supra note 9 at 443-444.

14. See Hearings before the Subcommittee on Trade, Committee on Ways and Means, House of Representatives, November 3, 1977; Hearings before the Subcommittee on Commerce, Consumer and Monetary Affairs, Committee on Government Operations, House of Representatives, March 22-23, 1977; "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State," Committee on Government Operations Report, House of Representatives, August 5, 1977; "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State: Follow-up Report" Committee on Government Operations Report, House of Representatives, March 8, 1978; Interagency Report on U.S. Government Export Promotion Policies, Office of Management and Budget, July 1975; James E. McConnell and Donald R. Hoyte, supra note 6; "Business/Government Interface in the U.S. Export Market: A Structural Analysis" (Internal report,

The Dean Rusk Center for International and Comparative Law, 1978.)

15. For a more detailed examination of the microeconomic issues involved in cost curve determinations, see Edwin Mansfield, Microeconomics (New York: W.W. Norton & Co., Inc., 1970), especially Chapters 6 and 7.

16. The assumption is made that the increased tax liability imposed by Section 911 is totally borne by the firm, since it would be unrealistic to expect the firm's personnel to work for less.

17. Since the imposition of the tax affects only American firms and not all suppliers within a given market, demand elasticities for Market X and Market Y are not pertinent to the discussion.

18. Effects are estimated for the marketing of a general product class in a region of the world. The product is placed within one of the four stages of the product life cycle, and the nature of the product assessed in terms of its technology. Both life cycle and technology are assessed in relationship to the region where the product is marketed.

19. Regions are selected for their consistent citation within business periodicals as representing extremes in living costs abroad.

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** Prepared by Dr. Sandi M. Huszagh, Assistant Professor of Marketing and Coordinator of International Activities, College of Business, University of Georgia, in association with other faculty and staff for presentation to faculty working group analyzing the effects of recent tax provisions on the competitiveness of U.S. international operations. These documents are incorporated in No. 78-018 of Working Paper Series published by the College of Business Administration, The University of Georgia.

*** In developing this questionnaire, the author, Hardin M. Byars, relied on comments by Dr. William R. Boulton and Dr. Asterios G. Kefalas, both of the Management Department, and Dr. Richard R. Still, Marketing Department, College of Business Administration, University of Georgia.

Senator STEVENSON. You concluded by mentioning that the United States has no coherent export policy and you're right. As a matter of fact, that's why there are no administration witnesses here this morning. They have no policy to describe or support, though we are told that the administration is working on such a policy.

The executive branch is a maze of agencies, as you indicate, and, of course, the Congress is a maze of committees and personalities, too, which doesn't help either.

Do you think a Department of Trade would be a good idea? Most or many countries at least have Ministries of Trade for the purpose of pulling together the agencies that are involved in the trade questions. Should we attempt to do the same thing in the United States?

Mr. HUSZAGH. I have not followed those detailed proposals, but I would feel free to make some general comments on it.

Yes, there is a theoretical advantage to collecting these various interests. In think in this instance it would be very hard to collect some of the more important elements such as Justice Department jurisdiction. After all, FTC and Justice have never been able to resolve jurisdictional limits. I think it would be hard to pull such jurisdiction into a single Department of Trade because of the mystique of the Sherman Act.

Without that kind of strategic control to use discretionary power, not to harass people engaging in certain kinds of perhaps non-competitive behavior in certain markets—I'm not sure that such a department would have the capacity like MITI in Japan. There, it's my understanding, they can make coordinated decisions about credit extension, promotion programs, tax benefits and enforcement policies. I'm not real sure that the American mentality is up to that kind of authoritarian approach. Therefore I think it's a good idea but when one starts implementing it down the line there are critical pieces that would be left out.

Senator STEVENSON. Other countries are capable of putting together large packages, including as you have indicated everything from credits to nuclear processing plants to tractors, and these packages in the aggregate would be very attractive to a country, though not all of the parts are necessary. We have no institutional way of doing that.

How about an Office of Special Representative for Export Policy, an "Ambassador Strauss" for exports, or maybe it ought to be higher than that—not at an ambassadorial level but at a Cabinet level—so that the individual could claim the ear of officials at that level and the President for that purpose?

Mr. HUSZAGH. Well, again, it seems to me it may have cosmetic value. But in terms of doing the job like some other countries are doing, I feel that flexibility needs to be at the bottom level. I would inverse the whole system and say we ought to segregate some of the incentives structures in the foreign service so that officers involved in commercial affairs have incentives to really get out in the trenches and dig around. Perhaps equally important, to have ready access—almost on a telephone basis—to access agencies like Eximbank and find out the status of a credit application. Competitiveness of interest rates doesn't reflect the importance of timely credit commitments. The timing of credit commitments is very important. I understand businessmen become extraordinarily nervous when high levels of uncertainty exist. They can cope with things like definite price controls, but when they don't know what the price level is going to be they get very annoyed.

Consequently, my preferences for allocating legislative power would focus on the structure of Government at the levels that actually interface with the exporters, one on one. The strategic knowledge low-level people have of Government and its processes should be readily available to the private sector.

Senator STEVENSON. I certainly agree with what you said about how indiscriminate our laws are. They are indiscriminate like our dominant macroeconomic theories and Government accounting and reporting procedures which attach the same value to all goods and services.

You indicated that other nations are more flexible, more discriminating. How do they take a more discriminating approach? The Japanese, for example.

Mr. HUSZAGH. I'm not familiar with the details. It's my understanding, though, that MITI does have both direct authority and strategic authority to encourage private sector action consistent with their long-range planning. I have seen some of their work which targets evolving markets and identifies those characteristics Japanese industry must have to enter such markets, achieve maximum market share, and at the same time anticipate reactive regulatory environments in those markets. This impressive staff analysis which distinguishes markets and industries allows them to make credit allocation decisions. Because of the elaborate, cultural relationships between government, industry, and banks, MITI is able to gently advise some industries that they are on the way out. They can expect over the next 5 years that they ought to phase out gracefully as far as exporting. Other industries are given the signal to beef up their export activities. They are given rather specific suggestions, flowing from top level people all the way down the system, as to how to structure themselves for maximum impact in the foreign markets.

Now I think the problem with borrowing from the Japanese is that their cultural makeup, their willingness to live with authority, is very different than ours. I'm not sure our system lends itself to that. So we have to adopt other methods like other countries do. Let me just give one example. Evidently in the Asian market Australia and some other countries feel they must get a market share or be foreclosed because of domestic competition—that is, domestic competition in the market they are going into. They will allow to remain on post those commercial officers that know where the power is back home and how to get things done. These people can be left in the primary market for 6 or 7 years so they can develop the elaborate framework to tell people where to go and how to do things.

We don't have that kind of strategic capacity, as I understand the system, to make those kinds of judgments which commonplace people can make. The businessmen that I have talked to, especially in the Asian Basin, are extraordinarily impressed with certain countries' ability to not only deliver credit and market information but to inform the person in his planning process when that commitment will be delivered. Timing is important because a lot of these businesses have 3 and 5 year planning cycles. Certain information which only the Government can provide needs to be delivered at the proper point in the business planning cycle. It would be an impossible task if the planning cycle varied for every company. However, such cycles tend to be highly standardized for major industries. I don't think it would be beyond the Government's capacity at the administrative level or even the legislative level to make some of those fundamental distinctions.

Senator STEVENSON. Does the allocation of credit in Japan include allocation of resources for product development, R. & D. in industry?

Mr. HUSZAGH. That I don't know, but I will be delighted to look into that and try to get back on the specifics. I suspect it does.

Senator STEVENSON. I think it does, too. I think you ought to take it a step farther. This Government does have credit. It will allocate credit discriminately to industry in inner-cities or depressed areas, for example, because it appears to be socially desirable or to failing industry because it appears to be a way to save jobs, but, it doesn't allocate credit for reasons which are purely economic, even though over a longer period of time the social benefits may be larger.

Mr. HUSZAGH. Of course, in our structure there are programs I believe in the National Science Foundation and elsewhere where R. & D. money is allocated to some extent on the basis of potential for payout, but it's very tenuous I must say.

Senator STEVENSON. That's closer to basic research certainly than it is to R. & D. for development of commercially viable products. We don't do that. They are a spinoff. It may be out of Defense or out of NASA, but as far as I know, no direct support of R. & D. for optical fibers, for computers, anticipating markets and helping with the development of products for those markets. We have never made that an objective of the Government.

I think it's partly because of the adversarial relationship which has characterized business and Government in this country, as opposed to the relationship in other countries, including Japan. I think your observations are valid and important, but there's a big step from those observations to the formulation of policy and you could go a little bit further as in this case to help us make that step.

Mr. HUSZAGH. I will comment on this briefly. Yes, there is an adversarial tone to business and congressional relationships. Consequently what I call mid-range facts aren't really well developed because everybody is holding out for the ultimate piece of the pie. I do feel, however, that if this subcommittee would on a tentative basis signal that it is going to take into account differences within industries, I suspect monolithic lobbying by the private sector would disaggregate rather quickly like it did on S. 911 with the construction and engineering industry. If Congress indicated it was going to shape a more coherent export policy and take all forces into account such as antitrust, credit, promotion, and so forth, I suspect the two monolithic groups—administration versus industry—would disaggregate. You would get a rather full spectrum of information since there would no longer be an identifiable adversarial relationship. Admittedly there would be some committee allocation problems in the Congress.

Senator STEVENSON. Well, allocation is a fighting word as I think you will find as you try to take that next step—what it is, I mean.

The Commerce Department is taking a very feeble step with respect to R. & D. and the industries selected are textiles, shoes, and for reasons which I still do not understand—I think in the first case they are fairly obvious—the third is jewelry. Well, we are not looking to the future. We are not anticipating market demands in the future and helping with the development of products. The vision is short-range as usual and political pressures play a large part in this one most limited attempt at allocation.

Shoes, arguably, are the victims of imports in certain depressed areas in New Hampshire which has sent certain individuals to serve in the Federal Government, and textiles are an obvious case. As I say, I don't understand the significance of jewelry. So I don't think it's a question of our being willing to make the commitment that you indicated.

The problem is much more one of method—how do you do it—and Senator Schmitt and I are both interested especially because we have leadership on the Subcommittee on Science, Technology and Space, and some of this work is being conducted in conjunction with that subcommittee. That is to say, industrial R. & D. and the relationship between the Government and industry for R. & D., and also the Federal Government's commitment to basic research, and I think we are all beginning to conclude that one of the major reasons for the noncompetitiveness of U.S. industry in the world is a flagging commitment to R. & D. and product development and innovation.

It used to be competition from labor intensive industries such as shoes and textiles. Now it's increasingly from high technology industries and from countries that have governments which support those high technology industries and instead of complaining and resorting to protectionism and subsidizing the dying industries, we would like to get smart and learn from them and beat them at their own game if necessary. But how you do that is I think more difficult than expressing the willingness to try.

Mr. HUSZAGH. I believe an economics professor from George Washington University has provided some information to this subcommittee on what he called the disaggregated relationships between industries and R. & D. Of course, you are talking about allocations of Government largesse as to R. & D. Such allocation decisions might well bog down in some of the machinations of Congress. I suspect, though, if one were to look at an issue like antitrust or some of the other export impediments, it might be easier for Congress to facilitate exports. They need only to say to the Justice Department "We would like to have you come up in 6 months and tell us how you would employ your business review procedure to facilitate exports." I realize, however, there are other subcommittees involved. For example Justice should be asked "How would you use your business review to stimulate exports? What factors limit your ability to distinguish small new to market companies from large, old to market companies as to advice given and the durability of that advice?" If they appeared intransigent or presented a lot of excuses why it can't be done, I suspect that the FTC would be more than willing to come in and suggest a way it might be done. At that point, of course, the stage is set for enlarging the Webb-Pomerene Act in some specific ways. Then presumably Justice will make some sharp calculations of what they are going to lose.

Senator STEVENSON. Well, I'm not convinced that even our largest industries can effectively compete any more, but I think your idea is good. I'm just not sure that it goes far enough. We want to examine also trading companies on the Japanese model. There, impediment appears to be in the antitrust laws, too. Do you have any thoughts about that possibility?

Mr. HUSZAGH. I have referenced in my testimony a study Hay Associates prepared for the Commerce Department on the trading company concept. We have not gone into that, but I have several students that are now doing background research on this issue. However, I do believe the trading company concept does assume a cultural discipline that is not very suited to the American style. Further I am sure the Justice Department would feel such a trading company could be used as a tool by dominant enterprises, but I don't feel qualified to discuss the merits of that. I do believe, though, there are serious cultural problems in embracing the Japanese concept as such.

Senator STEVENSON. Senator Schmitt.

Senator SCHMITT. Thank you, Mr. Chairman.

I certainly welcome your testimony, Mr. Huszagh. I also agree that there are some major cultural differences not only between the Japanese and American situation, but also between other nations and the American situation. Every society has some basic cultural imprint that affects issues of this kind. It has been my historical observation that the periods where exports were not of great concern to this country were periods, as the chairman has indicated, of very rapid technological innovation in this country. Something big was happening. Something new was going on or had just happened and the spinoff from that was a period of great vitality for American industry and for the exports of American industry.

The competitiveness of other nations has increased with time just like the rate of change of our whole Earth society has increased with time, but I don't think that the rule necessarily will prove invalid that if we are in a period of rapid technological growth that we won't also find that many of these other considerations fade somewhat into the background. The vitality of the system itself tends to overcome the impediments that Government in particular puts in front of the export area.

Your testimony I think very clearly points out the compartmentalization of our export considerations within the Government. In a period of technological downturn which usually, I think almost invariably relates to a period of economic downturn in this country—

which comes first one would have to argue some more—but in that period, then the interest of Treasury primarily in revenue, of Commerce primarily in export rates, of Justice in business review or antitrust consideration, and of State in just the narrow foreign policy aims, all tend to work against each other in various ways. The need to have some kind of strategic capacity in a period of economic downturn as well as in other periods is extremely important and we would hope that people like yourselves can go away from the hearings that we are having with some commitment to think about this.

I'm not sure that another department Cabinet level is going to be the answer because that usually just results in a shuffling of boxes and not necessarily in a change of concept. On the other hand, I'm not sure that, as you have indicated, our culture will allow us to adopt a Japanese or German or French or maybe even a British model, at least a modern British model.

Do you see in your examination of this business any direct correlation between our concern about export policy and the level of vitality of our economy?

Mr. HUSZAGH. Well, I do—I guess it was a point that you mentioned earlier that bothered me. That is, industrial aggressiveness or a vitality will overcome the impediments.

Senator SCHMITT. Let me just interrupt and say they tend to be overcome even though they are still there and should be there.

Mr. HUSZAGH. All right.

Senator SCHMITT. But we tend just by sheer energy to overcome the kinds of things, the roadblocks, that are put in our way.

Mr. HUSZAGH. All right, let me make this rather uneducated comment. As regards the large industrial enterprises now in the export area, multinationals, I would say that statement is probably true. They have already established a format for thinking worldwide and that's now a part of them. It might also be true for new-to-market or new-to-export companies if there was a lot of slack in the system. In the past, we had an enormous technological lead. We really didn't have competition once we decided to put up with the heat, different language, et cetera. Unfortunately, competition is now there in a very rampant way. Moreover, I gather from conversations with businessmen that the uncertainties of government here and abroad, at the Federal, State, and local levels and the volatility in the relationships between private and public sectors, tend to make businessmen much more cautious about venturing out into new turf. I think it's a very, very serious problem.

If there is this inherent conservatism which says "Well, I'm going to just conserve rather than be aggressive and risk"—and that's especially true with some that are just hanging on in the markets by the skin of their feet—then I think even the slightest impediments will keep them out. Conversely, I think erosion of those impediments or limitation of them will get such business back into the markets. I think that they will come in in substantial numbers.

However I'm really not qualified to talk about whether we are in a state of vitality. I guess I'm very pessimistic on that, unfortunately.

Senator SCHMITT. Well, I'm pessimistic, also, because I think over the last 10 years the level of investment of the private and public sector in high risk technologies is clearly down compared to what it has been in the past, proportionately, and what it should be. I think the reason that you are now seeing this conservatism, the reason we are now seeing the apparently equalization of competitiveness within the international marketplace, is because of this downturn in our own investments; that had we continued to push and explore both in the private sector and the public sector new technologies, we would find we would still be very competitive.

That doesn't mean that the impediments wouldn't be there and if they were removed wouldn't further increase our ability to capitalize in these foreign countries. My inclination right now is to try to explore two things. One is how do we revitalize our technological base so we recapture this leading edge of technology that has traditionally—probably for 200 years or more—been the source of the economic strength of this country, but also how do we remove these impediments and in particular develop what you referred to as the strategic capacity to look at all aspects of the export picture, all major aspects, look at them as a whole, an integrative whole, and determine what our policy ought to be but still within our own cultural environment, and my intuition tells me we can do that. The thing that's lacking is just what might be the mechanism by which it happens.

I don't think personally we can adopt the Japanese model. I don't think it will work. The two cultures are very, very different. There are very deep-seated reasons why the Japanese personality accepts the kind of integrative government-industry-financial institutions that they have. As a matter of fact, I don't believe there's any rule of law within that acceptance. I think it is just acceptance. Is that correct? Do you know, by any chance?

Mr. HUSZAGH. The rule of law in that regard?

Senator SCHMITT. For example, when Government starts to apply the strategic strategy which includes financial and industrial concerns, then that strategy starts to be applied but not applied by force of law. It's applied because everybody is part of the same general strategy.

Mr. HUSZAGH. Well, some of it is. It's getting more institutionalized. I mean, the old basis of common cultural heritage is obviously eroding over time. More and more jurisdictional disputes are becoming institutionalized in the sense that you're talking about.

In terms of what can be done here, let me make a few comments. Mr. Rusk has been rather diligent over the last 9 months in trying to assess the level of understanding businessmen's problems at various points in the Government structure. I cannot say as an outside observer that those explorations on his part have led to very optimistic conclusions. There's been a general insensitivity or a preoccupation with currency stability and so on and so forth. I do feel that the committees like this one, keeping within the bounds of political realities, could harass strategically——

Senator SCHMITT. Did you say harass?

Mr. HUSZAGH. Well, I'm using that very loosely, but I'm saying rub their noses in some rather specific things. Ask them what precludes making certain distinctions to foster exports: why aren't they more sensitive to exporter needs; how do they coordinate export matters in the Department of Treasury; how realistic is their coordination procedure between State and Mr. Strauss and others? Put those hard questions to them. Then agency officials will ask their staffs to work up answers. Presumably their staffs will become enlightened, perhaps for the first time about peculiar needs of exporters and their importance to the country's long term health. I think there's just a lot of education of the administrative branch that needs to be done.

It sounds very simple-minded and sophomoric, but agencies become extraordinarily insensitive to the collateral effects of their action or inaction, as you well realize. I think subcommittees like this really have the capacity to substantially reduce this insensitivity. It may be a little devious, but then again——

Senator SCHMITT. It's not devious at all and I think it's an excellent suggestion. Our only problem has been recently getting this particular administration to respond to the kinds of questions that we ask, but I don't know whether that's an individual problem that I have or whether it's a general problem that the Senate has.

Mr. HUSZAGH. If you're going to force the administration to respond holistically, then I think there would be a problem. But why not just pick on individual people, whether through this subcommittee or the oversight subcommittees for those particular agencies——

Senator SCHMITT. Well, I think, Mr. Huszagh, that's an excellent suggestion and probably should be followed up on. I would, though, predict that at least five out of six of the letters I would write I can also write the answer that I will receive and that answer will generally say, "These things are being taken care of at this and that advisory level by this or that interagency review committee," et cetera, et cetera, and probably without diligent followup will not result in any great upwelling of new strategic planning or tactical planning within the administration. That doesn't mean it should not be done, however, because it could very well get things started.

Mr. Huszagh, I appreciate very much your testimony. As the chairman has said, it will be included in its entirety in the record.

Mr. HUSZAGH. Thank you, Senator.

Senator SCHMITT. Our next witnesses will form a panel: Ralph Weller, who is chairman and chief executive officer, Otis Elevator Co. of New York and chairman of the international trade subcommittee, Chamber of Commerce of the United States; John R. Babson, vice president, Ingersoll-Rand Co., N.J., and chairman of the executive committee of the Special Committee for U.S. Exports; Richard Fenton, president, Fenton International, Inc., Aspen, Colo., and chairman of the Small Business Task Force of the Special Committee for U.S. Exports; and Richard Melville, president and chief executive officer, Allied Bank International, N.Y.

Gentlemen, we appreciate very much your joining us this morning. As usual, we would also appreciate your testimony being summarized with the assurance that the entire testimony will be included in our record. We might as well start in the order that I read unless you gentlemen have worked out some other order. Mr. Weller, would you care to begin?

STATEMENT OF RALPH A. WELLER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, OTIS ELEVATOR CO., NEW YORK, AND CHAIRMAN OF THE INTERNATIONAL TRADE SUBCOMMITTEE, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. WELLER. Thank you, Senator Schmitt.

I am Ralph Weller, chairman of the board of the Otis Elevator Co., which is a subsidiary of the United Technologies Corp. of which I'm a vice president, and chairman of the International Trade Subcommittee of the Chamber of Commerce of the United States on whose behalf I am testifying today.

With the Senator's admonition, I will not read my statement but will submit it for the record with the Senator's permission.

[Complete statement follows:]

STATEMENT
on
U.S. PROGRAMS AND FACILITIES DESIGNED TO INCREASE OR FACILITATE EXPORTS
before the
SUBCOMMITTEE ON INTERNATIONAL FINANCE
of the
SENATE BANKING COMMITTEE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Ralph A. Weller
April 5, 1978

I am Ralph Weller, chairman of the board, Otis Elevator Company, vice president, United Technologies Corporation, and chairman of the International Trade Subcommittee of the Chamber of Commerce of the United States, on whose behalf I appear today.

The National Chamber appreciates the opportunity to comment on the serious issue of United States export performance and ways the government can help to improve it. The Chamber's membership -- now consisting of over 69,000 business firms, large and small, over 2,600 chambers of commerce in the United States and abroad, and 1,200 trade and professional associations -- is deeply concerned with this issue.

THE TRADE DEFICIT AND THE IMPORTANCE OF EXPORTS

In 1978, after two successive years of record trade deficits, there is little remaining disagreement that the international trade position of the United States has become precarious. There is general recognition that our huge trade deficit -- over $36 billion (c.i.f.) in 1977 -- has been caused by a number of factors. On the import side, increases have been caused about equally by increased mineral fuel imports and by other imports. These imports are not expected to decline significantly.

Sluggish U.S. export performance has been due primarily to four factors: bountiful worldwide grain harvests which have hurt our agricultural exports, a cyclically low rate of real fixed investment abroad that has depressed our capital goods exports, developing countries restraining imports to protect their currencies and conserve foreign exchange, and U.S. manufacturers becoming less competitive in world markets.

Clearly, one way to reduce our $36 billion trade deficit is to stimulate exports in all ways possible. In fact, it may be the best short-term solution; because other suggested remedies -- increasing productivity, expanding investment, and reducing dependence on foreign oil -- are all longer-term measures.

Therefore, I would like to discuss several areas in which the government can play an important role in export promotion and facilitation. We are informed that this hearing is not intended to cover either the Export Import Bank (on which the National Chamber has already presented testimony to this Subcommittee) or government aids to agricultural exports, so I will restrict my comments to other programs.

DOMESTIC INTERNATIONAL SALES CORPORATION (DISC)

The National Chamber supports the concept of DISC -- the Domestic International Sales Corporation. Since the legislation became effective in 1972, over 9,400 companies have set up DISCs, resulting in increased U.S. exports, plant utilization, and employment. The DISC is one of the single most important export aids available to a U.S. exporter. In fact, DISC exports have generally grown at a faster rate than non-DISC exports. Unfortunately, the Administration proposes to eliminate DISC benefits over a three-year period.

Many U.S. companies that now use the DISC mechanism have increased substantially their exports, thus providing vitally needed U.S. jobs.

Besides promoting domestic employment and increasing exports, the DISC provisions were intended to overcome two major disadvantages that faced U.S.-domiciled exporters. First, they were often competing against exporters based in foreign countries which gave very liberal tax benefits to exporters. Second, domestic exporters were not receiving the tax benefits available to foreign subsidiaries of U.S. corporations.

Use of a DISC encourages firms that are too small to operate through foreign subsidiaries to enter the export field. The use of DISCs continues to increase. While the tax deferral may not be large in many cases, the cumulative effect is a substantial increase in working capital for further export development.

The International Economic Report of the President for 1977 observed that "[d]uring the past fiscal year, efforts by other countries to stimulate their economic recovery through higher exports led to a substantial increase in foreign export credit support programs and other government aids." The report further showed that governments of other major trading nations on the average spend about 50 percent more than does the United States Government on promotion of manufactured exports. The report concluded that the DISC legislation "has benefited exporters since its inception. . . and has proved an effective stimulus to U.S. exports."

The National Chamber opposes any elimination or reduction of DISC benefits.

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COMMERCE AND STATE DEPARTMENT EXPORT PROMOTION PROGRAMS

If all American businesses were aggressively interested in exporting, there would be little need for government export promotion programs. There is, however, a considerable "gray area" within the U.S. economy representing potential export trade -- firms that could be exporting but are not doing so. Many American firms place priority on domestic rather than on foreign sales. Many, but not all, of these firms are small businesses. They are often reluctant to invest the time and resources necessary to penetrate foreign markets. Indeed, some are not even aware of export opportunities. Often businesses become satisfied with the huge market represented by the United States. Even among firms that do export, there is relatively little awareness of being part of an "exporting constituency."

These problems compound the difficulties facing officials concerned with developing and administering Commerce and State Department programs designed to expand and facilitate exports. It is impossible to measure precisely the contribution these programs make to total export activity. The evidence indicates that they are a significant contribution but that they are essentially supplementary to the basic impulse which must come from business itself.

Much remains to be done to supplement the good work of Commerce Department Field Offices. More emphasis is needed at home in addition to improved export assistance services provided by U.S. Government personnel abroad. U.S. firms that have done their basic homework -- studying how to penetrate a particular foreign market -- can generally obtain adequate assistance. They know what they are looking for. Other firms, ignorant of exporting realities or unconvinced that exporting is worth the bother, must be treated differently.

"Trade leads" located overseas by U.S. commercial officials are only the first step. Some way must be found to deliver good leads quickly to companies that are most likely to act on them. Also, finding a potential exporter to fill a lead is not enough. Counseling on the essentials of exporting must be a key element of government programs.

Ignorance or disinterest are only part of the problem. There is often a lack of flexibility in adapting U.S. products and marketing methods to foreign markets; for example, failure to adapt products to foreign standards of power and measurement, not providing instructions in foreign languages, not quoting price information in foreign currencies, or simply not responding to inquiries written in foreign languages or involving detailed and demanding specifications.

There has been much recent controversy surrounding U.S. overseas trade centers. One of the problems in assessing these centers is the difficulty in measuring exactly how much new export activity they generate. The consensus is that U.S. trade centers certainly contribute to U.S. export performance, but expansion of export promotion activities should probably occur in areas in which benefits are more readily identifiable.

As one further suggestion, I should add that efforts should be directed at improving the quality and timeliness of foreign market data made available to American firms by the Commerce and State Departments.

FOREIGN BARRIERS TO U.S. EXPORTS

One U.S. Government export expansion program -- which is generally not thought of as an export program -- is our participation in the Tokyo Round of the Multilateral Trade Negotiations. U.S. efforts in this negotiating forum are aimed at increasing future market access for U.S. exporters through the reduction of trade barriers to U.S. products. The Tokyo Round is unique among the seven rounds of international trade negotiations conducted since 1947 in that its heaviest emphasis in obtaining trade liberalization is no longer on tariff-cutting, but is directed at nontariff barriers -- the major impediments to world trade today. Under the capable direction of the President's Special Trade Representative, Robert S. Strauss, U.S. negotiators are seeking reductions in such nontariff barriers as subsidies (both producer subsidies and export subsidies), customs formalities and procedures, government procurement practices, quantitative restrictions, technical barriers to trade, and import licensing. The importance of the Tokyo Round lies in the fact that its success can mean expanded opportunities for America's major export industries in the 1980's and 1990's. The Chamber supports Ambassador Strauss in his difficult negotiating task, and urges our trading partners not to favor short-term protectionist measures at the expense of the trade expansionary objectives of the MTN.

WEBB POMERENE ACT

The final item I would like to address today is the Webb Pomerene Act. The Act was intended initially to allow American exporters to compete on a more equal basis with foreign cartels in overseas markets. It exempts the formation and operation of Export Trade Associations from the prohibitions of the Sherman Act. However, the Webb Pomerene Act forbids activities of associations which would enhance or depress prices or otherwise lessen competition in the United States. The utility of this export mechanism has been questioned, especially in view of the associations being restricted to trade in "goods, wares or merchandise."

In order to encourage more associations, there have been over the years congressional proposals to broaden the scope of the Act, but nothing has been enacted.

Little interest in the Webb Pomerene Act has been expressed by large, well-known corporations, which often do not need export associations to market their products. But smaller firms -- the intended beneficiaries of the Act -- also have not taken advantage of its provisions to any significant extent. Having never been numerous, only 28 associations exist today. The Webb Pomerene Act, as it presently stands, has not really effectively fostered expansion of U.S. foreign trade.

A thorough reappraisal of the Webb Pomerene Act is needed. The principal reason for the Act's failure is its vagueness. No definitive standards are prescribed for permissible activities. The result of this uncertainty has been administrative and judicial rule-making which has done more to restrain than advance the intent of the Act. The Justice Department, more familiar with domestic antitrust matters than export trade, has zealously attacked Webb associations. Facing the liklihood of an Antitrust Division investigation and with no clear idea of permissible activities, few businessmen have been willing to risk the severe penalities of the Sherman Act by forming Export Trade Associations.

In 1973 a National Chamber Antitrust Task Force on International Trade and Investment developed four proposals for reform of the Webb Pomerene Act. These proposals are still relevant today and I would like to mention them briefly:

1. Administrative authority for enforcing the provisions of the Webb Pomerene Act should be consolidated in one agency. Currently, an exporter has no assurance that approval from one agency will present another from taking unilateral restrictive action. Additionally, there should be standard, coherent and specified procedures by which associations are regulated by one agency.

2. Preclearance of association activities should become a part of the Act's administration. Such prior clearance should estopp subsequent suits so long as the affected association performs activities within the scope of the clearance.

3. Sales by associations financed through government agencies should be explicitly permitted. The Concentrated Phosphate case proscribed association participation in AID-financed projects, and has discouraged other government agencies from soliciting Webb Association participation.

4. <u>The definition of "export trade" must be made more clear and expanded to include services as well as goods</u>.

U.S. BARRIERS TO EXPORTING

I have discussed how governmental assistance can help improve U.S. export performance. Unfortunately, governmental regulatory activities designed to achieve unrelated policy objectives frequently damage U.S. export performance. I would like to provide the Subcommittee with several examples of these export-related problems.

What may come to be the best example in recent years of burdens placed on exporters in their efforts to cope with foreign competition is the anti-boycott provision of the Export Administration Amendments of 1977. Final regulations only recently have been promulgated, so no one can yet quantify the dollar loss represented by the anticipated shift in purchasing by Middle East customers from U.S. to German, Japanese, French or British firms. Some large corporations with considerable legal resources will probably be able to navigate the current anti-boycott regulations and remain active in Middle East markets, but the Chamber is most concerned about small firms which do not have the resources to cope with these additional complications. Furthermore, small exporters who might otherwise have entered Middle East markets are now being deterred from doing so by the anti-boycott law and its penalties for violation.

Frequently these governmental actions affecting international commerce represent efforts to impose American standards on the rest of the world. Certainly, if we respect our own values, we should recommend them to other nations, but this should be done on a government-to-government basis, not through extraterritorial enforcement of U.S. law. For example, a draft proposal advocated by the President's Council on Environmental Quality, which is now the subject of inter-agency discussions, would require that exporters file an environmental assessment before being granted government export financing or export licenses. Not surprisingly, exporters are concerned about the potential delays and expense which would be caused by time-consuming preparation of impact statements. This could easily translate into lost sales. Here we have an excellent example of an issue which should be addressed through a multilateral agreement; but instead, a federal agency -- in an effort to expand its powers in an unrelated area -- has proposed to handicap U.S. exporters.

A final example of this phenomenon is the effort to repeal Section 911 of the Internal Revenue Code dealing with income taxation of U.S. individuals residing outside of the United States. Prior to the Tax Reform Act of 1976 Section 911 offered U.S. citizens working abroad tax benefits to compensate for the extra expense of living and raising a family abroad. In 1976 the earned income exclusion under Section 911 was reduced, foreign tax crediting was cut back, and effective rates were increased. At present, only the House of Representatives has taken action to delay the effective date of these changes.

In order to operate internationally, U.S. firms must employ some American citizens to work in foreign subsidiaries and branches. American employees are necessary in some positions because local nationals often do not possess the needed skills, experience or familiarity with American business methods. The 1976 changes in Section 911 have begun to increase substantially the financial burden on Americans working abroad, and on the companies that employ them. Some companies have indicated that increased costs will force them to replace their American employees abroad with foreign workers. This could have a significant impact on U.S. exports, since American employees who have the discretion to determine which goods and supplies will be used in their foreign operations are more likely to seek U.S. products. The net effect will be to increase expenses and make American businesses abroad less competitive with foreign businesses. When balanced against the objective lying behind the change in the law -- a modest increase in Treasury revenues -- the elimination of Section 911 benefits appears to be, indeed, an unwise move, likely to inhibit U.S. exports.

In summation, the National Chamber is gratified to see signs of growing appreciation in the Congress of the need to improve U.S. export performance. The Subcommittee on International Finance is to be commended for the exceptional attention it has devoted to U.S. export problems during this Congress. Interesting ideas have been expressed today and during other hearings before this Subcommittee.

Mr. WELLER. I don't think it's necessary to speak in any detail today about the position of our exports relative to our imports or in any way have to justify the effects that this has had on the value of our dollar in world markets, and I don't think I have to overstress the importance of our taking steps to correct this situation.

Clearly, one way to reduce our $31 billion trade deficit is to stimulate exports in all ways possible. In fact, it may be not only the best but the short term solution, because other suggested remedies—increasing productivity, expanding investment and reducing dependence on foreign oil—are certainly longer term solutions.

Therefore, I would like to discuss several areas in which the Government can play an important role in export promotion and facilitation. We will not talk, as we have been directed, on either the Eximbank or on Governmnet aids to agricultural exports.

Let me first say a few words about DISC. I listened with interest to Mr. Huszagh's testimony regarding DISC and in general I suspect that I would agree with most things that he said. You can build a case for it. You can build a case against it. I think it's too early really to say it's been a great thing or a bad thing.

Probably more important than that is how the business community and other nations look at our feelings on DISC. They obviously don't like it. So it must have some value. Many corporations are using it so they must think it has some value aside from the deferral of taxes. It has gotten other people involved in exports who were not involved before. It has a secondary value because I think one of the things we overlook in the relationship between big business and small business, on the export side as well as others, is the fact that every time big business, so-called, gets an export order, it's accompanied by other orders and vendors go along with the large business.

If we take the statistics and say roughly 200 corporations accounted for 80 percent of exports, the small business content in that 80 percent is significant. I can cite a United Technologies export to South Korea for some gas turbine generators for a powerplant in South Korea where, in the American content, about 25 percent was vendor equipment. Of the vendors, 80 percent were officially classified as small business. We had a list of those vendors made up just for our own information and discovered that we had some transactions that were $10 and some that were $2 million in about $6 million of vendor equipment. So we did run the gamut from small business to large business and I suspect this is true in most exports by large corporations.

Senator SCHMITT. Excuse me if I may interrupt. Is that the only time you have made that kind of record?

Mr. WELLER. Yes. We made one specific study in relation with testimony we gave on the Eximbank for the House.

We think that DISC—and we use it extensively in our company and many of the members of the Chamber of Commerce use it—has promoted domestic employment. It has increased exports. We think that DISCs have done much to overcome two major disadvantages that faced U.S.-domiciled exporters. First, they were often competing against exporters based in foreign countries which gave very liberal tax benefits to exporters and second domestic exporters were not receiving the tax benefits available to foreign subsidiaries of U.S. corporations.

We think that DISC can encourage firms that are too small to operate through foreign subsidiaries to enter the export field. The classical way of going overseas has been an agent, a branch office, a subsidiary, and some of the smaller companies cannot afford the latter two processes. The DISC helps them get into the export business.

Interestingly enough, the international economic report of the President for 1977 said, talking about DISC legislation, that it "has benefited exporters since its inception . . . and has proved an effective stimulus to U.S. exports."

The National Chamber opposes any elimination or reduction of DISC benefits.

Senator SCHMITT. Let me interrupt again. Do you fully understand the administration's reason for the elimination of DISC?

Mr. WELLER. Well, I understand it's a Treasury inspired proposal that, No. 1, says that the benefits are not worth the losses.

Senator SCHMITT. So it's primarily revenue-saving, supposedly—direct revenue saving?

Mr. WELLER. It's, unfortunately, a 1-year analysis and this is I think the problem with many of the Treasury's suggestions to the Congress when they talk about tax legislation. They are too often talking about a 1-year impact instead of a long-range impact.

Senator SCHMITT. Instead of a multi-year impact, plus the indirect impact on revenue through the stimulation of activity?

Mr. WELLER. Yes, sir.

Senator SCHMITT. Thank you.

Mr. WELLER. If I may, I will skip over the Commerce and State Department export promotion programs.

I think we would agree, if all American businesses were aggressively interested in exporting, there would be little need for Government export promotion programs. The figures I quoted before indicate that not all American businesses are truly interested or capable or maybe sophisticated enough to cope with the problems of marketing in other areas to get involved with it. Many American firms place priority on domestic rather than on foreign sales. Obviously if they have a fine market here they don't want to incur the much higher administrative costs that would be involved in foreign sales.

So, therefore, we feel that the work of Commerce and State that are designed to expand and facilitate exports are worthwhile. We wouldn't always think that the implementation is perfect, nor maybe the priorities assigned to these tasks are sensible, but they certainly help.

We in United Technologies have used some of the fairs. We have been participants in the last few years in several of the fairs sponsored around the world. We have ourselves mixed feelings in having an automobile show type exhibition where it's open to the general public and you end up giving away sales literature and technical studies. It may have a long-range benefit and it may not.

We do need help in recognition of the buyer and the buyer's recognition of the seller. We think that much work has to be done at home to introduce business to the importance of exports. I'm talking now about the large number of businesses that are not involved. We think that in general the home offices are not as sophisticated as the overseas offices of Commerce. Therefore, people sometimes are getting inadequate information, shall we call it, on what they should be doing and how they do it. This particular area could stand funding and could stand a lot of help.

I might add a personal aside, if I may at this time, that we have seen indications of the administration sending a letter to all American Ambassadors abroad stressing the importance of the sale of American goods. We think that is a fine first step. We would like to see that letter strengthened in assigning priorities to this mission and, to use an old expression, putting your money where your mouth is; assigning some people to assist in it because I'm sure some of our overseas missions will put this in their list of things to do and I'm not sure, that without any funding, much is going to be done.

My personal experience has been that we have had excellent help with some embassies overseas with sales. With others we have been gifted with benign neglect, either because of the workload or a particular person's interest to get involved in the commercial world. This ignorance, or disinterest, is only part of the problem.

We have within the business community a very large problem ourselves. We have to explain not only to companies but to workers the importance of exports. There are many figures that have been quoted in the last few months on the number of jobs that are related to exports in the United States. I have heard one-sixth of all jobs; I have heard one-seventh—it's always accompanied by the figure of one in three acres of farmland being devoted to exports—but I don't think the average worker or business person recognizes this, and this goes to the vendors who are selling to the larger multinationals who are exporting. Those goods are going overseas, too, and they don't realize it. Therefore we don't have a constituency that is clamoring for a policy from the Congress, but that's what we need.

Senator SCHMITT. Excuse me, Mr. Weller. Just so these minor points are cleared up, where does the Chamber of Commerce place the priority of foreign exports relative to other things that the Chamber is either fighting for or opposing?

Mr. WELLER. Well, sir, in terms of policy, the National Policy Committee of the Chamber of Commerce is one of its most important committees. It has three very active subcommittees and under those subcommittees we have five ad hoc committees on specific issues. I have not seen a board of directors meeting of the Chamber of Commerce in the approximately 5 years that I have served on it that has not been devoted to a considerable extent on international matters, updating Chamber policy, and updating instructions to its staff in the international arena mostly in the areas of trade and exports.

Senator SCHMITT. Well, my only reason for asking that question is I see very active Chamber educational efforts on issues such as labor reform and taxes, but I don't recall in the year and 3 months that I have been here any Chamber discussion, other than in this hearing and maybe a couple other hearings, relative to export policy.

Mr. WELLER. Each year at our annual meeting the International Policy Committee has conducted a luncheon and seminar session for all the members of the Chamber who attend the annual meeting.

Senator SCHMITT. I'm thinking of activities.

Mr. WELLER. We have gone out within the local areas and given luncheon sessions quite often on the subject of international affairs. Obviously, with the large membership of the Chamber we have probably the same ratio of companies that are involved in the international trade as the whole total business community does. Within that framework, I suspect the Chamber publications, the Chamber-sponsored radio programs, television programs, have addressed the international issues that we are discussing to a much larger degree than the proportion of the membership involved in exporting, either in terms of volume of sales or raw numbers, would indicate.

So I think the Chamber has been very, very active in this international area and will continue to be so.

Senator SCHMITT. Fine. Please proceed.

Mr. WELLER. In talking of foreign barriers to U.S. exports, the Chamber is very much supportive of Ambassador Strauss' efforts at the Multilateral Trade Negotiations and we think his task is going to be a very difficult one because for this time we are talking about not only tariff but nontariff barriers. We feel that given a world in which American goods are free to trade, we are going to be a lot better off than in a world that's protectionist in nature. We applaud Ambassador Strauss' efforts in this area and continue to be supportive of his efforts.

On the Webb-Pomerene Act, we find ourselves talking about a paper tiger. We have submitted previously to the Congress testimony which I would ask the Senator's permission to have made a part of our testimony before this subcommittee at this time which goes into considerable detail on the Webb-Pomerene Act.

Senator SCHMITT. That will be done.

[The previous statement is reprinted as follows:]

STATEMENT
on
AMENDMENTS TO THE EXPORT TRADE
and
FEDERAL TRADE COMMISSION ACTS
S. 1483 and S. 1774
before the
SENATE COMMITTEE ON COMMERCE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
William J. Barton
September 6, 1973

My name is William J. Barton, and I am head of International Business-Government Counsellors, an international government relations consulting firm, as well as an international lawyer. And, I am Chairman of the Antitrust Task Force on International Trade and Investment of the Chamber of Commerce of the United States.

With me is Donald E. de Kieffer, Attorney, Collier, Shannon, Rill and Edwards, also a member of the Antitrust Task Force.

We are here to express the National Chamber's support for S. 1483 and its opposition to S. 1774.

As part of the Chamber's dedication to expanding U.S. exports and thus improving the balance of trade, balance of payments, and restoring strength to the dollar, our group, comprising businessmen, lawyers and academicians, has been studying the U.S. antitrust laws and practices to determine to what extent they may restrain American business in competition with foreign interests.

Our approach has been one of comparative analysis: that is, to study laws and practices of the United States as compared with those of Germany, Japan, United Kingdom and other major competitors of U.S. business and labor. Our investigations disclose that the United States is the only country in the world that applies its national antitrust laws on an extra-territorial basis. It is the only nation that restrains its exporters from combining in the national interest to make sales outside of the United States beneficial to the whole country. Many foreign countries not only do not hobble their exporters with legalistic controls but affirmatively assist them to combine by sponsoring and subsidizing export cartel activities. If the Justice Department or any other organizations have evidence to contradict this statement, we invite them to present the evidence, not only to us but, much more importantly, to this Committee.

In view of this factual situation, we favor total repeal of those antitrust laws which prevent American exporters of goods and services from combining outside of the United States for purposes solely of increasing American exports. At a minimum, we favor the suspension of these laws until the time that Japan and European nations adopt comparable laws to restrain their exporters.

America is no longer the economic superpower of the world. The luxury of controls on our businessmen in competition with foreigners should not be tolerated at a time when our economy is under severe competitive pressures. Certainly, it is not improper to ask that ground rules applicable to American exporters be comparable to those affecting the exporters of Japan and Europe. All we are asking for is fair and equitable arrangements to make the competitive situation a reasonable one.

With this background, let us turn to the specific legislation which is the subject of these hearings, S. 1483 and S. 1774. These bills at best make modest efforts to let American exporters compete with their vigorous rivals on a slightly less onerous and restrictive basis than is permitted under present laws.

The Webb-Pomerene Act was initially intended to allow American exporters to compete on a more equal basis with foreign cartels in overseas markets. During the course of debate on this legislation, Senator Atlee Pomerene described its purpose:

"... In foreign countries today the merchants and manufacturers and businessmen generally are allowed to combine to go out and seek foreign trade, and they do combine for that purpose. If we are to meet them on a fair basis of competition, we must place in the hands of our businessmen the same methods which the businessmen of other nations use in seeking foreign trade."

Senator Pomerene's statement is as true now as it was 56 years ago. To date, his legislation has fallen far short of accomplishing its intended purpose.

Today, fewer than 35 Export Trade Associations (ETA's) are in existence; they account for less than 3 percent of all exports from this country.

Conversely, foreign cartels are stronger and more numerous today than ever before. Often subsidized by their respective governments, foreign business syndicates frequently possess economic and legal resources unavailable to American firms. The result can be clearly seen, especially in such areas as machine tools, electronics, automotive goods, processed agricultural commodities, consumer products, motion pictures, and the consulting engineering and construction industry. Foreign cartels have literally driven their American competitors from large sectors of the export market. Both horizontally and vertically integrated, foreign monopolies offer prospective customers a range of goods and services difficult or impossible for any single American company to match.

A partial answer to this disparity could be a thorough reappraisal of the Export Trade Act, followed by remedial amendments.

The principal reason for the Webb Act's failure is its vagueness. No definitive standards are prescribed for permissible activities, and no explicit procedure is stipulated for prior review of a Webb-Pomerene Association's operations. The inevitable result of this uncertainty has been administrative and judicial rule-making which has done more to restrain than advance the intent of the Act.

Without exception, every case involving a Webb-Pomerene Association which has reached the Supreme Court has been decided <u>against</u> the Association. The Justice Department, more familiar with domestic antitrust matters than export trade, has zealously attacked Webb Associations at every possible opportunity.

Facing an almost inevitable Antitrust Division investigation and with no clear idea of permissible areas of activity, few businessmen have been willing to risk the severe penalities of the Sherman Act by forming ETA's.

Senator Pomerene's original premise is still valid. American businessmen <u>must</u> be permitted to compete in the world market on an equal basis with foreign cartels. Legislation can -- and should -- be enacted which would allow such free competition without compromising the domestic application of our antitrust laws. Such legislation should include <u>at least</u> the following provisions:

1. <u>Administrative authority for enforcing the provisions of the Act should be consolidated in one agency</u>. Under the existing system, an exporter has no assurance that approval from one agency will prevent another branch of the federal government from taking unilateral restrictive action. In this respect the <u>Administration Trade Bill, S. 1774, is notably deficient</u>. While some sections of S. 1774 appear to grant exclusive jurisdiction for the administration of the Webb-Pomerene Act to the Federal Trade Commission (FTC), Sections 3 and 4 of this proposed statute blur the line of responsibility. It is extremely unlikely that this legislation would have the intended effect of clarifying lines of responsibility and would tend to discourage, rather than encourage, American manufacturers' registration with the FTC as this bill suggests. Section 3 is particularly disfunctional in that it formally divides administrative authority between two competing agencies. We strongly recommend that this section be deleted from the legislation.

By contrast, S. 1483 would place much greater real authority in the FTC. Although S. 1483 is notably lacking in explicit standards, rule making powers already exist by which the FTC could establish comprehensive guidelines for the administration of the law. It is notable that, throughout the history of the Export Trade Act, the FTC has had the power to formulate and enforce administrative rules for Webb Associations. Congress should encourage the use of these powers by establishing broad guidelines.

2. <u>Administrative preclearance of association activities should be encouraged</u>. Optional preclearance of association activities should become a part of the Webb Act's administration. Such prior clearance should act as an estoppel to subsequent law suits, whether by the government or private parties, so long as the affected association performed activities within the scope of the clearance. Further, the principles of the Administrative Procedure Act should clearly be made applicable to the FTC throughout its administration of the Export Trade Act. Of particular need are both rule making and adjudicatory hearing procedures. Adjudicatory hearings should be required prior to any governmental or private action against an ETA for alleged violation of any antitrust law.

While S. 1774 does not consider this particular question, the enforcement procedures contained in this legislation are vague. Thus, the FTC is given exclusive authority to determine whether an association is in conformance with its registration statement. On the other hand, the Justice Department is given power to prosecute associations for alleged violations of antitrust laws. All the Webb Associations ask is that there be standard, coherent and specified procedures by which they are to be administered. By contrast, S. 1483 implicitly encourages the FTC to establish the administrative procedures necessary for the effective functioning of this Act. We recommend the addition of a specific section in S. 1483 directing the FTC to establish such rule making and adjudicatory procedures.

3. Sales financed through government agencies should be explicitly permitted. Since the Concentrated Phosphate case, Webb Associations have been effectively proscribed on AID-financed projects. This case has also tended to discourage other government agencies from soliciting Webb Association participation. Existing law is extremely ambiguous on this issue; neither S. 1774 nor S. 1483 deal with this point specifically.

4. "Export trade" must be more clearly defined. S. 1774 broadens the scope of the Webb Act to include services as well as goods. This is a step in the right direction. Based upon our experience in this field, however, S. 1483 appears to suggest a more realistic effort to define these terms. Concepts such as "export trade," "associations," "domestic commerce," etc; are best handled in an administrative forum where problems can be examined on an individual basis. S. 1483 would certainly tend to encourage the type of administrative initiative which will be required if the Webb-Pomerene Act is to gain new vitality.

SUMMARY

S. 1483 appears to offer the best alternative for rejuvenating the Export Trade Act, but it should include specific instructions to the FTC that it take an active role in encouraging the development of Webb-Pomerene Associations. In its 56 year history, there have been no administrative guidelines promulgated for this Act, an unparalleled record of forbearance. While some administrative rule making has tended to hinder legitimate industry interests, established guidelines are essential if any businessman is to make informed decisions. The current chaotic state of the law with regard to the Export Trade Act has clearly discouraged many businessmen from organizing Webb-Pomerene Associations. S. 1483 appears to recognize that the appropriate forum for promulgation of rules is in the agency charged with its administration. Further, S. 1483 appears to grant sufficient authority to one agency to make it effective.

While S. 1774 contains many features favorable to Webb-Pomerene Associations, it is fatally flawed by its insistence upon duplication of authority between the FTC and the Department of Justice. The 1978 cut-off date also appears to be unnecessary. The complex preclearance procedures suggested by S. 1774 seem to deny the well-established legal principle that a man is innocent until proven guilty. This legislation holds out the promise of liberalized application of the antitrust laws, then rescinds this promise with ominous threats of Justice Department review. American businessmen want to obey the antitrust laws. They are deterred from forming Webb-Pomerene Associations largely because they are unsure of what the law provides. Justice Department policy makers cannot be expected to undertake the function of providing the type of stable guidelines essential to encouraging the formation of ETA's.

By contrast, S. 1483 would stimulate the formation of ETA's, and provide realistic guidelines for their operation. We support this bill while pointing out that it is, at best, a modest move toward allowing American business to compete on a fair and equitable basis with Japan and Europe neither of which has any antitrust restrains hobbling their exporters of goods and services.

Mr. WELLER. May I just make one or two comments on the way we feel about it today and I will not differ from our previous testimony.

I think that there are about 28 associations in existence today. I would leave others to tell you how effective they are. We think that the Act itself is very vague. We suffer from the same type of problems that were outlined a lot better than I could in the previous testimony we heard this morning. We have a good bit of uncertainty concerning the desirability of the administrative and judicial rulemaking surrounding Webb-Pomerene. We also have some exceptions that we think should be included in the Webb-Pomerene Act which would better define its purpose. I think a lot of people stay away from it because they are afraid of it. They don't know how far they can go without getting in trouble with the Department of Justice, and none of us are particularly interested in troubles in that area, but I think that something should happen.

We think that the authority for enforcing the provisions of the Act should be consolidated in one agency. We think that preclearance of association activities would be very helpful. We think sales by associations financed through Government agencies should be explicitly permitted and we think the definition of export trade must be made more clear and expanded to include services as well as goods. Obviously, a good portion of our exports into the Mid-East, for instance, are through contracting firms that are doing large construction jobs over there and these particular types of services are excluded from the Act's protection.

I'd also like to say a few words if I may to the U.S. barriers to exporting. We have some Government regulatory activities designed to achieve unrelated policy objectives which frequently damage U.S. export performance. I'd like to give you several examples of this. One of the obvious ones is the antiboycott export administration amendments of 1977. Final regulations have only recently been promulgated so we really are in a quandary as to what's going to happen. We do see, however, a rather strong increase in German, Japanese, British, French assaults on these markets.

In fact, it was fairly interesting to see the other day some statistics on U.S. trade with OPEC nations which indicated that we have a favorable balance with only one OPEC nation, Kuwait, of $333 million. Without going to the obvious statistics on some of the others, we had a negative $5.138 billion deficit with Nigeria.

Senator SCHMITT. We spent a little money there recently so that may get a little worse.

Mr. WELLER. This is obviously a target area for us and I think that the regulations—administrative rules under the antiboycott provision have to be looked at because I'm not too sure that all of them are consistent with the legislative intent, based on the Shapiro compromise, on how we could still do business and make sure American citizens were not victims of someone else's discrimination.

Senator SCHMITT. Senator Stevenson and I would rather have it referred to as the Stevenson-Schmitt compromise.

Mr. WELLER. I bow to your superior wisdom.

Senator SCHMITT. There were some very fine inputs from the business community and I think the intent was clear and I think it's important that we very quickly look at how that intent is being formulated into regulations. You're absolutely correct.

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Mr. WELLER. Well, I'm not too sure, but I have read that rules as promulgated may make it difficult to do anything about that $5 billion deficit from Nigeria if Nigeria decides to require negative or positive statements on trade with South Africa, for instance.

One of the other things that we have some worry about, and I think it's probably been well publicized, is the draft proposal advocated by the President's Council on Environmental Quality to require any Eximbank borrower to file an environmental impact study before a loan could be made. I think the need for speed in decisions by Exim was pretty well illustrated again by a previous witness so there's no sense in beating that one to death, but it's certainly an example of what we're worrying about.

We think the effort to repeal section 911 of the Internal Revenue Code dealing with income taxation of U.S. individuals residing outside of the United States will have very harmful effects. It has several effects and I'd like to again speak from personal experience and talk specifically to construction projects.

There's a particularly strong example of the need for American engineers and technical people to go in and live abroad on a temporary basis. When I say temporary, it may be 3 to 5 years in taking a major project through. Aside from the difficulties involved with the citizens living overseas and in a different environment and certainly a more costly one—I don't think I have to tell anybody what a house costs in Saudi Arabia or what schooling costs—I think, in what this committee is looking at, the fact is important that with American engineers overseas who are familiar with American products and are used to specifying American products we see one large flow of exports going into these projects. Everything from light fixtures to air conditioning equipment is being specified on American standards and American companies can compete very effectively. Well, obviously, with some of these overseas companies, their only solution to a very serious tax problem would be to replace these Americans with French and British engineers and this has been done, and immediately what type of equipment do you think these Frenchmen and these British people specify? All of a sudden we find a lot more difficulty in exporting American products to construction projects that are being run by American firms. It has a very serious effect and we think it should be examined very closely before any change is made in that one.

I'd like to speak to one other thing as an impediment. I consider it a serious one and it has been discussed today without our bringing it up, and that's the subject of R. & D. Now if I may I am at this time again speaking with some statistics from my own company and if you will forgive me I'm testifying for the chamber but I just want to make sure that we can at least give credibility to the fact that we should say something about it.

In 1977 we had $5.5 billion worth of sales around the world for United Technologies Corp. In that same year our research and development costs were $368 million. The year before that, the same ratio existed, $5.1 billion of sales and $358 million of research and development. That's about 7 cents on the sales dollar. So we are interested in R. & D. and we are committed to it and we will continue to be. We have publicly stated we are going to commit $2 billion to R. & D. in the next 5 years. That's a relatively large sum of money.

One of the things that bothers us here, and I can see where it would bother a company that's not already involved in R. & D. and might worry about exporting, is that we are seeing more and more IRS allocation of R. & D. funds between foreign sales and domestic sales. In other words, the salaries of these people operating in the R. & D. area cannot be deducted for U.S. tax purposes. Obviously, the French or the Germans or Saudi Arabians aren't going to let us deduct them, so we have no place to deduct them, and if you're worried about declining R. & D. in this country, this IRS policy seems to be counterproductive to me and I think it should be examined.

Well, thank you very much for your permitting me to go on so long and I also applaud very much the time the committee is spending on looking into this because I think the expansion of our exports is one of the higher priority items that we must address ourselves to. Thank you very much.

Senator SCHMITT. Thank you, Mr. Weller.

Senator STEVENSON. The next witness is Mr. Babson.

STATEMENT OF JOHN R. BABSON, VICE PRESIDENT, INGERSOLL-RAND CO., NEW JERSEY, AND CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE SPECIAL COMMITTEE FOR U.S. EXPORTS

Mr. BABSON. First, I'd like to thank the committee for inviting me to testify on the subject of U.S. export promotional activities. Obviously, in the light of the mounting trade deficit and the declining dollar it's an important subject—and a very important problem—which certainly deserves serious congressional consideration, particularly that of this committee.

First, I should say that I am chairman of the Executive Committee of the Special Committee for U.S. Exports which has some 1,200 members. Our primary mission in life, if you please, was and is to support and expand the DISC benefits. What led us into this testimony is the notion that, frankly, we have in this country only one export or tax incentive for exports, that being DISC; so testimony on that subject would be very short and, therefore, I think we should tackle, as Mr. Weller and others have done, the broader spectrum of export promotional activities and touch on, as Mr. Weller and others have, some disincentives.

I'm not going to dwell very much on the DISC per se. I think the committee perhaps has heard a lot about that subject. Mr. Weller has covered the subject well and Mr. Fenton is going to talk about that in connection with the small business activities. With that I'd like to start to summarize and scan through my written testimony, which again goes to the more basic problem of U.S. export promotional activities or lack thereof.

A few numbers again, which are probably repetitious, but the trade deficit, as we know, is an increasing disaster-type problem—at least some of us feel so. In the past year the position has been taken that it's basically due to our heavy importation of oil. The facts are, as you perhaps know, that oil imports have increased over 1976–1977 less than $10 billion while the overall trade deficit climbed more than $21 billion from 1976. Even on the surface, oil imports accounted for less than one-half of the increase in the trade deficit last year. If we take into account the increased exports to the OPEC countries, we can conclude that the net impact of the oil on the trade deficit increase was probably more on the order of one-third. Here again, we conclude that the increase in the trade deficit can be directly attributable to an inadequate U.S. export trade.

The manufactured goods trade surplus declined in 1977 more than 60 percent over 1976. The U.S. share of the world exports went from 13.2 percent to 12.7 percent in 1977, and it's continuing to fall.

We conclude then that a significant part of the current trade deficit results from: (1) inadequate growth in our exports and (2) a decline in the competitive position of U.S. goods.

This has been recognized by some key administration personnel. For example, in a recent speech by Secretary of State Cyrus Vance before the National Governors' Association, he noted:

> One out of every eight manufacturing jobs in the United States depends on exports. For every one of those jobs, another one—in a supporting industry—is created.
>
> Every third acre of U.S. farmland produces for export.
>
> Today one of every $3 of U.S. corporation profits is derived from international activities.

Given these circumstances and considerations, it certainly seems imperative that the U.S. Government would seek to develop a clear, comprehensive and positive export policy to stimulate exports, U.S. exports.

Quite the contrary, if we listen to Senator Bentsen's comment, which was "Foreign economic policy in the United States is shaped not systematically, but almost by accident," that it "is a least common denominator worked out by a kind of guerrilla warfare among the Departments of State, Treasury, Agriculture, the Federal Reserve Board, and a whole host of other executive branch agencies."

Against this background, we definitely do need a firm, positive export policy, in order to expand our exports and hopefully get ourselves on the road to a trade "balance."

There have been some efforts made by the administration. I suppose the first goal on the part of the administration has been to call for other industrial countries to share the oil deficit by expanding their economies and increasing imports from the United States. A second goal, under consideration at the Multilateral Trade Negotiations, has been expressed in our urging reduction of nontariff barriers to trade.

I think it would suffice to say we have had little success in getting Japan and Germany to comply with our wishes in controlling their economies. In the Multilateral Trade Negotiations, while we certainly support Ambassador Strauss' efforts, the nontariff barriers activity so far has been nonconclusive. Hopefully that will improve as time goes on.

We do not suggest that these policies are without merit. In fact, we suggest they are with merit and should be pursued aggressively. However, export demand policies alone cannot generate sufficient levels of exports to cover our trade imbalances. It is doubtful that U.S. exports can be substantially increased through the demand stimulation alone if our exports are not competitive against foreign goods and expanded markets are lost to foreign competitors.

Thus the Government programs for stimulating export supply must be considered in addition to policies stimulating export demand.

A staff report by the Commerce Department has stated:

> It seems that neither the natural workings of the market, nor private sector promotion aids, have so far been able to do the job alone. While flexible

exchange rates, relative inflation rates, and cyclical growth patterns do have a significant impact on export supply and demand, they cannot assure, in and of themselves, an optimum U.S. export level. For a host of reasons—e.g., attitudinal constraints, apprehensions about exports, indifference, lack of knowledge, financial limitations, regulatory impediments, foreign trade barriers, governmental interventions in the marketplace, and so on—natural market forces do not fully and freely determine international trade levels.

There are other quotations as we mentioned before, that the Government should devise an export policy which addresses the supply side and we suggest the following goals:

One: To increase the willingness of companies to export, thereby expanding the current export base (by bringing more companies into the export sector) and preventing the erosion of the base (by encouraging companies to service international markets through exports rather than from facilities abroad to the largest extent possible).

Two: To increase the ability of companies to export, by providing the financial and marketing tools necessary to export and to overcome the impediments to exports.

Three: To increase and maintain the competitiveness of U.S. exports by counteracting the many export incentives and subsidies other governments provide for their exports.

The Eximbank has been covered in previous hearings. We are encouraged by the change in the attitude of the Bank and their efforts over the previous administration of the Bank. We suggest that that effort be increased.

Senator STEVENSON. Mr. Babson, I am going to have to interrupt you. We have a vote on, so we will have to recess for as long as it takes Senator Schmitt to get back here.

[Short recess.]

Senator STEVENSON. The subcommittee will come to order. Mr. Babson, I think you were summarizing.

Mr. BABSON. I think I can conclude and summarize rather quickly.

Up to now we have tried to establish the requirement for an export policy with some teeth in it. Now I would like to really bring it to a close by emphasizing the requirement that whatever policy is established, if any, that it be a consistent policy.

This has been touched on by Mr. Weller and others, that the programs, even including the DISC, have been an on-again-off-again situation, wherein it leads decisionmakers to really not trust what they are getting out of Washington in the form of legislation or regulatory directives. And it is obviously discouraging to commit massive expenditures for export programs with this in the back of their minds, when they don't know what might happen in the next administration or in the next session. This is true of DISC and the Webb-Pomerene Acts. These on-and-off policies are equally as serious, I suppose, as no policy at all.

On top of the lack of emphasis on export programs and their inconsistency there have been and are a rather lengthy group of what you might call export disincentives in this country which by and large are not true in other countries.

I can start off first with the reduction of the effectiveness of DISC in the 1976 tax law, which reduced the benefit some 40 to 50 percent, depending on the corporation's export activity; the allocation of administration expenses in section 861, which I won't deal with in detail; the environmental impact requirements of COEQ; antitrust restrictions on major export projects; and various other laws which burden commercial activities with various foreign policy goals. Also things such as the boycott legislation, and misleading or different types of regulation that cause confusion. Also the matter of "questionable payments" can be considered a constraint. Our efforts to impose human rights philosophies on a worldwide basis cause, I am sure, some of our customers to shy away from us. Restrictive trade with the Eastern block countries and Cuba.

We have, in addition to that, military sales limitation requirements, nuclear sales limitations, and agricultural sales limitations. I suppose we could go on a bit. But nevertheless these are pretty well known and can be documented in more detail if necessary.

However, they are serious disincentives to export, and again, aside from the numbers problem, the trade balance, the dollar and so on, I again emphasize the requirement that these either be clarified, eliminated, or, if we can't do anything better, maybe we should be just left alone and have some of these things removed, so that exports can take their proper part in helping resolve our problems worldwide, and make us competitive with our so-called trading partners.

We get down now to what do we do about it, what do we recommend? There have been several recommendations put forth. One that we have prepared and testified on before the Ways and Means Committee is expanding the DISC benefits, if you please, to bring it back to something like it was before, where it is truly an export incentive.

Then we go into some of the other things that have been discussed, perhaps a Cabinet position of international trade. I agree that it probably is not up to a complete MITI type, but on the other hand, I am not sure there couldn't be worked out some sort of a compromise high level position, butting across all of the different departments, such as State, Treasury, Commerce, you-name-it, and somehow getting at the removal of these constraints and at the same time encouraging exports with the assistance of business and Government.

I admit that is a very complex subject and is one I am sure that is being handled and considered in other legislation. I can assure you that business people are thinking in terms of something that might work.

I recognize a lot of the problems, and I am sure you do, and I suspect that is a subject for further discussion, in another forum, or perhaps in this one, too. In any event, there are some positive approaches to it, and we can only hope that the regulatory problems are eased somehow by Congressional activity, and export incentives are reinstituted in the form of an expanded DISC or something that does the same thing to encourage exports.

One of the questions that has been raised is lowering the corporate tax rate. There is nothing wrong with that from a lot of points of view but that in itself is not necessarily an export incentive.

I will conclude by simply saying that the business community is anxious, willing and able, I think, to contribute in developing or assisting in developing an export promotion or incentive policy that has some teeth in it and that will help us get ourselves back to where we should be on the trade balance picture and even strengthening the dollar as a consequence.

Thank you, Senator.

[The complete statement of Mr. Babson follows:]

ORAL PRESENTATION OF

JOHN R. BABSON
INGERSOLL-RAND COMPANY

ON BEHALF OF THE
SPECIAL COMMITTEE FOR U.S. EXPORTS

APRIL 5, 1978

I wish to thank the Committee for inviting me to testify on the subject of U.S. export promotional activities. In light of the mounting U.S. trade deficit, this is an important subject--indeed, problem--that deserves serious Congressional attention.

The trade deficit should be a matter of special attention because of the growing export problem which underlies it. Although it has been suggested over the last year that the rapid deterioration of the U.S. trade position was substantially caused by our heavy importation of oil, oil imports increased slightly less than $10 billion during 1977 while the overall trade deficit climbed more than $21 billion. Even on the surface, oil imports accounted for less than one-half of the increase in the trade deficit last year. However, if we take into account some of the increased exports to OPEC countries resulting from the rise in oil imports, the net impact of oil on the trade deficit increase was probably more on the order of one-third.

An even larger part of the increase in the 1977 trade deficit can be directly attributed to inadequate U.S. export trade. The manufactured goods surplus declined in 1977 by more than 60 percent. The U.S. share of world exports fell from 13.2 percent in 1976 to 12.7 percent in 1977. Similarly, the U.S. market share of exports to most countries in the world also fell. Thus, as a number of studies have concluded, a significant part of the current trade crisis results from: (1) inadequate growth in our exports and (2) a decline in the competitive position of U.S. goods.

This inadequacy in U.S. exports is particularly unfortunate in light of the growing importance of exports to the U.S. economy. In a recent speech before the National Governors' Association, for example, Secretary of State Cyrus Vance noted:

> * One out of every eight manufacturing jobs in the United States depends on exports. For every one of those jobs, another one--in a supporting industry--is created.
>
> * Every third acre of U.S. farmland produces for export. Each dollar of those agricultural exports stimulates more than a dollar's worth of output in food-related industry.
>
> * Today, one out of every three dollars of U.S. corporate profits is derived from international activities.

Given these considerations, it would seem imperative that the U.S. government would seek to develop a clear, comprehensive, and positive export policy to stimulate U.S. exports. Quite to the contrary, as Senator Lloyd Bentsen has said:

> Foreign economic policy in the U.S. is shaped not systematically, but almost by accident. It is a least common denominator, worked out, as some have so ably put it, by a kind of guerilla warfare among the Departments of State, Treasury, Agriculture, the Federal Reserve Board, and a whole host of other executive branch agencies.

Against this background, it would be useful to review the three major characteristics of recent U.S. export policies.

1. To the extent the U.S. has an export policy, the major aspects of current policy have largely been directed toward stimulating export demand, i.e., expanding exports by stimulating foreign economies' absorption of U.S. goods and by removing artificial restrictions which limit the access of U.S. goods to foreign markets. The first goal has been part of the Administration's call for other industrial countries to share the oil deficit by expanding their economies and increasing their imports from the United States. The second goal, currently under consideration at the Multilateral Trade Negotiations, has been expressed in our urging a reduction in non-tariff barriers to trade.

It must be recognized, however, that while the U.S. can urge other countries to conform with these wishes, in the final analysis we have little control over their actions. To date, the success of these policies has been limited.

We must also recognize that a country, such as Japan, which itself has a large oil and raw materials import bill, is unlikely to be willing to increase its manufactured products imports dramatically as well.

We do not suggest that these policies are without merit or should not be aggressively pursued. However, export demand policies alone will not generate sufficient levels of exports to cover our trade imbalances. And it is doubtful that U.S. exports can be substantially increased through demand stimulation policies if our exports are not competitive against foreign goods and expanded markets are lost to foreign competitors. Thus, government programs for stimulating export supply must also be considered in addition to policies for stimulating export demand.

In this regard, a 1977 staff report of the Commerce Department noted:

> It seems clear that neither the natural workings of the market, nor private sector promotion aids, have so far been able to do the job alone. While flexible exchange rates, relative inflation rates, and cyclical growth patterns do have a significant impact on export supply and demand, they cannot assure, in and of themselves, an optimum U.S. export level. For a host of reasons--e.g., attitudinal constraints (apprehensions about exports, indifference), lack of knowledge, financial limitations, regulatory impediments, foreign trade barriers, governmental interventions in the marketplace, etc.--natural market forces do not fully and freely determine international trade levels.
>
> In order for companies to overcome these impediments, they must have outside assistance of some kind or other. Even large experienced exporters, while better able to help themselves than smaller, less sophisticated firms, still are not totally self-sufficient. 1/

Similarly, another recent report concluded:

> ... during the 1960's, a large number of U.S. firms appear to have dropped out of, or reduced their marketing efforts in, foreign markets because of aggressive foreign competition and uncompetitive dollar prices. Devaluation to a degree corrected this price anomoly. But this is not the same as saying that devaluation automatically produces increases in U.S. sales abroad. Once burned (by expensive bidding,

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1 "U.S. Export Promotion Programs: Policy, Rationale, Strategy, and Accomplishments," Office of Market Planning, Bureau of International Commerce, U.S. Department of Commerce, August 1977.

> marketing, distribution and related efforts), it is unlikely that many U.S. firms will return to foreign markets without appropriate incentives and assistance. 2/

It is evident, therefore, given the inadequate levels of exports and the reluctance of U.S. companies to export in the face of numerous impediments, the U.S. government should devise an export policy which addresses the supply side of the export equation. Among the components of such a policy must be the following goals:

(1) to increase the willingness of companies to export, thereby expanding the current export base by bringing more companies into the export sector and preventing the erosion of the base by encouraging companies to service international markets through exports rather than from facilities abroad to the largest extent possible;

(2) to increase the ability of companies to export, by providing the financial and marketing tools necessary to export and to overcome the impediments to exports; and

(3) to increase and maintain the competitiveness of U.S. exports, by counteracting the many export incentives and subsidies other governments provide for their exports.

2. As a second characteristic, U.S. policy for export stimulation on the "supply side" has been characterized in recent years by inconsistency. Since the early 1970's, traditional export programs have suffered. With respect to the Export-

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2 Lawrence A. Fox and S. Stanley Katz, "Dollar Devaluation, Floating Exchange Rates and U.S. Exports," Business Economics, January 1978.

Import Bank, for example, the policies of the Bank toward its role in export financing and maintaining export credit competitiveness have varied widely over recent years. Previous Bank managers emphasized maximum private financing, resulting in low loan coverage and less-than-competitive loan and guarantee rates. While current Bank management has expressed it desire to make the Bank more competitive (evidenced by the Administration's seeking an expansion in Bank facilities), this turnaround in policy must be viewed against a background of years of shifting priorities and facilities, making exporters skeptical of how long these new policies will persist.

Department of Commerce export marketing and information assistance programs have also been inconsistent. Over the past five years, the funding for these programs has declined in real terms. Some programs have, from time to time, been threatened with discontinuance, shifting priorities and budgetary constraints.

Similarly, the DISC program, which is the only export tax incentive and the only direct export assistance program, has continually been under attack.

The effect of this inconsistency has been two-fold. First, the government has not sold industry on the viability and usefulness of government programs to facilitate exports and the programs have, as a result, been underutilized. This is particularly true of the DISC and Webb-Pomarene Acts. Second, these stop-and-go policies have acted as clear signals to U.S. companies that the government is not really serious, or does not really know if it wants to be serious, about exports. A clear export policy would have largely been able to avoid these problems. Moreover, it would have permitted the development of programs which would have been truly supportive of U.S. industry and the competitiveness of U.S. products.

3. On top of the lack of emphasis on export assistance programs and incentives, and the availability of very few positive incentives to exporting, a number of regulatory restraints and impediments have developed which have negative effects on the willingness and ability of U.S. companies to export.

This problem was recognized in a unanimous resolution passed by the National Governors' Conference last September which stated: "U.S. trends in both legislation and administration increasingly hinder and inhibit American business' ability to compete successfully abroad."

The list of export "disincentives" is well known and include: the massive increase in tax liabilities brought about by the concurrent 40% reduction in DISC, restriction of the allocation of administrative expenses under section 681, and the reduction in tax incentives for Americans working abroad; the recent COEQ proposals to require environmental impact statements on major export programs; anti-trust restrictions on major export projects; and various laws which burden commercial activities with various foreign policy goals.

While each of these "disincentives" may be justified on its own merits, it must be recognized that they further complicate confuse, and make more expensive a proposition of exporting. They do so by making exporting less profitable, more costly (through increased paperwork, redtape, and administrative delays), and by locking U.S. products out of a number of markets. If the U.S. government is pursue these policies, then it must, if it wants to stimulate exports, compensate for their effects by commesurate increases in the positive aspects of the export policy. As we noted above, however, the trends in the positive side have been on the whole inconsistent.

Moreover, the U.S. government must recognize that the unilateral adoption of these policies, without similar actions on the part of our trading partners, confer substantial competitive advantages on foreign companies. The proposed environmental restrictions provide a clear example of this problem. If U.S. companies are required to undertake costly environmental impact studies, and projects are delayed as long as some have been in the United States while the procedural aspects of the studies are reviewed, foreign buyers will simply choose to buy from other sources more ready to sell at a lower cost.

In summary, as noted in the January World Financial Markets, "[i]n order to achieve a significant, lasting improvement in the U.S. trade balance, the net effect on exports of U.S. official policies will have to become more positive."

The monthly trade figures for February released last week are illustrative of the trade problems facing the United States. Since the beginning of 1978, as commentators have been quick to point out, monthly imports have risen by just over $1 billion. However, the continued deterioration of the trade balance is not only an import problem; since the start of the year, monthly exports have declined by the same $1 billion-plus amount. Thus, the record, massive February deficit was as much a problem of exports as imports.

If the U.S. is to have any hope of overcoming this export problem, and avoid ever-recurring record monthly trade deficits, overall export policy must be dramatically altered. First, it must more fully address questions of export supply and the impediments to exporting. Second, these policies must be administered with greater consistency and pushed by government agencies with greater enthusiasm. Finally, the export policy must be made more positive, in order to act as an incentive to exporting rather than as a disincentive.

Senator STEVENSON. Thank you, Mr. Babson. Mr. Fenton.

STATEMENT OF RICHARD C. FENTON, PRESIDENT, FENTON INTERNATIONAL, INC., ASPEN, COLO., ON BEHALF OF THE SMALL BUSINESS TASK FORCE OF THE SPECIAL COMMITTEE FOR U.S. EXPORTS

Mr. FENTON. Thank you, Mr. Chairman. I am Richard Fenton, president of Fenton International, Inc., my own small company of management consultants which mainly specializes in helping small and medium-sized U.S. companies develop their exports and operations abroad.

I have been actively involved in U.S. exports and direct investments abroad for 27 years. In the late 1960s and early 1970s, I was a member of the Secretary of Commerce's National Export Expansion Council, and the Colorado Regional Export Expansion Council, as they were then named.

I am chairman of the Small Business Task Force of the Special Committee for U.S. Exports, on whose behalf I appear today.

Out of the more than 1,200 members of the Special Committee, more than one-half are smaller companies. As a matter of fact, about 800. On Aug. 5, 1965, I last appeared before this subcommittee. At that time the so-called voluntary program on limitation of dollar outflows to support U.S. direct investment abroad had just started. I was then president of Pfizer International.

I came before your subcommittee to try to clarify what direct investments were, the positive contribution they make to the U.S. balance of payments, how they were related to exports, the importance of exports to jobs, and the economy of the United States.

In that presentation I stressed how, if encouraged, many more small companies could get involved in exports and in operating abroad, and eventually become major contributors to the U.S. economy and balance of payments.

Some progress has been made in the last 13 years. The most important example of progress has been the increase in share of GNP which now goes to exports, almost 7 percent as compared with about 4 percent 13 years ago.

A particular achievement, in my opinion, during these years was the establishment of the DISC program in 1971. The fact that a President of the United States has now recommended a phase-out of DISC, and some Senators and Congressmen agree with him, is, I think, a sure sign we have not made enough progress.

The questions of this subcommittee were relayed to me early last week, and I have not had time to discuss them with more than a small number of small exporting companies. However, such consultations as I have been able to undertake, plus prior communications from many such companies, including the comments from 74 which are excerpted in appendix A to my prepared statement, make it fairly clear that a large number of small exporting companies, particularly those that now have DISCs, strongly believe the DISC has stimulated and helped them substantially to export more. They believe firmly that although DISC is a rather modest incentive—I remember in 1971

I was very disappointed with it; after all of the efforts we made, the incentive that appeared was a relatively small one—it has, however, been effective in its purpose and should be improved and made more effective.

These small companies simply will not understand their Government if it now phases out DISC, particularly at a time of such huge trade deficits, over $4 billion in 1 month.

They also believe firmly that the DISC has been cost-effective in that the additional exports they themselves have made, these small companies, have produced more tax revenue to the Treasury than the taxes deferred by their DISCs.

There are now more than 10,000 DISCs. Clearly more than 8,000 at least must be quite small companies. Since it is safe to conclude from our sample that the overwhelming proportion of these 8,000 hold these views, this is a formidable body of opinion which we believe should carry weight with our Government.

It is clear from appendices A, B, and C of the written statement of Mr. Richard Hammer on behalf of the Special Committee on March 9, that the DISC incentive to small company exporters is not competitive with incentives available to foreign companies.

How can it be made more competitive? The recommendations of the Special Committee are four, and they are in my prepared statement.

The first two of them are that the deemed distribution of 50 percent of DISC income should be eliminated. That would immediately double the deferral.

Two, the small DISC exemption to the incremental rule, should be increased from $100,000 to $500,000. This would more nearly reflect the standard Government definition of small businesses.

If implemented, these recommendations would go a long way towards redressing the balance with our foreign competitors.

I would like to add two recommendations of my own. Smaller companies are particularly interested in two things: Simplification and working capital. A DISC can be set up and operated rather simply. Unfortunately the methods of doing this do not appear to be known to many exporters who do not have DISCs, and even to many companies that do have DISCs. I recommend that the Department of Commerce or a special export-oriented task force, be urged to give special publicity to some of these simple methods.

For example, the Department could send one or two mailings with written details of the simpler methods to the 30,000 exporters on their list. The Special Committee would be happy to assist in the preparation of such a mailing. The Department of Commerce or a special export-oriented task force could instruct the international trade specialists in the Department of Commerce district offices in these simple methods—they are understandable by nonaccountants. They could arrange for these specialists to check with each exporting company to make sure these simple methods are known to responsible officers of each company.

Second, a small company that wants to grow is always preoccupied with working capital, which is invariably short. This, of course, is the principal value of DISC to the smaller company—it makes available for addition to working capital one-quarter of the tax that would

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otherwise be paid currently to the Federal Government on export profits. This is a relatively small addition to working capital. The most difficult problems with exports compared with domestic sales, is that export receivables are usually longer, at least 60 to 90 days as compared with 30 to 60 days domestically. The additional 30 to 60 days involved in export receivables represents many times the working capital made available by DISC.

Furthermore, domestic receivables can be easily factored or otherwise borrowed against, whereas this is quite difficult and more expensive with export receivables.

The presently available organizations, such as the Eximbank and FCIA, simply do not adequately cater to smaller companies and relatively small individual transactions. If they are willing to do so, this is certainly not known to the great majority of exporters.

Where it is possible to borrow against export receivables, the paperwork and red tape and cost make it prohibitive for many, if not most, smaller companies to do so. It should be made as easy and no more expensive to borrow against export receivables as against domestic receivables.

I recommend that a small task force of executives of smaller companies assisted by representatives from one or two regional banks, or banks like the Allied Bank, be invited to go into this matter in detail and present their conclusions and recommendations to this subcommittee. If the subcommittee agrees with the recommendations, the subcommittee should then make a determined effort to insure that the recommendations are implemented and their implementation be given the widest publicity of the type suggested a moment ago for the simplified methods of operating DISCs.

Mr. Chairman, we would be pleased if you would accept this oral statement and our written testimony which has already been submitted to this committee for inclusion in the printed record. Thank you.

Senator STEVENSON. Thank you, Mr. Fenton. All of the prepared statements will be entered into the record.

[The complete statement of Mr. Fenton follows:]

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STATEMENT OF

RICHARD C. FENTON

ON BEHALF OF THE

SPECIAL COMMITTEE FOR U. S. EXPORTS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

APRIL 5, 1978

I. INTRODUCTION

The massive 1977 U. S. trade deficit should serve as a clear signal to U. S. policymakers that there are serious problems with U. S. trade. The $26.7 billion imbalance (FAS value) was more than four times greater than in any previous year and represented an increase of more than $21 billion over the 1976 deficit. In February 1978 alone, the deficit was over $4 billion.

An analysis of the unprecedented deficit should also serve as a clear signal that there are serious problems facing U. S. exports. To an important extent, the increase in the deficit can be attributed to the very small growth in U. S. export trade. In recent testimony before the House Banking Committee, Assistant Secretary of Commerce Frank Weil noted that the U. S. share of world exports decreased in 1977 from 13.2 percent to 12.7 percent. In fact, the U. S. share of the imports into most major countries declined in 1977.

The trade surplus in categories in which the United States has enjoyed traditional advantages--manufactured products--fell more than 60 percent from $12.2 billion in 1976 to $4.8 billion in 1977. Similarly, a Department of Commerce study issued in August of 1977 concluded that U. S. non-oil trade surplus had suffered "a sharp fall" of $9-$11 billion during that year.[1/]

1/ U. S. Department of Commerce, "The U. S. Trade Balance Less Oil: Is It Meaningful", August 1977.

Of even greater concern to U. S. policymakers are two predictions made by various government officials which underscore the importance of the export problem. First, the 1978 trade deficit will be of similar magnitude to the record 1977 figure. Second, it could take as many as 10 years before the U. S. can bring its trade account back into balance.

At the same time the U. S. has suffered this deterioration in its trade, the importance of exports (1) to cover import expenses for oil and raw materials and (2) to the domestic economy generally has grown. On the first point, a recent report has noted that "[t]he large increase in U. S. oil imports, and the improbability of actually reducing them, alone dictate that the United States has to speed up export growth and expand its share of world exports". 2/ On the second point, a 1976 staff report of the Senate Budget Committee concluded that continued export expansion is vital to the achievement of domestic economic goals regarding full employment and balancing the federal budget. 3/

Given these many considerations, it is imperative that the U. S. government give priority to and assume an active role in stimulating exports, particularly among smaller companies. In doing so, however, all branches of the government must develop

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2/ Morgan Guaranty Trust Company, World Financial Markets, January 1978.

3/ Senate Budget Committee, The International Economy and the Federal Budget, December 1976.

a clear, comprehensive, consistent and positive export policy underscoring a serious commitment to exports. As part of such an export policy, the following considerations should be incorporated:

First, the export policy should be designed both to stimulate increases in the current export base, by encouraging those companies now exporting to export more and to place greater emphasis on exports; and--with direct attention on smaller companies--to broaden the export base, by stimulating companies not currently exporting, to do so.

Second, the export policy should be designed to address the impediments to small business exporting, providing the tools with which to begin or expand export operations and minimizing or eliminating factors which discourage or make difficult a small firm's entering into export markets.

Third, the export policy should seek to maintain the competitiveness of U. S. exports in world markets and to realistically address the competitive effects of the many foreign export promotion practices.

Finally, the overall export policy should be positive in tone, and should eliminate unessential restrictions on the ability of companies to export.

II. IMPEDIMENTS TO SMALL BUSINESS EXPORTING

In 1976, a Commerce Department task force studied the various limitations to the export involvement of U. S. firms and developed the following five broad categories of export impediments:

(1) Negative attitude--the belief that exporting is too risky and complicated; not worth it.

(2) Information gaps--ignorance of how or where to export, unfamiliar conditions and markets, complicated domestic and foreign trade regulations.

(3) Operational/resource limitations--high cost of establishment in foreign market, lack of practical marketing experience in the foreign market, lack of distribution channel, lack of a business reputation/image in the foreign market, staff too small and inexperienced.

(4) Foreign buyer resistance--foreign buyer's limited knowledge of U. S. suppliers, products, technology, and servicing; tendency to purchase from familiar foreign suppliers.

(5) Foreign competitive factors--foreign governments' intensive support of export programs, promotional competition. 4/

Generally, these impediments reflect the fact that exporting is inherently more costly than domestic operations. For example, the substantial costs of marketing, promotion and distribution tend to limit access to export markets. The cost of a single market study can often run into the hundreds of thousands of dollars and take years to recoup the initial investment. Similarly, the costs of these activities on an ongoing basis are also substantial. Marketing and promotional costs for exporting often represent a higher percentage of export revenues than do their counterparts for domestic sales.

4/ "Bureau of International Commerce Export Assistance Programs", Report of the Export Expansion Task Force, U. S. Department of Commerce, July 1, 1976.

Most importantly, unlike domestic receivables (which are normally payable in 30-60 days and may be readily financed through commercial sources), export receivables require significantly longer pay-back periods and are often not financeable through domestic U. S. banks. Thus, small U. S. companies are often locked into the inflexibility of demanding firm letters-of-credit for "short-term" receivables, and export sales are lost to foreign competitors offering ready credit at subsidized interest rates.

In short, exporting places severe strains on a company's cash flow and working capital because of increased costs and longer pay-back periods. Indeed, this is the primary obstacle to export involvement by smaller companies.

At the same time that exporting is more costly than domestic selling, it is also more risky. Exporters face a number of political, production and commercial risks not encountered in domestic markets. In addition, the exporter's exposure to these risks is lengthened by extended receivable pay-back, subjecting the exporter to significant currency fluctuation and inflation risks. Some of the commercial and political risks of exporting are uninsurable in the U. S., as are currency and inflation risks. This contrasts sharply with the much more liberal insurance coverage available to many of our foreign competition from their government.

Given these considerations, and in the face of fierce international export competition and foreign government practices which enhance the competitiveness of their exports, many companies do not view exporting as a viable means for expanding their business.

According to recent Department of Commerce estimates, there are 20-30,000 companies in the United States--primarily smaller ones--which could, but have chosen not to, export. A partial cause is the absence of any emphasis upon exporting in current U. S. trade policy. More importantly, many companies do not feel they are capable of meeting the increased costs and risks of exporting, particularly if their products are to meet aggressive and often heavily subsidized competition. Thus, as one commentator has noted, despite the competitive advantage which recent declines in the value of the dollar have supposedly given U. S. products, few companies will begin or expand export operations because of the pervasive concern over subsidized foreign competition. To take full advantage of declines in dollar values, a well-organized sales and distribution network must already be in place. Similarly, another recent report has noted that:

> ... during the 1960's a large number of U. S. firms appear to have dropped out of, or reduced their marketing efforts in, foreign markets because of aggressive foreign competition and uncompetitive dollar prices. Devaluation to a degree corrected this price anomoly. But this is not the same as saying that devaluation automatically produces increases in U. S. sales abroad. <u>Once burned (by expensive bidding, marketing, distribution and related efforts), it is</u>

> unlikely that many U. S. firms will return to foreign markets without appropriate incentives and assistance. 5/

In addition to companies withdrawing from export markets or restricting their export marketing activities, other companies opted during the 1960's to service international markets through offshore facilities or, particularly in the case of smaller companies, through licensing agreements with foreign manufacturers. A number of factors enter into the decision to locate production overseas rather than in the U. S. Non-tariff barriers enacted by foreign governments often require local sourcing of products or otherwise restrict competition against "local" products. Certain tariff and source taxes further discriminate against exports from the U. S. In addition, foreign countries offer a number of tax, employee training and supply preferences to companies who will locate within their borders, with additional benefits to those who do so and export from their countries.

In summary, there are a number of obstacles to export expansion which can be designated as "export supply" problems: the unwillingness of a large number of companies to involve themselves in exports; the lack of financial and promotional tools with which to expand exports; the vast array of foreign

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5/ Lawrence A. Fox and S. Stanley Katz, "Dollar Devaluation, Floating Exchange Rates, and U. S. Exports", Business Economics, January 1978.

incentives and restrictions which entice companies to serve international markets through offshore facilities; and the competitive disadvantages which U. S. companies face as a result of the massive and growing subsidy systems other countries provide to their exporters.

These problems are particularly unfortunate with respect to small firms since (1) many of these companies offer the clearest hopes for growth and (2) the inclusion of small business is vital to the expansion of the export base.

III. GOVERNMENT POLICIES TOWARD EXPORTS

The Commerce Department administers a variety of marketing information and assistance programs which have, in the past two years, come to focus more attention on the new-to-exports and new-to-market companies. While these programs have been useful, their utility is somewhat limited by the broad-brush approach they take towards exporting marketing. To be more useful, these programs should focus on the specific product and market needs of the individual exporter.

In any case, even where these Commerce Department programs have been successful in identifying potential export customers, the exporter is still faced with the shortage of working capital with which to follow up on the initial contacts, to finance short-term receivables and to provide after-sale services. In fact, some exporters find the "user's fees" charged in connection with certain export assistance programs, such as trade fairs, somewhat steep. It is important, therefore, that the additional working capital and cash flow made available by the DISC program helps the small business exporter to capitalize on the opportunities presented by the Department of Commerce programs; indeed, some companies have been able to use the DISC cash flow to participate in Commerce programs they otherwise would be unable to use.

In many respects, one of the most important impediments to the active involvement of smaller companies in exporting is the inconsistency and confusion surrounding the few assistance programs offered by the government to help exporters. One clear example of this problem is the Domestic International Sales Corporation (DISC) program. A program of this nature often takes two years or more to set up and activate, once the smaller company has decided it is worthwhile and that it wants to participate in it. After some initial hesitancy about using DISC, smaller exporting companies have moved in large numbers over the past few years to establish DISCs. However, after only a few years of existence, DISC is again under attack--causing those companies which set up DISCs to question whether it was worth the initial accounting and legal costs; those companies which are exporting and would like to set up a DISC, how long the incentive will be around; and those companies which had considered exporting because of DISC, whether it would be worthwhile to incur the substantial costs of exporting without DISC. It makes all companies wonder how serious the government is about exporting; now that these companies have seen that DISC can work, the government is, in the words of one company, "pulling out the rug from under" them.

Another example of the inconsistency and lack of emphasis of government export policies is the Webb-Pomerene Act. Although this Act, which permits the establishment of trade associations and an exemption from the antitrust laws, holds substantial promise for joint small firm ventures and the pooling of working capital and resources, the government has made only half-hearted efforts to "sell" Webb-Pomerene associations to business. Moreover, this Act presents another example of how businesses are deterred from taking advantage of export benefits by the fact that there is still a debate among government agencies over whether the Act should be permitted to continue.

Few businessmen are going to predicate a new export campaign--or expand an existing one--on the basis of a government program which may be abolished at any moment. What our government must do is establish programs which are beneficial to exports, promote use of those programs by present and potential exporters, and make it clear that the programs are here to stay, not subject to repeal each time a new Administration takes office.

IV. THE IMPACT OF DISC ON SMALL EXPORTING COMPANIES

1. The Importance of DISC to Small Companies

According to the most recent Treasury Department report, 9,447 DISC elections had been made as of March 1977. There are now probably more than 10,000 DISCs. What is often overlooked is that most of these DISCs are smaller companies and that DISC is of great importance to these companies.

Independent analyses, as well as a critical analysis of the most recent Treasury Department on DISC, clearly demonstrate that DISC has had a dramatic effect in increasing U. S. exports since 1971. Even more dramatic has been DISC's impact on small companies. The experience of individual companies which have used DISC reinforce the argument that DISC has been an important incentive. In Appendix A, excerpts from letters from such companies are reprinted. Also attached, as Appendix B, are two statements of small business leaders on DISC; one in the form of a letter to President Carter, and the other taken from a recent press briefing.

A number of common threads run throughout these materials. Companies which had not been exporting previously began to do so because of DISC ... companies which once did not place emphasis on exporting now do so because of DISC ... companies which had considered moving production facilities overseas maintained them in the United States because of DISC ... companies which found their export growth stunted because of their inability to make available competitive credit were able to use DISC to do so ... companies which found themselves continually short of investment and working capital have been able to use DISC funds to improve their capital structures.

Moreover, these small business statements repeatedly and specifically warn of the consequences of repealing DISC. These warnings should be of utmost concern to U. S. trade policymakers, particularly those concerned with smaller U. S. exporting companies. Companies now emphasizing exports will have to reduce their export efforts if DISC is repealed ... companies which began exporting because of DISC will have to consider withdrawing if DISC is repealed ... companies which maintained production in the U. S. because of DISC will move production offshore if DISC is repealed ... and so on.

In short, smaller companies, chronically short of working capital and faced with severe cash flow problems, will be faced with even more severe difficulties if DISC is eliminated. It is thus clear that the repeal or phasing out of DISC would have a serious adverse impact on the more than 8,000 smaller DISC companies.

2. How DISC Works

As provided in the Revenue Act of 1971, a DISC acts as a commission agent for the buying and selling of goods for export and export sales promotion. The DISC itself can either be an independent company (export management company, sales agent or distributor) or a related subsidiary established solely to sell and promote the products of its parent corporation. The Revenue Act of 1971 required, however, that the DISC be a separately incorporated entity in order to qualify for special DISC intercompany pricing rules and a partial deferral of certain export income.

The incentive benefits which the DISC provisions offer U. S. exporters are two-fold. First, special rules offer an exporter a simple and objective means for determining intercompany pricing and profit allocation, rather than burdensome compliance with the complicated and uncertain rules of section 482 of the Internal Revenue Code. Second, one-half of DISC income in excess of 67 percent of a four-year base period is deferred from taxation--but only as long as the deferred tax is reinvested back into export operations.[6/] The statute requires, however, that at least 95 percent of both the DISC's income and assets be export-related.

Within this statutory framework, the increased profit and cash flow generated by DISC act to stimulate exports in three ways. First, U. S. companies are stimulated to begin or expand export operations, and encouraged to spend more time and effort on exports. In this way, DISC acts as a catalyst to push U. S. companies over the export hurdles represented by increased risk exposure and diminished cash flow. Second, DISC provides the economic tools--productive capital and cash flow--

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6/ An exemption to the "incremental rule" adopted as part of the 1976 Tax Reform was provided for small DISCs with $100,000 of DISC income or less. This exemption provides partial relief for DISCs with income between $100,000 and $150,000.

for exapanding existing export business. Third, DISC encourages companies to service international markets by manufacturing in the U. S. rather than abroad or through licensing agreements.

The key to the DISC concept is the fact that taxes on qualified export income are deferred--but again only as long as the deferred taxes are reinvested in the export business. DISC results in the building of a capital fund that grows and is continuously reinvested in specified export activities and assets. 7/

Among the most common export-related assets in which DISC-deferred taxes have been reinvested over the first five years of DISC's existence have included:

7/ It is not necessary, as some have suggested, for DISC to reduce basic export commodity prices in order to stimulate exports or increase their competitiveness. In this regard, a recent study has noted:

> . . .there is reason to believe that prices are no longer the only--or, in some case, even the most important--determinant of competitiveness. To an increasing extent products having the same basic functional use are differentiated as to characteristics of design and technology, serviceability, quality features, repair and maintenance advantages, and advertising impact and thus are traded internationally. To these factors must be added availabiity of credit, customer loyalty, sales methods, dependability of supply, promptness of delivery, and a number of other considerations besides price that influence "competitiveness".

Robert R. Nathan Associates, U. S. Foreign Trade and Employment, May 1977, unpublished manuscript (draft).

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(1) Export receivables, where the DISC funds are used to extend and finance credit to foreign buyers and to reduce the risk and higher costs of carrying accounts receivable on export shipments (which normally require a longer pay-back period than domestic sales);

(2) Funds for initiating, expanding and improving export marketing and promotion programs; and

(3) Producer's loans, whereby DISC funds are made available to the DISC's parent for investments in new facilities, or the expansion and modernization of existing facilities, for export production and the development of products adapted to export markets.

3. <u>The Distribution of DISC Benefits</u>

The Administration has sought to eliminate DISC, among other reasons, on the grounds that DISC "favors" larger exporting companies and that small business exporters have derived little or no benefit from DISC. For example, the Treasury Department's "Description and Analysis of President Carter's Tax Package" states: "According to the 1977 Treasury Report on DISC, over 60 percent of total DISC tax benefits went to parent corporations with more than $250 million in assets."

It should be noted, however, that these larger corporations have historically accounted for more than 60 percent of U. S. exports. Therefore, smaller corporations can be said to make relatively <u>greater</u> use of DISC than larger corporations in proportion to their share of U. S. exports.

It should also be noted that DISC-year 1975, which is covered in the 1977 Report, was something of an anomoly. Since DISC's enactment, the percentage of DISC benefits accruing to larger companies has declined, reaching 52 percent in DISC-year 1974. In 1975, however, there were substantial exports of heavy capital goods and transportation equipment, which are most heavily represented by larger companies. In the years after 1975--when this distorting factor is not present--it is expected that the trend toward relatively greater small business use of DISC will resume.

One factor which has inhibited small company use of DISC, as Treasury has stated in its letters to smaller exporters, is "the legal and accounting costs of complying with the complex DISC legislation". We do not agree, however, that this complexity of the DISC law negates its economic benefits or requires its repeal. Nor should the fact that DISC has some administrative shortcomings obscure the equally clear fact that DISC has been of significant importance to U. S. exporters.

The problem is not that large companies are receiving DISC benefits which should be accruing to smaller companies. The questions should be (1) whether DISC is sufficiently accessible to all exporting companies and (2) whether it should be expanded to provide greater incentive for exporting.

Since its initial formation, the Special Committee has strongly advocated reform and simplification of the DISC regulations to facilitate participation by smaller businesses. Present requirements are excessively complex, and it is a credit to the initiative of small businesses throughout the country that so many of them have overcome, in time, this built-in impediment.

V. RECOMMENDATIONS

The membership of the Special Committee recommends that the DISC incentive be improved and expanded to induce more firms to export and to simulate those who are exporting now to export more.

Specifically, the Committee recommends the following improvements with particular respect to smaller exporting companies:

1. Within the context of the incremental rule adopted in 1976, the deemed distribution of 50 percent of DISC income should be eliminated.

2. To assist small DISC users, the small DISC exemption to the incremental rule should be increased to $500,000 to more nearly reflect the standard government definition of small businesses.

3. DISC procedures and documentation requirements should be streamlined and simplified as applied to small businesses.

4. The Commerce and Treasury Departments should conduct an intensive campaign to familiarize potential small business exporters with DISC and with other aspects of export opportunities.

APPENDIX A

EXCERPTS FROM LETTERS REGARDING DISC

Ajax International Corporation, Santa Barbara, California:

> We have been utilizing this program for several years and feel it to be a most positive benefit for our company doing business in the international market. As a small manufacturer, we have found the DISC to be very important and of positive assistance to our company's growth.

Alox Corporation, Niagara Falls, New York:

> While our company has been in the export business prior to the establishment of DISC's, the existence of our DISC has helped us to remain competitive, particularly in the European market ... While we are a small company, approximately 40% of our sales are for export. Any significant loss of such export sales would materially influence our employment level here in Niagara Falls.
>
> The formation of a DISC was one of several factors which prompted our abandoning plans to construct a European manufacturing facility. If DISC's are eliminated, we will have to reinstate those plans.

American Livestock Producers International, Inc., Flora, Indiana:

> [W]e feel it is a vital part of our needs to have the benefits of this taxation program. International marketing is expensive and carries a great deal of risk and of course our country needs the exports for a balance of trade. In view of this we think this taxation program is not only advantageous, but necessary to our country.

Antex, Inc., Attleboro, Massachusetts:

> Since its inception in 1971, DISC has been quite a help to us. As a small exporter we have been able to establish ourselves securely with the extra capital made available to us because of the reduction in income tax liability afforded through DISC. In fact, if DISC was repealed at this time, we feel we would suffer in our business, as we would have less funds to work with.
>
> It seems that we are paying already enough taxes and that, rather than help the Government's budget, the repeal of DISC would actually hurt since, if business suffers, there will be less total income to be taxed.
>
> If DISC is repealed, we will find ourselves having to think twice before spending and investing, which in turn will affect our suppliers and customers, who will look for materials elsewhere.

The Austin Company, Greenville, Tennessee:

> [T]he DISC legislation has provided us the opportunity to offer more extended credit terms and to carry larger commodity stocks, both of which have been extremely helpful in competing in the international trade field in tobacco.

Autodynamics, Inc., Neptune, New Jersey:

> Autodynamics formed a DISC in 1975. Since the formation of this DISC, our export sales went from essentially nil to between fifty and eighty-five percent (50% and 85%) of our business in the past two years. Autodynamics is a fairly young and growing company and the tax benefits derived from the DISC have been very beneficial in helping us to grow.

Automated Building Components, Inc., Miami, Florida:

> Analysis we have made indicate that the small difference that the D.I.S.C. provides, makes it feasible for us to manufacture many items here instead of overseas for our export markets. Without the D.I.S.C., many items we manufacture in the United States would be manufactured in their foreign countries.

Baltek Corporation, Northvale, New Jersey:

> Our company, while small ..., has benefitted from the special features of DISC over the past five years. Our export sales in 1976 were over four times what they were in 1972 and we firmly believe that one of the contributing factors in this increase was the tax benefits afforded to us by the DISC.

The Beaton & Corbin Manufacturing Company, Southington, Connecticut:

> We indirectly relate to several other major exporters. Their export business contributes to our domestic activity. DISC provides the incentive needed to compensate for the efforts of exports and directly adds to the volume of non-participating suppliers.

Blue Spruce International, Stirling, New Jersey:

Through DISC, it has been possible for us as a small company to exist in a highly competitive field. If we had relied solely upon domestic business, we would have been out of business long ago.

Burr-Brown Research, Tuscon, Arizona:

Two hundred Burr-Brown employees hold their jobs because of export sales.

In addition, approximately 180 jobs exist in other U.S. companies because of the service, supplies and materials we purchase in support of our export sales. Our export sales through DISC are also, indirectly, tremendously profitable to the Federal government.

The U.S. government has collected an estimated $1,400,000 in income taxes during the last three years in return for deferring $121,000 of income taxes as provided by the DISC law.

CAFCO International Limited, Stanhope, New Jersey:

CAFCO International Limited is a DISC subsidiary of U.S. Mineral Products Company and the first year of operation was fiscal 1972-1973. Since then, the DISC features of the Internal Revenue Code have proved to be of great assistance in maintaining normal levels of capital investment to the parent company's operation through improved net earnings. There is no doubt that the increased earnings from the DISC operation have also helped us to continue exporting from the U.S.

In 1971, U.S. Mineral Products Company was seriously considering investing in a European manufacturing facility to satisfy European, North African and Middle East demand for our products. However, since the inception of the DISC features, it proved to be beneficial to continue exporting from the U.S., and maintain the normal level of employees without mass entrenchment.

Canberra Industries, Inc., Meriden, Connecticut:

Canberra Industries is a relatively young, high technology company which manufactures instrumentation used in measuring various types of radiation. In the last five years, our sales have quadrupled and in 1977, we expect to have worldwide sales of our instruments totalling approximately 20 million dollars. Approximately 50% of our business is sold to customers outside of the United States. Over the last several years the growth of our export business has exceeded the growth rate of our domestic business, and we feel that the tax benefits obtained from the DISC has played a significant role in allowing us to finance and develop this growth in our export business. As is true of many small high technology, fast growing companies, one of our major problems is how to finance our rapid growth. The cash which has been made available by existing DISC legislation has played an important role in allowing us to achieve our present sales position, and there is no question that elimination of the DISC tax benefits would make it more difficult for us to compete in the overseas market.

Castaldo Products Manufacturing Corporation, Westport, Connecticut:

We are a small DISC company that exports jewelry manufacturing supplies and grosses about $500,000 a year, thus bringing in valuable foreign exchange and strengthening our country's trade position. Almost all of our export trade has developed since we formed a DISC operation in 1972, and the law has been both an encouragement and an advantage for us.

Concept, Inc., Clearwater, Florida:

Concept, a small manufacturer of medical/surgical products exports 15% of its production ... Without incentives to export, we would need to substantially reduce our production capacity and labor force.

Concord Fabrics of America, New York, New York:

Concord Fabrics is interested in maintaining and expanding our sale of textile fabrics in the world market. The benefits of the DISC features of the Internal Revenue Code is of meaningful help to us in that endeavour. If it were not for these special features we would have to curtail our foreign trade efforts, curtail our participation in international fairs and sales trips to foreign markets.

Coppus Engineering Corporation, Worcester, Massachusetts:

We have been involved in exporting for many years and have received two Presidential "E" awards in exporting.

We created a DISC five years ago and it has been of considerable assistance to us in trying to maintain a high level of exports, which we have accomplished.

Unfortunately, the 1976 Tax Reform laws have severely limited DISC. There still remains some stimulant for exporters and we hope no further cutbacks are made, but rather that those already made may be restored.

In 1971, our foreign sales were two million dollars and in 1976, were six million dollars. During this period, our export-related jobs went from 63 to 116.

Our export sales are already more costly than domestic sales and we need more incentives to export more rather than less. With worsening balance of payments, it is surprising that DISC incentives for exporters were reduced.

We are a small manufacturer located in Worcester, Massachusetts, and appreciate the value of DISC and urge that DISC provisions be reinstated to pre-1976 tax law levels.

Crosby Valve & Gage Company, Wrentham, Massachusetts:

We formed a DISC in March 1972. It has been of important assistance to us in providing the working capital needed to expand our export sales. In our fiscal year 1972 our exports amounted to $1,242,000 and represented 14% of our sales. In 1976 our exports were $6,442,000 representing 21% of sales, and until recently we have expected this nice trend to continue. One main problem we have always had with exports is that they tie up far more working capital than domestic sales because foreign customers on average take 3 to 4 times longer to pay our invoices. The $400,000 in taxes which our DISC has enabled us to defer ... provided less than half of the cumulative extra working capital we needed to support the $5,200,000 increase in 1972-1976 exports but we were a small company and for several years we had severe financial problems and it sure helped.

The clouds now on our horizon are that our foreign competition has increased very noticeably in the past year, in domestic as well as foreign markets, prompted partly by evidently direct and indirect subsidies by foreign governments and partly by changes in exchange rates. If DISC incentives are removed in face of this we will certainly find it discouraging.

CWJ Farms, Inc., Gainesville, Georgia:

> We are a comparative small exporter with annual sales of approximately five million dollars in fertile hatching eggs and related poultry products. Even though this may seem small to others, it is big to us.
>
> In the mid-sixties we saw the opportunity for a significant increase in sales of our products for the years ahead but because of considerable risk and limited capital we did not pursue expansion. Then we learned of the benefits as provided by DISC and in a period of four years we have more than tripled our export sales. We feel proud that we have contributed in a small way toward a favorable balance of payment in world trade.

Datamedia Corporation, Pennsauken, New Jersey:

> Since we are a privately-held corporation, our access to funds for expansion is limited. Because of the tax deferral benefits afforded by DISC, we have been able to increase sales by 584% and earnings by 784% over five years since 1973. Our export business has contributed 40% of our total sales since Datamedia formed a DISC subsidiary.

Dan River, Inc., Greenville, South Carolina:

> This feature has been very important to us in promoting textile exports at a time when we are being inundated by textile imports.

Davis & Furber Machine Company, North Andover, Massachusetts:

> I have become acutely aware of the lack of support [for exports] by our government in face of the fact that European nations and Asian nations are today aggressively involved in government subsidies for exports. At times, I wonder if our government is even slightly aware of the benefits of export trade.
>
> I have had personal experience with several small companies who, were it not for DISC legislation, would never have considered entering into export market. True, they did it for financial advantage but, at the same time, their businesses grew rapidly and their products met the needs of developing nations. It is inconceivable to me how an argument against DISC can stand up in view of the fact that export incentives and direct government subsidies to foreign exporters seems to be the game plan of the day.

Doolan Steel Company, Moorestown, New Jersey:

We are in the steel distribution field. For years we have maintained an active export department. We employ approximately one hundred and seventy-five people and 20% to 25% of our business volume is direct export.

We find it increasingly difficult to compete in the world markets and we need all the encouragement we can get. DISC is a great source of encouragement and was probably the best piece of foreign trade legislation passed by Congress in this century. To repeal DISC would be a terrible mistake and, in fact, its benefits should be broadened.

Drake America Corporation, New York, New York:

Our company was constituted as a DISC when the tax legislation was passed, and since 1972 the volume of our overseas sales has more than tripled. Much of this growth was due to more intensive sales and marketing activity overseas, the very type of activity encouraged by the DISC tax legislation.

Drexel Chemical Company, Memphis, Tennessee:

We are a small company of approximately 20 employees which is engaged in the production, marketing and trading of agricultural chemicals. Our DISC subsidiary, Drexel, Inc., is a key part of our business and exports will average 20-30% of our total company sales. The DISC provisions have been a major reason for our emphasis on exports as it afforded us a means of increasing our working capital and net worth at a faster rate than would otherwise be possible. This in turn has allowed our company to expand both in domestic and export markets.

Dynaloy, Inc., Hanover, New Jersey:

We have been an active exporter and have an associated DISC corporation which we formed in 1972.

As a small company we have found the tax benefits very helpful and because of them have invested in further export-related activities to increase useage of our products overseas.

Dynamics Research Corporation, Wilmington, Massachusetts:

DISC is a most attractive feature of exporting. We are relatively new to exporting, having started only a year ago, but we are hopeful that over the next three to five years we will be able to build one-quarter to one-third of our sales from overseas.

DISC will certainly play an important role in financing this expansion to our sales and in making possible the addition of people and plant to support those sales.

With all the export incentives offered by competitor nations, the availability of DISC for American firms, I believe, is an important element in making American firms competitive internationally. If anything, the United States has to do even more to encourage exporting if the United States is to be on an equal footing export-wise with its competitor nations.

Eaton Allen International Ltd., Brooklyn, New York:

Our parent company, Eaton Allen Corporation, is manufacturing a wide ragne of products in the field of office supplies, like the KO REC TYPE brand correction materials, Typing and Correcting Ribbons, including ribbons for the IBM machines, carbon papers and films, etc. While the mentioned brand became a household word in the U.S.A., there have been no efforts to enter the field of exports due to foreign competition, import duties abroad, and high taxes at home. A decision has been made to form our exporting company only after the enactment of the Disc provisions with the idea of taking advantage of the incentives of the Disc rules. From a modest start in 1972 our export business has developed into a sizeable volume.

However, due to the drastic amendments of 1976, and continuing agitation to abolish the Disc benefits altogether, coupled with very significant foreign incentives, our parent company is currently in negotiations to establish a foreign manufacturing base for the supply of the existing foreign demand, and for the expansion of sales abroad on the largest possible scale.

The realization of the mentioned project would mean, of course, the winding up of our own exporting activities, coupled with all the adverse effects of reducing production, and jobs in the plant of our parent in Brooklyn, New York.

Educational Innovations Systems International, Inc., Fontana, Wisconsin:

> We are a small firm which was formed under the DISC rules and we have grown rapidly since our incorporation in 1969 as a domestic corporation and in 1972 as a DISC corporation. Currently we are doing over $9 million in sales. We would probably be operating at a much lower volume if it were not for the DISC rules.

Ferno-Washington, Inc., Wilmington, Ohio:

> Our company formed a Domestic International Sales Corporation in 1972. Since that time, our exports have almost tripled in volume. The DISC incentive was responsible for part of this growth. The added cash accumulation enabled us to finance and encourage additional sales volume.
>
> We now have full time representatives in the Far East and in Europe. Our export sales now accout for 20% of our business. During the fiscal year of 1977-78, we anticipate that our export sales will exceed $2,000,000. In terms of jobs, this represents approximately 75 jobs.
>
> Our products are enthusiastically received in over 20 countries worldwide. We are especially hopeful of making inroads in Europe where, heretofore, our volume and market penetration have been limited to non-EEC countries with the exception of the UK. We might also add that we enjoy a substantial sales volume in Japan, which is a country that most United States manufacturers find difficult competition-wise.

Fire Systems, Inc., White Plains, New York:

> We would discontinue our export activities if DISC were be abolished.

Four-Phase Systems, Inc., Cupertino, California:

> Four-Phase Systems organized a DISC in 1972 when the company had very few export sales. Due to the incentives provided by the DISC, among other things, our export sales have grown to approximately 20% of our total revenues.

Frequency Sources, Inc., Chelmsford, Massachusetts:

Although our company is relatively small ($10 million annual), we have developed a significant portion of our business through foreign customers. The establishment of DISC provisions in 1971 provided an additional incentive for us to more aggressively seek export business and was instrumental in our establishing a new sales organization solely dedicated to expanding our foreign business base.

GRM Corporation, Medford, New Jersey:

This particular vehicle permits us the necessary incentive and competitive edge required to conduct more export sales. Our efforts are primarily directed to the sale of telephone equipment and air traffic control systems all over the world, and hence the DISC permits us to spend more dollars in advertising and direct sales effort than we would normally spend on domestic customers.

General Staple Company, Inc., New York, New York:

We are a small company with sales of $2 million, who decided to expand our export operations solely because of the DISC legislation. About 1-1/2 years ago, and as a direct result of this DISC legislation, we opened up an office in Japan and another in Belgium -- and proceeded to start up a selling operation.

Imagine our surprise and subsequent chagrin to find that less than a year after we started the operation that Congress had decided to chop the benefits. I am convinced that the DISC laws increase American employment and have a direct positive effect on the balance of payment situation.

Gettys, Racine, Wisconsin:

GETTYS is a small company (should ship about $11 million worth of industrial control systems in 1977) which exports approximately 50% of its output.

In 1972 we were close to establishing a manufacturing arm in Europe when we decided to establish a DISC instead.

We can prove that the taxes collected as a result of the jobs created here in the U. S. by our exports more than offset the "loss" in revenue to the IRS because of our DISC. In other words, DISC, for GETTYS, did exactly what the legislation creating it had intended it to do.

If the DISC is abolished, almost certainly GETTYS will have to reassess its decision to manufacture only in the U. S.

Grip Blanking, Union, New Jersey:

> We are a small organization of eight people but due to the advantages of the DISC program, we actively sought out opportunities for export of American machinery. ... Shortly after this, the bureaucrats decided to kill DISC. I lost interest in selling overseas because without DISC it would be extremely expensive for any firm -- no matter what its size was. I, therefore, put our export program into the mothballs.

HNU Systems, Inc., Newton, Massachusetts:

> HNU System is a three-year old manufacturer of new technology instrumentation for chemical analysis whose export sales have grown to better than 20% of total sales revenue. We feel that this number can be almost doubled within the next two years with the appropriate addition of sales and marketing programs dedicated to export activities. However, without the partial deferment of U.S. income tax on export earnings provided by the DISC, we will certainly not be able to make those investments.

Harris Manufacturing Co., Inc., North Billerica, Massachusetts:

> We are a small company employing under 40 people .... The DISC has helped us tremendously and should it be terminated or drastically changed, it would seriously affect our ability to continue growing in our overseas market. Today our DISC operation constitutes a substantial part of our total gross sales and is increasing yearly.

High Vacuum Equipment Corporation, Hingham, Massachusetts:

> We have had a DISC subsidiary for approximately five years now and certainly feel that its incorporation and the benefits therefrom have contributed to our financial growth.

Joseph B. Hoffman, Inc., New York, New York:

> The DISC incentive allowing a reduction in income tax liability on qualified export earnings resulted in freeing capital which enabled this company, for one, to invest in new and innovative machinery which has, and will continue to expand our production and business interests not only in this country but throughout the world.

King Instrument Corporation, Westboro, Massachusetts:

Since 1968, we have manufactured machines to spool magnetic tape into both audio and video cassettes. We earned an "E" for export efficiency in 1972 and now, based on sales growth, we have applied for our "E Star."

In the last nine years we have grown from five to forty employees. Exports have been a constantly increasing percentage of our business reacing 75% in 1976. The DISC is helping us to finance our growth from our earnings. While we constantly read about the need for increased exports, and we learn what other countries do for their exporters, we find it hard to understand the reasoning of those who want to take away this modest incentive to obtain sales abroad. There must be many other small companies that would be exporting if there were genuine incentives offered.

King Plow Company, Atlanta, Georgia:

Although we have just recently formed our DISC, it was a major factor in our decision to export in earnest. Without this incentive, we will most probably cut back in our efforts to sell overseas.

The Loveshaw Corporation, Deer Park, New York:

Although The Loveshaw Corporation is a very small company in terms of total dollar volume of sales, we have very successfully been exporting mostly to Western Europe and have found that the DISC has been our main incentive towards this exporting effort.

Should the DISC be discountinued, we would probably have to reevaluate our total export effort and curtail most of it. Let us not forget that export sales do require a much higher effort than domestic sales and therefore, that they should permit a higher percentage of return.

MPC Industries, Irvine, California:

We formed a DISC in July of 1972 which has been continuously used since that time. We are involved in the manufacture of press and caul plates made from specially melted, type 410 heat treated stainless steel manufactured in the United States which we polish and chrome-plate to the customer's specifications. These plates are used in the manufacture of high pressure decorative laminates and wood products all over the world. We are competing with Swedish, German and Italian manufacturers and the DISC is a viable means to help us meet their competition.

MPC Industries was recently awarded the Department of Commerce E Star Award for increased exports and we attribute part of this success to our ability to use the DISC.

As a small manufacturer, we know the value of any incentive which our government can give us to meet the subsidized competition we face from other countries.

MTS Systems Corporation, Minneapolis, Minnesota:

Close to fifty percent of our sales are in international markets. Most of our competition in these markets is based outside of the United States. Our DISC has played a significant role in the profitable development of these markets and in the growth of this corporation, and has been most helpful in the continuing effort to win orders from foreign competition.

Machine Technology, Inc., East Hanover, New Jersey:

The creation of the DISC vehicle enabled us to compete aggressively in the international market for our goods. Without the incentive provided by DISC legislation we would not have been in a position to effectively compete.

Approximately 25% of our business is now done overseas, whereas in prior years our overseas business accounted for only 5% of yearly shipments.

Marine Colloids, Inc., Rockland, Maine:

As the first Maine-based company to form a DISC (our DISC began business in January 1972), we have experienced export sales of over 40% of our annual sales of approximately $22,000,000.

We feel DISC definitely has played an important part in our increased export efforts and as such would not want to see the abolishment of the DISC provision of the Internal Revenue Code.

26-877 O - 78 - 9

Markem Corporation, Keene, New Hampshire:

Markem is a small, but worldwide company, and one-third of the jobs in our domestic operation are directly the result of our export business. The cash generated from deferred federal taxes resulting from the operation of our DISC,is a significant factor in our commitment to international business and exporting in particular. Being in the export business is more costly than straight forward domestic operations, and the DISC provisions of the tax law are helpful in maintaining our export competitiveness and increasing the number of domestic job opportunities resulting from those exports.

Michael E. McDaniel, Lawrenceville, Georgia:

We established a DISC account in April of 1972.

Since that time our exports have increased from only 10 or 15% of our total business to over 45% of our current business. Doing business outside the United States is extremely difficult, because the discounts we must give in order to obtain distributors, and the expenses involved are higher than those we give in domestic territories. In order to sell profitably outside the United States on the same level as domestic sales, the establishment of a DISC was necessary, because the export sales then became attractive. We were able to spend more time and energy to expanding our efforts. Over the years we have had a large increase in the people here, many of whom were added because of our increase in export sales. This year we are talking about doing 2 to 3 million dollars worth of sales outside the United States. We would have never been able to have come this far, had it not been for the DISC. This amount of money, albeit small, is a significant portion of our income. If the DISC law is repealed, we will have less money to spend for promotion, which will of course result in a downturn in our sales.

The Miranol Chemical Company, Inc., Irvington, New Jersey:

> We have always made an exceptionally strong effort to boost our export sales because of my personal commitment to that type of trade. We have further gone out of our way to use U.S. flag ships to carry our exports and the biggest boost to our efforts has been the DISC treatment under which we established Miranol International as a DISC corporation. If the advantages of DISC treatment were to be removed, our export sales will not only be curtailed drastically but they might, to all extents and purposes, be killed.
>
> We export well over 20% of our total production and for a small company that is well above average. Based on the advantages of DISC we have incurred heavy promotional expenses pointing to our competitive situation.
>
> To remain a viable exporter, Miranol International must retain the DISC advantages or fail.

Mobile Drill International, Inc., Indianapolis, Indiana:

> DISC status has, indeed, stimulated the growth of our company and certainly the sale of our products overseas. We presently maintain a 40-50% ratio on exports versus domestic sales, and we hope to grow in this area to an even greater extent during future years. We do feel quite strongly, of course, that the tax deferral available to our subsidiary under DISC is critical to our growth and expansion.
>
> The manufacturing and sales of our company's products engages approximately 100 employees, and as you can see from the figures mentioned above, we rely quite heavily on export sales. The value of this part of our business most certainly benefits our employees, our city and our country as well.

George C. Moore Company, Westerly, Rhode Island:

> Elastic Export Sales, Inc., serves the export needs of George C. Moore Company and its eight U.S.A. subsidiaries and divisions. Since its incorporation five years ago, we have seen our export sales grow at a faster rate than the domestic market.
>
> We also have a wholly-owned subsidiary in the Republic of Ireland which was established after we were unsuccessful in competing with the tariff barriers established by the EEC. The continuation of these foreign tariffs, duty drawbacks, tax credits, etc., should make the need for export support by the U.S. Government that much more evident.

Neslab Instruments, Inc., Portsmouth, New Hampshire:

Neslab is a small manufacturing firm whose DISC corporation is in its third successful year. The incentive of deferred tax payments, so important to a small corporation, has helped us to boost outside U.S. sales to 30% of our total.

Ocean Research Equipment, Inc., Falmouth, Massachusetts:

ORE is typical of the many small U.S. companies (annual sales less than 4 million, 40% export) who have depended on DISC-generated tax deferrals to help offset the high costs of doing business overseas.

Orban Export, Inc., Wayne, New Jersey:

The Kurt Orban Company has been active in international trade for over thirty-five years. Though the bulk of our business is importing to the United States, we have been trying very hard to assist U. S. manufacturers in exporting their products. The existence of the DISC incentive was a significiant factor in deciding whether or not we wanted to invest in an export company.

Pace Packaging Corporation, Fairfield, New Jersey:

Pace Packaging Corporation is a small company employing 17 people. We have formed a DISC corporation, and, largely as a result of the tax benefits gained therefrom, we have expanded our export sales so that now they approximate one-half of our total volume.

Prime Tanning Co., Inc., Berwick, Maine:

We established a DISC on July 12, 1972. Since its inception, the DISC has spurred our export activity. The small incentive that has been offered us through this law has allowed us to take some additional risks. We have hired new agents around the world; set up a new office in Europe; and invested in sampling all over the world. As pointed out above, slowly and steadily our export business has grown.

We certainly hope the government will not be so shortsighted that in these days of negative trade balances for the U.S., small companies like ourselves will lose the small encouragement which the tax laws have given us.

RFL Industries, Inc., Boonton, New Jersey:

We are a small manufacturer of specialized electronic equipment with approximately 20-25% of our business overseas. Creation of a DISC almost five years ago was a major factor in our increase in international sales.

Should there be a repeal of DISC, we could expect a decrease in the amount of promotion we could afford pursuing our overseas markets. Unfortunately, our Congress does not realize that such a decrease will inevitably result in lower sales.

Services International Ltd., Ind., Gloucester, Massachusetts:

Ours is a young company, organized in 1970 and shipping today at the rate of approximately two million dollars per year. I can sincerely state that the survival and ultimate success of this company has been due in large part to the advantage offered us as a DISC corporation.

As one who sells in seventy countries around the world, I am constantly impressed by the export efforts of such countries as Japan and the U.K. and trust there can be little doubt in the minds of "anyone in the know" that if businessmen and government should even exert a fraction of the effort of such countries we could overwhelmingly dwarf the efforts of all our overseas competition.

Singer Products Co., Inc., New York, New York:

Since our first year under DISC, when our volume was $11,800,000, we have increased our volume for the calendar year 1976 to $23,500,000. This increase was made possible to a very great extent by the increase in financial facilities which we had available as a result of the utilization of deferred tax funds. We were enabled to open overseas offices, to greatly expand our promotional activities, and to offer increased and more advantageous credit facilities to our customers.

We would like to point out that this increase in sales took place in the face of shrinking markets, particularly in the last two years, as a result of greatly increased protectionist measures and foreign exchange restrictions in many of our markets for many of the products which we sell.

Henry Stern & Co., Inc., Hartsdale, New York:

> As combination export managers, our company has introduced products of the small or intermediate size manufacturer of electrical materials to markets throughout the world. These manufacturers, either because of lack of familiarity with foreign credits or because of shortage of necessary capital, expect us to pay them and extend credit terms to foreign accounts. The amounts per transaction are too small to warrant government financing and our margin of profit too small to permit us the luxury of bank financing and credit insurance.
>
> Only the tax deferral features of DISC enable us to accumulate some capital of our own to support our sales program. The termination of DISC would sharply curtail our ability to offer conditions to our buyers that will make the high-priced American goods practical for them to purchase.

Techno Corporation, Erie, Pennsylvania:

> Though Techno is a small firm in terms of international sales, we have established sales representation in several foreign countries since the formation of our DISC. This expanded marketing effort is a direct result of DISC incentives and we like to think we have made some contribution--however small--toward improving the U.S. balance of trade.

Technical Operations, Inc., Boston, Massachusetts:

> Our company formed a DISC two years ago and because of it much more emphasis is placed on obtaining export business than would otherwise be the case. While our present volume of exports is quite modest, we strongly support retention of the DISC feature in our U. S. tax laws.

Teknor Apex International, Inc., Pawtucket, Rhode Island:

> Since we established the DISC in 1972, our exports have increased by well over 100%. While much of this growth may be attributed to our intensified export sales activity, there is no denying that a good deal of it is due to the facilities which DISC provides.

Testing Machines, Inc., Amityville, New York:

We have a DISC company which is partially responsible for our increased export sales of several hundred percent. Our sales philosophy now is to participate in overseas exhibits, the establishment of more aggressive representatives and a willingness to extend more liberal credit terms. These efforts have resulted in the large percentage of our work force that is devoted to export sales.

Thayer Scale-Hyer Industries, Inc., Pembroke, Massachusetts:

While our company is small (employment less than 100), about 20% of our personnel owe their jobs to the increase in our export sales, which has been the direct result of the DISC incentive.

Uniflow Manufacturing Co., Erie, Pennsylvania:

We are a relatively small company and yet 21% of our business is export.

We have a DISC formed.

Because of DISC our company became more aware of exports and the export business we could do.

Because of DISC we devoted more time to export. As examples, we spent the necessary monies to have our literature printed in four foreign languages and English metric. We extended our co-operative policies such as advertising, direct mail, tradeshow, etc. to our overseas distributors. We expanded our overseas models in strictly 220 volt/50 cycle to include practically our entire line of products.

Because of DISC we did make a greater profit on foreign business and spent the extra time, money and effort because we would afford to do so, on our export business. The result has been steadily increased exports of our product.

Unit Process Assemblies, Inc., Syosett, New York:

We are a small manufacturing organization making sophisticated measuring instrumentation for quality control and inspection pruposes by industry. About a third of our volume is for export, and we have been most encouraged by the DISC program.

Unival Export Corporation, South Boston, Massachusetts:

> Be assured any action to change this law will affect our sales and reduce local employment. Our two companies, Swendman Controls Corporation and Rockwood Systems Corporation, in 1973 became active in the foreign market because of this incentive and have developed exports of approximately $600,000 a year, which added twelve people to our payrolls. Discontinuation of the DISC act would cause erosion of these jobs and also reduce the taxes we pay at the federal and state levels.

Valsan International Corporation, New York, New York:

> We have had a DISC corporation for the past several years and have managed to double our export sales in this period as a result of the special tax advantages offered by the government for DISC corporations.

Whip-Mix Corporation, Louisville, Kentucky:

> We are deeply and seriously involved in exports, and have been for over 25 years. In fact, our export sales exceed 40% of our total business volume. The original DISC legislation was gratifying to us, because our foreign competitors do enjoy certain advantages and privileges in their overseas operations, and DISC enabled us to compete more vigorously, specifically in third markets.
>
> As an active member of the President's District Export Council, I have assisted other firms in our area in developing and increasing their export activities, and it certainly is discouraging to them and to our firm that the Tax Reform Act of 1976 has limited the incentive for expanding exports.
>
> Actually, with the productive capacity of the U.S., we need more and better incentives to get more American firms interested in foreign trade. The markets are there, U.S. industry has the productive capacity, and we can increase the U.S. share of foreign trade, reducing trade deficits at the same time, but businessmen need the incentive.

Whitford Corporation, West Chester, Pennsylvania:

> A few of us started this company seven years ago with nothing but an idea and a few dollars. We now have twenty-five employees, sales approaching $2,000,000 per year and about 25% of our business comes from outside the United States. The DISC feature of the Internal Revenue Code is a substantial incentive for us to aggressively promote our export sales. I'm sure it will also be a substantial consideration when we decide whether to supply overseas customers from the United States or from overseas manufacturing locations.

Zeus Industrial Products, Inc., Raritan, New Jersey:

We have operated our subsidiary, Zeus International Products, Inc., as DISC since 1972. Never actively seeking export sales previously, the DISC opportunity spurred us to seek out and solicit exports in both distribution and sales. Our reward has been the opportunity to postpone a modest amount of federal tax. Tax savings have not been more than 5% in any given year, usually ranging from 3 to 5%.

SAUEREISEN CEMENTS Company

SPECIALTY CEMENTS INDUSTRIAL BONDING COMPOUNDS

PITTSBURGH, PENNSYLVANIA 15238
Phone: 412/781-2323

APPENDIX B

December 19, 1977

The President of the United States
The White House
Washington, DC

Dear Mr. President:

We are a 78 year old smaller manufacturer of specialty cements, with sales throughout the world, and 1977 concluded our 18th consecutive record sales and profit year. DISC has played an important part in this; furthermore, our INCREASE in jobs has been approximately 40% since DISC was passed and Federal Tax Revenue, much more substantially than that.

Information in the December 16 issue of the Wall Street Journal stating that DISC Tax Deferral on export earnings probably will be phased out by you prompts this strong plea to please, please retain DISC, in its entire present status at least for small business. 29% of small businesses have export sales and one half of the Special Committee for U.S. Exports, whose purpose is to save DISC, are small businessmen.

DISC gives the small businessman the opportunity to INCREASE his cash flow by deferring tax payments. These deferred tax payments make it possible for the small businessman to INCREASE his working staff, and sometimes improve and/or modernize the working environment. This INCREASE in working staff most importantly decreases unemployment which benefits the economy of the country, and at the same time, the productitivy of that particular company.

It is one of the very few business cash INCREASE incentives in the United States which assists small businesses. As a former small businessman, you too can well appreciate the earnest requirements for any cash improvement to the aid of small business.

Additional advantages to the small businessman are it is the only means to enable more trips necessary to establish customers which enables him to carry more inventory, INCREASE operating budget, and encourage his INCREASED capitol investment. It aids his use for the promotional activities of the Department of Commerce, and provides him the incentive and tool to attempt the determinance of export competition which exchange rates simply do not enable him to expand export production facilities in the United States, and is the only direct, let alone tax related incentive, which enables him in many instances to do any exporting.

Our export sales in 1972 were $94,000 with the DISC Tax Deferral in its first allowable year of operation of $2,700. DISC enabled us to INCREASE our export sales in 1976 to $367,500 and a resulting tax dollar deferment of $11,000. When 1977 results are complete, they should show a respective improvement on this. A smaller manufacturing company president and friend reports to date his export sales have an annual INCREASE of $14,000 since DISC.

DISC cont'd...

DISC results in manufacturers financially able to "do at home in the United States" what formerly necessitated establishing abroad and thus allows the INCREASED tax revenue and employment to benefit the United States, rather than foreign countries.

DISC has INCREASED the Gross National Product as it contributes many billions per year in additional export sales dollars, which in turn INCREASES Federal Tax and makes up for the decrease caused by tax deferrals.

DISC has INCREASED competition between the United States and foreign countries in that it has removed a great deal of the "risk" of entering into export markets.

Yes, Mr. President, I believe DISC is too important to the economy and its contribution to decrease the inflationary unemployemnt and sufficient government revenue problems to disband or reduce its tax deferral advantages to all manufacturers, but most definitely to smaller manufacturers.

Therefore, we again ask that it please be retained in its entirety. Please contact us if we can be of assistance to this recommendation and explanation of whatever your decision is to this request.

Sincerely,

SAUEREISEN CEMENTS COMPANY

Phil F. Sauereisen

Phil F. Sauereisen
President

PFS:cjb

J. D. Marshall International, Inc.

WITH SALES OFFICES THROUGHOUT THE WORLD

7440 NORTH LONG AVENUE
SKOKIE, ILLINOIS 60076
TELEPHONE (312) 583-6060

WRITE TO: P.O. BOX 59446
CHICAGO, ILLINOIS 60659
CABLE: HALLS, TELEX 72-4425

For Immediate Release

Remarks of Mr. Marshall Frankel,
Chairman of the Board,
Marshall International Trading Company
and Executive Vice President,
J. D. Marshall International, Inc.

INDUSTRY'S RESPONSE TO CARTER

ADMINISTRATION PROPOSAL FOR DISC PHASE OUT

Thank you, Mr. Malott.

Ladies and Gentlemen:

The need for our Federal Government to enact legislation to continue this country's DISC program is important to the economy of our country, and especially to the Mid-west which is heavily affected. When we consider exports are as large a portion of our gross national product as business fixed investment, and 2-1/2 times as large as the housing industry, the failure to continue this legislation will have a profound effect in that it will mean a reduction in exports, an increase in unemployment and an increase in inflation, particularly if the U.S. trade deficit continues to climb, as is now being predicted by administration officials.

Let me bring these points a little closer to home:

1. Exporting is inherently more risky than conducting business in domestic markets. During the past 6 years with the existing DISC legislation, small and medium sized businesses have become very active in export sales. Three out of every five U.S. exporting companies have fewer than 100 employees. If we take away DISC which has improved the cash flow providing the basis for investing in export products and merchandising techniques, the number of these firms who will stay in exports will substantially decrease due to the loss of incentives to compete with companies from other industrialized nations.

2. One out of every six manufacturing jobs in the U.S. is directly attributable to exports.

Thus, DISC is very important to medium and small sized American businesses. Let me cite what has happened to our own firm, J. D. Marshall International, an exporting firm representing and selling overseas the products of selected medium sized U.S. manufacturing firms.

... Since DISC was enacted in 1971, we have grown from a small firm with 35 employees to a triple A-1 business with over 150 employees located here and abroad. Our Skokie based facilities have grown from 7,600 square feet to over 35,000 square feet, and our sales have increased fourfold with specific sales increases since January 1, 1977 increasing at the rate of $1 million per month.

... Let's look at what these sales results have meant for several of the firms we represent internationally.

1. Since the start of DISC in 1971, Baldor Electric, a Middle Western electric motor manufacturer has increased their exports 1,362% through 1976.

2. Whiteman Manufacturing Company, a West Coast cement pump manufacturer whose equipment is used in heavy construction work, has increased their overseas sales 853% in the same period.

3. Addison Products Company of Addison, Michigan, an O.E.M. manufacturer of room air conditioners, a firm who has been involved in exports for a number of years, has seen their sales increase over 300% during the same period.

Gentlemen, there are thousands of other Middle Western firms of similar size who are directly affected by DISC incentives in a similar manner.

U.S. DISC legislation was also created to provide a partial competitive offset to the myriad of export incentives and subsidies enjoyed by foreign companies, sponsored by their foreign government, as Mr. Malott has already stated. Let's not kid ourselves, Japan, Germany, Holland, Belgium, Sweden and England all have provided extensive support to help replace their dependence on oil and other imports.

The 1971 DISC legislation has been the principal export support the U.S. Government has provided U.S. businessmen. It is an important program to help keep us competitive in world markets.

Selling U.S. products 10,000 miles away from the home factory is not a stop-and-go program. It is one which requires a great deal of consistent effort and careful planning. It can be a risky business. Certainly, we do not want to cripple the thousands of smaller firms who are just beginning to see their hard work pay-off for not only themselves but also for their employees whose jobs are directly affected.

We wish to thank you for attending this program today and we certainly appreciate your interest in this conference. We certainly hope you can help us inform all citizens of the importance of DISC legislation to the growing economy of the United States.

Senator STEVENSON. Mr. Melville, you are next. And in your presentation you might want to respond to the suggestions just made by Mr. Fenton.

STATEMENT OF RICHARD A. MELVILLE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ALLIED BANK INTERNATIONAL, NEW YORK

Mr. MELVILLE. Thank you for the opportunity to appear today, Mr. Chairman. I will limit my oral statement to 5 or 10 minutes.

In your letter of March 23 you laid out a number of questions. I have addressed myself only to No. 6.

My perspective is influenced by lessons learned in the day-to-day activity of international finance in which Allied Bank International is involved by virtue of its Edge Act Charter.

The Bank operates as one of 115 Edge Act corporations in this country. With capital funds of $45 million, we are headquartered in New York City, and chartered and regulated by the Board of Governors of the Federal Reserve System under section 25(a) of the Federal Reserve Act, the Edge Act. Our business is wholly international. We are owned by multiple stockholders, 18 regional medium-sized U.S. banks in widely diverse sections of the country: Indiana, the District of Columbia, Texas, Pennsylvania, New Jersey, Hawaii, Missouri, Minnesota, Tennessee, Connecticut, Oklahoma, Michigan, Georgia, Colorado, Oregon, Arizona, and Virginia. The interests of our member banks spans the entire country.

We are the only Edge Act Bank that has branches abroad. Our business involves dealings with over a thousand banks and corporations throughout the world. We have lending relationships in over 60 countries.

Mr. Chairman, I believe our location, size, ownership by regional banks, regulatory environment, and business activities gives us an important practical perspective on many of the issues you are considering in these hearings.

I do believe the Edge corporation which began in discussions in 1916, can play a more useful role than it does today in facilitating U.S. export performance.

It is certainly gratifying that the Edge Act corporation is included in your hearings in the context of a United States facility designed to increase U.S. exports.

In my written statement I have given a brief perspective on U.S. international banking, which is generally consistent with statements you have heard before, and I will skip over that.

I do want to mention a few things on the Edge Act that are in my prepared statement.

When the Edge Act first became law, it was the sum of two major conflicting forces; one was the transition of the United States from a debtor to a creditor nation, and the second the endemic American antipathy for large, universal banking corporations and the resulting concentration of economic power.

In mv reading of the report of the House of Representatives, Report No. 408, of the 66th Congress, first session 1919–1920, it seems the intentions of Congress then appear to have been at least threefold.

First, it was intended that these corporations play a major role in the financing of U.S. exports.

The House of Representatives report said:

It is hoped that as a result of the passage of this bill * * * much of our great foreign trade can be retained to the benefit of American manufacturers, farmers, cattle growers, and merchants.

Moreover, it was made clear that Congress expected small banks "to cooperate" in forming the corporations for the purpose of providing competition to large city banks, and depth to the market.

This goes a long way in giving you an idea of how important these Edge Act corporations seemed then in the promotion of U.S. exports.

Second, the new corporations should have the opportunity and means of competing with similar foreign institutions. These corporations should be, and again I quote Report 408, "prevented from becoming monopolies and should at the same time not be hampered in their competition with foreign banking institutions."

Third, Congress wanted to strengthen Government control and supervision of international banks. Again the report said:

Control through agreement is plainly not as satisfactory as control through incorporation under a Federal act.

Control by the Federal Reserve was formally established with the issuance of 12 CFR Part 211, Regulation K. The national purpose, as the Federal Reserve saw it, was to give Edge Act corporations powers sufficiently broad to enable them to compete effectively with similar foreign-owned institutions and to afford to the U.S. exporter and importer at all times a means of financing international trade.

Regulation K was issued in 1920. Three decades would pass before the world economic climate would be such as to encourage growth of international banking. During this time there was little use made of the Edge Act and little change in Regulation K. Indeed, in significant ways it is totally unchanged from 1920. It still denies any but the most narrowly defined international business to Edge corporations, in addition to qualitative and quantitative restrictions on their total range of business. It remains, in my opinion, today a horse and buggy piece of legislation and regulation.

In the sense that the word "powers" relates to activities, the activities which an Edge Act is permitted are sufficiently broad. By comparison, if "powers" refers to the total capacity of a corporation to meet successfully with competitors in the market, then there are real limitations on Edge corporations.

In its 1973 policy statement, the Bankers Association for Foreign Trade said:

We believe that continued expansion of service capabilities of the international banking systems operated by United States banks through both domestic and foreign facilities is essential to maintaining the position of the U.S. in world trade. * * *

The increasing need for international financial services by United States concerns * * * should be encouraged through liberalized interpretation of existing regulations. * * * The Edge Act corporations engaged in banking now operate at a severe competitive disadvantage as against foreign bank branches, agencies and subsidiaries in the solicitation of international business from domestic sources. Standards applied to evidence requirements supporting the international character of credits granted to domestic concerns are, in our opinion, too rigid. In related areas, we believe that Edge Act banking corporations should be permitted to accept and maintain deposit accounts representing compensating balances for unutilized credit lines and other transactions related to international business which are beyond the scope of the present narrow provisions of Section 211.7(c) of Regulation K. To provide the flexibility in funding of domestic and international loan activities, we recommend that the limitation on aggregate deposits, borrowings and similar liabilities as provided in Section 211.9(c) of Regulation K be applied only to debenture bonds and promissory notes as required by the statute, and that in all other aspects formulae similar in concept to those applied to commercial banks be utilized by examiners.

We recognize that operation of Edge Act banking entities must be governed by their national purpose to "further the foreign commerce of the United States," but we emphasize in the strongest terms that in enacting Section 25(a) of the Act, the Congress intended that Edge Act companies should be endowed with powers "sufficiently broad to enable them to compete effectively with similar foreign-owned institutions." The clear authority of this "national purpose" clause, particularly in the face of worldwide competitive forces from non-American banking and American non-banking financial institutions, has not, in our judgment, received sufficient support from our regulatory agencies in its everyday implementation. We are convinced that the more liberal interpretation of regulation and law governing Edge Act operations will enable these specialized corporations to better fulfill their legal purpose by bringing their international expertise to bear on a broader range of financial requirements of corporate clients engaged in the export of United States products and technologies.

Again in 1974 the Bankers Association for Foreign Trade policy statement said:

With regard to banking Edge Act corporations, we recommend that:

They be permitted to operate at debt-capital leverage ratios consistent with those permitted their competitors (commercial banks and foreign agencies and branches) and that this be accomplished by a change in the limits currently imposed by Regulation K on aggregate deposits and acceptances outstanding.

That the present limitations on aggregate deposits, borrowings and guarantees issued be applied only to debenture bonds and promissory notes as required by the governing statute, and that, in all other aspects, formulae similar in concept to those applied to commercial banks be utilized by examiners.

That the specific requirements of Regulation K be eliminated as to the types of transactions for which domestic source deposits can be taken and that a more general instruction, based upon the character of the business conducted by the depositor and the nature of the account relationship be substituted.

That the reserve requirement for Edge Act corporations should be equal to the reserve level required of any Federal Reserve member bank, since the present minimum 10 percent reserve requirement is discriminatory.

That the limitation on certain guarantees issued be amended to lessen the restriction on undertakings granted for a standby situation such as performance guarantees and guarantees issued to cover loss or non-conformance of shipping documents.

That Regulation K be amended so that the aggregate limit on guarantees or similar agreements of 50 percent of capital and surplus be amended to apply only to those guarantees which represent true unsecured financial undertakings involving a measurable credit risk.

That a written good faith statement from borrowers that loan proceeds are being issued to finance offshore operations be sufficient evidence for examination purposes of the validity of the international loan transaction.

That Regulation K be amended to permit employment of investment funds in money market instruments, such as municipal obligations not guaranteed by a state, as well as in commercial paper.

I read from the 1975 Bankers Association for Foreign Trade policy statement:

Following considerable study, we developed a series of recommendations designed to streamline the administration of banking and non-banking Edge Act companies under Regulation K. These recommendations were contained in our 1974 Policy Statement, but unfortunately the Federal Reserve Board has not acted on any of them.

I think that completes the emphasis I wanted to make in my statement here this morning, Mr. Chairman.

I would say, if I could, in defense of the Federal Reserve, we have been working at Allied Bank more than 5 years with the staff and at least two governors of the Federal Reserve Board, and we note recently from conversations we have held with the New York Fed that something indeed is moving along. A memo was circulated, I understand, among the examiners having to do with many of the recommendations that were made in the past, and many of the recommendations Allied Bank has made to the Board of Governors. We think some proposals may be forthcoming within the next year or two. This is an encouraging sign.

Thank you.

[The complete statement of Mr. Melville follows:]

Testimony By

Richard A. Melville
President
and
Chief Executive Officer

ALLIED BANK INTERNATIONAL
New York, New York

I appreciate the opportunity to be heard by you in connection with your hearings on U.S. programs and facilities designed to increase or facilitate exports.

At the outset, Mr. Chairman, I am pleased to see that implicit in these hearings is the view that international banking is essential to the effectiveness and worldwide competitiveness of U.S. programs and facilities designed to increase U.S. exports, including especially the efficacy of the Edge Act in facilitating U.S. exports.

My statement today will be directed solely to "modifications in such specific programs and broader public policies that could facilitate U.S. exports" with particular emphasis on several aspects of the Edge Act in U.S. international banking and recommended statutory changes, suggestions which if adopted could have an affirmative influence on U.S. export performance.

My perspective is influenced by lessons learned in the day-to-day activity of international finance in which Allied Bank International is involved by virtue of its Edge Act Charter.

Allied Bank International operates as one of 115 Edge Act corporations in this country. With capital funds of $45 million, we are headquartered in New York City, and chartered and regulated by the Board of Governors of the Federal Reserve System under Section 25 (a) of the Federal Reserve Act, the Edge Act. Our business is wholly international. Among Edge corporations Allied is unique in that it has multiple stockholders. We are owned by eighteen regional, medium-sized, U.S. banks in widely diverse sections of the country. These stockholder banks are:

American Fletcher National Bank and Trust Company	Indianapolis	Indiana
American Security Bank, N.A.	Washington	D. C.
Bank of the Southwest, N.A.	Houston	Texas
Equibank, N.A.	Pittsburgh	Pennsylvania
Fidelity Union Trust Company	Newark	New Jersey
First Hawaiian Bank	Honolulu	Hawaii
The First National Bank of Forth Worth	Fort Worth	Texas
First National Bank in St. Louis	St. Louis	Missouri
The First National Bank of St. Paul	St. Paul	Minnesota
First Tennessee Bank N.A. Memphis	Memphis	Tennessee
Hartford National Bank and Trust Company	Hartford	Connecticut
The Liberty National Bank and Trust Company of Oklahoma City	Oklahoma City	Oklahoma
Michigan National Bank	Lansing	Michigan
Trust Company Bank	Atlanta	Georgia
United Bank of Denver National Association	Denver	Colorado
United States National Bank of Oregon	Portland	Oregon
Valley National Bank of Arizona	Phoenix	Arizona
Virginia National Bank	Norfolk	Virginia

So also, Allied is the only Edge Act bank which has branches abroad. Our business involves dealings with over one thousand banks and corporations throughout the world, lending relationships in over sixty countries, and depository relations from some forty-four countries. Mr. Chairman, I believe our location, size, ownership by regional banks, regulatory environment, and business activities gives an important, practical perspective on many of the issues you are considering in these hearings.

I believe the Edge corporation can play a more useful role than it has to date in facilitating U.S. exports performance. It is certainly gratifying that the Edge corporation is included in your hearings in the context of a U.S. facility designed to increase U.S. exports. Hearings on trade problems are not adversary proceedings. Cooperation and mutual understanding designed to harmonize the export programs of the nation will in the long run produce better results for all.

INTERNATIONAL BANKING

It would be appropriate here to give some very brief perspective on the U.S. international banking scene during the period the Edge Act has been operative.

The Trade Period - The inception of American banking overseas during the early 1900's occurred in a world financial atmosphere dominated by European banks. During the early stages, the development of American international banking paralleled the growth of U.S. foreign commerce. Following World War I, the dollar began to replace sterling as the world's major trading currency, and American banks began to expand overseas at a rapid pace. A setback occurred with the event of the depression and World War II, and the number of U.S. banks with overseas branches did not regain the 1920 level until the mid-sixties. The postwar economic dominance of the United States, the outpouring of dollars to rejuvenate world trade under the Marshall Plan, establishment of currency convertibility in 1958, and the remarkable reconstruction and economic growth of Europe and Japan -- all provided a favorable climate for the renewed advance of U.S. banking activities overseas. American banks established themselves as a major world financial force. Indeed, such financial capability was necessary in order to facilitate the substantial growth of U.S. trade and massive increases in world commerce during the postwar years.

The Investment Period - In the 1960's with the economic re-emergence of Europe and advent of the Japanese economic boom, U.S. corporations--including mainly the traditional giants but other firms as well--found foreign markets increasingly attractive. The tremendous increase in new foreign business activities of U.S. firms resulted not only in expanded trade but also large foreign investment.

Consequently, the international expansion by U.S. banks stemmed directly from a basic need to provide financing for domestic customers who had expanded their own operations overseas. Conversely, American bankers soon realized that success in competing for domestic business was definitely enhanced by their ability to provide overseas representation and facilities to meet the expanding needs of international corporations back in the United States.

Despite subsequent U.S. capital controls on international operations, which could have severely hampered U.S. banks' competitive position, foreign activities of American banks grew more rapidly than domestic business in the 1960's. The desire of American banks to continue to serve the offshore needs of their international corporate clients was met by a sharp increase in the number of overseas branches opened and credits held by foreign branches of U.S. banks. In the process of supplying the financial needs of international corporations, American banks enlarged a form of financial intermediation which had not been provided in other ways through the dramatic expansion of the Eurodollar market. The 1969 U.S. credit crunch accelerated the trend of American banks of all sizes to open branches in London so as to gain access to the Eurodollar market. U.S. banks also began to compete for local business overseas.

Current Scene - The changing structure of the world economy, with the development of Japan and Europe as major new economic powers alongside the United States, has been paralleled by the emergence of major European and Japanese international corporations. A new era in international banking opened with the devaluation of the U.S. dollar in December 1971, in February 1973 and again in 1977. With these exchange rate adjustments, and the advent of the Arab oil crisis, the need has increased enormously to export so to finance our increased oil import bills.

THE EDGE ACT

In the context of today's hearings, it might also be appropriate for me to provide some perspective on the Edge Act itself, and Edge Act banking.

The Edge Act, when first it became law, was a sum of two major conflicting forces; one, the transition of the United States from a debtor to a creditor nation and the second, the endemic American antipathy for large, universal banking corporations and the resulting concentration of economic power.

Up to the period 1913-1919 national banks were severely circumscribed in their international operations by their inability, under existing regulations, to accept drafts drawn upon them or to open foreign branches or invest in subsidiaries overseas. Foreign financing had traditionally been accomplished through European, especially London banks. State-chartered banks, while possessing powers not given to national banks, had seen little expansion of foreign business as well.

Increasing industrial and commercial sophistication created the need for financial sophistication and led to the series of changes which govern our present banking system. Specifically, with regard to international finance, the Federal Reserve Act of 1913 permitted national banks to accept drafts and rediscount them with the Federal Reserve Banks (Sect. 13) and to establish branches abroad (Sect. 25).

Amendments to Section 25 in 1916 provided for the establishment of "agreement corporations," - "princiaplly engaged in international or Foreign banking" and which would operate, "under such conditions and under such regulations as may be prescribed" by the Federal Reserve Board. While Federal chartering of such corporations was contemplated, no specific provision was made and all those which came into being were created under state law.

The result was a further amendment in 1919 which became Section 25(a), The Edge Act, and provided procedure for Federal chartering of corporations "organized for the purpose of engaging in international or foreign banking." Conspicuously missing from the language of Section 25 was the word "principally" which seemed to countenance the possibility that these corporations would have occasion to do domestic business, a possibility which, because of tradition, Congress wished to preclude. To assure that domestic business would not be done Congress brought control of Edge Act Corporations firmly under the Federal Reserve Board, the result being the language of Regulation K:

> "Activities in the United States shall be restricted to operations clearly related to international or foreign business."
>
> Section 211.1 (b) (2)

The intentions of Congress appear to have been at least three fold.

First, it was intended that these corporations play a major role in the finance of U.S. exports. The Report of the House of Representatives (Report No. 408, 66th Congress 1st Session 1919-1920, p. 3) says, "it is hoped that as a result of the passage of this bill...much of our great foreign trade can be retained to the benefit of American manufacturers, farmers, cattle growers and merchants." Moreover, it was made clear that Congress expected small banks "to cooperate" in forming the corporations for the purpose of providing competition to large city banks, and depth to the market.

Second, the new corporations should have the opportunity and means of competing with similar foreign institutions. These corporations should be "prevented from becoming monopolies and should at the same time not be hampered in their competition with foreign banking institutions" (Report No. 408 p. 3).

Third, Congress wanted to strengthen government control and supervision of international banks; "control through agreement is plainly not as satisfactory as control through incorporation under a Federal act" (Report No. 408 p.2).

Control by the Federal Reserve was formally established with the issuance of 12 CFR Part 211, Regulation K. The national purpose, as the Federal Reserve saw it, was to give Edge Act corporations "powers sufficiently broad to enable them to compete effectively with similar foreign-owned institutions and to afford to the United States exporter and importer...at all times a means of financing international trade" (211.1 (b) (1).

Regulation K was issued in 1920. Three decades would pass before the world economic climate would be such as to encourage growth of international banking. During this time there was little use made of the Edge Act and little change in Regulation K. Indeed, in significant ways it is totally unchanged from 1920. It still denies any but the most narrowly defined international business to Edge corporations, in addition to qualitative and quantitative restrictions on their total range of business. In the sense that the word "powers" relates to activities, the activities which an Edge Act is permitted are "sufficiently broad." By comparison, if "powers" refers to the total capacity of a corporation to meet successfully with competitors in the market, then there are real limitations on Edge Corporations.

The uses of Edge corporations strategically by banks have come to encompass three objectives. They have supplemented the efforts of international banking departments of parent banks. They have been used as vehicles to acquire overseas banks and other financial institutions. They have also been used as vehicles for foreign equity financing related to lending or investment policies of the parent bank. The significance of Edge corporations for use in the above ways has gradually been reduced by expansion of international departments and more liberal investment powers given to Bank Holding companies. Nevertheless, they remain for the most part as convenient vehicles for corporate purposes in this regard.

RECOMMENDATIONS

Now, to the purpose of today's hearings.

You ask in question 6, "Has the Federal Reserve Board's administration of the Edge Act been consistent with the Act's purpose of bringing smaller and regional banks into the financing of exports, thereby stimulating export opportunities throughout the country?"

A few general observations: Oftentimes one incorrectly assumes that the character of international markets (i.e., size and diversity) preempts regional banks from engaging in international banking. The well managed regional bank plans and carefully selects its international markets, services and resource commitments. Activities are generally limited but can be a relatively important contribution to overall bank profit. The total of U.S. regional bank activities in international business, particularly export finance, provide important depth and competition to financial markets. I strongly believe that international financing activities by regional banks should find encouragement in law and regulation rather than constraint.

All U.S. banks, but particularly smaller and regional banks should have mechanisms available which can complement and enhance their export operations while minimizing drain on their local financial markets.

Mr. Chairman, I believe that encouragement to finance international business is not found in suggestions for additional capital requirements, loss of discount privileges for international drafts or business limitations which assume that international operations by nature carry a higher risk than domestic operations. If the thesis that international risk is substantially greater than risks in domestic banking is incorrect, and I believe it is, the cost of financing business abroad will be unnecessarily increased by additional governmentally imposed restrictions. An obvious result will be to reduce American banks' ability to compete with their counterparts abroad, and a partial abandonment of international banking to institutions in foreign countries. On the other hand, I believe alternatives exist which have the effect of minimizing risk without damage to U.S. banks' competitive ability. My view is that a strong international banking system in the United States promotes exports.

One of the major recent international banking developments has been specialized consortium bank activities which pool abilities, resources and establish presence in new markets. On balance, the net effect has been constructive. But such establishments set up primarily overseas because foreign laws and regulations facilitated the process, whereas, U.S. law and regulation have been less helpful. I believe this should be an important area of Committee review. Banking resources should not be encouraged to move off-shore because of unnecessarily restrictive domestic regulation . Affirmative thought could be given to statutory and regulatory environment which encourages U.S. banks to conduct international operations principally from a domestic base.

We have in this country a statutory basis, under Edge Act law law and regulation, for international trade financing. It currently lies somewhat under utilized but with slight modification in the statue and regulation thereunder it could offer a more constructive vehicle for export finance expansion. For the convenience of the Committee I append an analysis of Edge Act statutory powers and limitations.

While consequential amendments have not been made to Section 25(a), a 1962 amendment to Section 25 authorized the Federal Reserve Board to permit overseas branches to carry on activities similar to other foreign banks. In 1966 national banks were permitted to hold stock in foreign banks. Subsequently, the Holding Company Act permitted foreign investment in "closely related" banking activities. Thus while nothing was taken from the Edge corporation, important powers originally within the exclusive aegis of Edges were granted directly to other banks. As a result, the Edge corporation was utilized but not to the degree or in the manner envisaged by Congress.

BAFT POSITION

Mr. Chairman, I know that the Committee is familiar with the Bankers Association for Foreign Trade. Allied Bank is a member, and all its stockholders, and all other United States banks with any significant amount of foreign business.

In its 1973 policy statement the Bankers Association For Foreign Trade said, "We believe that continued expansion of service capabilities of the international banking systems operated by United States banks through both domestic and foreign facilities is essential to maintaining the position of the U.S. in world trade ....

'The increasing need for international financial services by United States concerns .... should be encouraged through liberalized interpretation of existing regulations ... The Edge Act corporations engaged in banking now operate at a severe competitive disadvantage as against foreign bank branches, agencies and subsidiaries in the solicitation of international business from domestic sources. Standards applied to evidence requirements supporting the international character of credits granted to domestic concerns are, in our opinion, too rigid. In related areas, we believe that Edge Act banking corporations should be permitted to accept and maintain deposit accounts representing compensating balances for unutilized credit lines and other transactions related to international business which are beyond the scope of the present narrow provisions of Section 211.7(c) of Regulation K. To provide the flexibility

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in funding of domestic and international loan activities, we recommend that the limitation on aggregate deposits, borrowings and similar liabilities as provided in Section 211.9 (c) of Regulation K, be applied only to debenture bonds and promisory notes as required by the statute, and that in all other aspects formulae similar in concept to those applied to commercial banks be utilized by examiners.

'We recognize that operation of Edge Act banking entities must be governed by their national purpose to 'further the foreign commerce of the United States,' but we emphasize in the strongest terms that in enacting Section 25(a) of the Act, the Congress intended that Edge Act companies should be endowed with powers 'sufficiently broad to enable them to compete effectively with similar foreign-owned institutions.' The clear authority of this 'national purpose' clause, particularly in the face of worldwide competitive forces from non-American banking and American non-banking financial instututions, has not, in our judgment, received sufficient support from our regulatory agencies in its everyday implementation. We are convinced that the more liberal interpretation of regulation and law governing Edge Act operations will enable these specialized corporations to better fulfill their legal purpose by bringing their international expertise to bear on a broader range of financial requirements of corporate clients engaged in the export of United States products and technologies."[1]

1 Bankers Association for Foreign Trade Statement of Policy, 1973.

Again in 1974, the Bankers Association For Foreign Trade policy statement said, "With regard to banking Edge Act corporations, we recommend that:

- They be permitted to operate at debt-capital leverage ratios consistent with those permitted their competitors (commercial banks and foreign agencies and branches) and that this be accomplished by a change in the limits currently imposed by Regulation K on aggregate deposits and acceptances outstanding;

- That the present limitations on aggregate deposits, borrowings and guarantees issued be applied only to debenture bonds and promissory notes as required by the governing statute and that, in all other aspects, formulae similar in concept to those applied to commercial banks be utilized by examiners;

- That the specific requirements of Regulation K be eliminated as to the types of transactions for which domestic source deposits can be taken and that a more general instruction, based upon the character of the business conducted by the depositor and the nature of the account relationship, be substituted;

- That the reserve requirement for Edge Act corporations should be equal to the reserve level required of any Federal Reserve member bank since the present minimum 10 percent reserve requirement is discriminatory;

- That the limitation on certain guarantees issued be amended to lessen the restriction on undertakings granted for a standby situation such as performance guarantees and guarantees issued to cover loss or non-conformance of shipping documents;

- That Regulation K be amended so that the aggregate limit on guarantees or similar agreements of 50 percent of capital and surplus be amended to apply only to those guarantees which represent true unsecured financial undertakings involving a measureable credit risk;

- That a written good faith statement from borrowers that loan proceeds are being issued to finance offshore operations be sufficient evidence for examination purposes of the validity of the international loan transaction, and;

- That Regulation K be amended to permit employment of investment funds in money market instruments, such as municipal obligations not guaranteed by a State, as well as in commercial paper."[2]

The 1975 Bankers Association For Foreign Trade policy statement contained this statement:

"Following considerable study, we developed a series of recommendations designed to streamline the administration of banking and non-banking Edge Act companies under Regulation K. These recommendations were contained in our 1974 Policy Statement, but unfortunately, the Federal Reserve Board has not acted on any of them."[3]

[2] Bankers Association For Foreign Trade Statement of Policy, 1974.
[3] Ibid, 1975

Again in 1977 the Bankers Association For Foreign Trade reiterated its position:

"With respect to operations of Edge Act Corporations engaged in banking, we believe that revision of Regulation K, as recommended in this Association's several meetings with and presentations to Federal Reserve personnel, acquires greater impact as the scope and volume of foreign bank activities within the United States continues to expand. Of particular importance to our membership are the long standing recommendations that: 1) the language limiting liabilities to 10 times the capital be amended to permit reasonable leverage by elimination of those provisions applicable to aggregate deposits, borrowings, and guarantees, and restricted in its coverage to those types of obligations as listed in the statute.

2) transactions in Federal Funds with domestic banking offices be exempt from limits on liabilities of individual borrowers.

"Further recommendations with respect to provisions covering receipt of deposits from and loans to domestic concerns engaged primarily in international activities, and certain types of guarantees issued on behalf of such clients continue to have our support. The specific recommendations regarding leverage and Federal Funds transactions represent the limited revisions necessary to permit operations to be conducted on a reasonable competitive basis."[4]

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[4] Ibid 1977

ALLIED BANK RECOMMENDATIONS

We support the efforts of the Bankers Association For Foreign Trade in its efforts to convince the Federal Reserve Board to get the Edge Act out of the horse and buggy era of bank regulation. In this connection I attach the enclosed, which the Bankers Association For Foreign Trade sent the Board expanding on the issues and recommending corrective action. Allied Bank has been represented on the Edge Act subcommittee of the Bankers Association For Foreign Trade and has contributed to the Bankers Association For Foreign Trade's efforts in this area.

We have also made independent efforts in this area. The Appendices provide an analysis of Edge Act statutory power and limitations which we prepared for the Subcommittee on Finance, Institutions, Supervision, Regulations and Insurance of the Committee on Banking, Housing and Urban Affairs in connection with my testimony before the Committee on December 12, 1975.

To infuse new life into the Edge corporation, we have suggested the modification of powers to allow for equitable competition and secondarily, broaden guidelines for ownership. Smaller and regional banks might then show more interest in the use of the Edge Act and Congress' original purpose thus might be better served.

Federal Reserve membership is presently prohibited to Edge corporations, although by Regulation K they are subject to certain other Federal Reserve regulations; notably, Regulation D (reserves), and Regulation Q (interest on deposits). A 10 percent minimum reserve requirement on aggregate deposits is mandatory even in situations where such reserve is more than required by Regulation D. The economic penalty arising from reserve requirements higher than other banks should not be allowed. The opportunity for membership in the Federal Reserve System would give moral and emergency support plus promote an important degree of independence.

A fundamental competitive handicap relates to a 10 to 1 ratio constraint on liabilities to capital. At the statutory level, Section 25 (a) mandates a 10 to 1 ratio with respect to bonds and debentures of Edge Act banks. The statutory limitations on debentures and promissory notes versus capital may well have derived from the fear then current of highly leveraged holding company structures. Experience with shakily leveraged utility structure was very recent and may have caused the legislature to wish to ensure that the same could not occur in banking institutions. They may have wished to ensure that the Edge Act subsidiary would be founded with real equity capital. In any case, Regulation K is dramatically more severe than the statute and includes other ordinary bank liabilities such as deposits and acceptance liabilities with bonds and debentures in its 10 to 1 required ratio. While the statutory limitation had some foundation in 1919, few financial institutions in the world today, and certainly not in the U.S., are so encumbered. The enhanced regulatory ratio limitations are, I believe, anachronistic and help defeat the broad purposes of the Act. Additionally, a reliance on ratios for capital adequacy judgment is narrow and does not defend against loss as strongly as the quality of bank assets and income stream. A ratio limitation, if set, should apply universally and not penalize a particular class of banking institution. Knowledgeable, responsible and prudential regulation and supervision goes much farther in promoting the strength of international banking.

Within the range of permissible activities the Edge corporation is restricted from carrying on any part of its business in the U.S. except as shall be incidental to its international or foreign business. This wall presents practical problems with respect to the interpretation of what is or is not international. Within a basically interdependent financial market, I believe, international business should be more liberally interpreted. Our experience suggests, for example, that Edge corporations should be permitted to borrow domestic source dollars for application to international business thereby adding an important depth and strength to their borrowing base. I would support recommendations made before this Committee that permissible foreign financing activities open to U.S. banks be broadened and relaxed when operations are conducted through subsidiaries rather than branches. I would suggest the Edge corporation offers an appropriate vehicle to carry out this objective.

Now, if the Committee would be inclined to consider a really fundamental change in the Edge Act, beyond the routine suggestions I have just made, to make Edge corporations at least equally competitive with other banking institutions I would urge the Committee to introduce legislative modifications of Section 25 (a) which could provide really dynamic and vigorous support to export finance expansion among Edge Acts. I urge that export transactions of Edge Act banks be exempt from all legal limit and leverage constraints now statutory.

Mr. Chairman, I place these recommendations before the Committee with the belief that their implementation will have a favorable influence on international banking in this country.

My recommendations will, of course, be considered within the broad spectrum of all U.S. depository institutions. However, I urge the Committee to give specific attention to benefits which could be derived from enhanced Edge corporation statute and regulation.

Thank you, Mr. Chairman, and members of the Committee for this opportunity to testify today.

ATTACHMENT

BANKERS' ASSOCIATION FOR FOREIGN TRADE

COMMITTEE ON EDGE ACTS, OVERSEAS BRANCHES AND AFFILIATES

Subject: BANKING EDGE ACT CORPORATIONS

BANKING EDGE ACT CORPORATIONS

A. Limitation on Aggregate Liabilities

Section 25 (a) 12 of the Federal Reserve Act reads in part "that no such Corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promissory notes in excess of ten times its paid-in capital and surplus."

Section 211.9(c) of Regulation K imposes further limits: "Except with prior Board permission, a Corporation's aggregate outstanding liabilities on account of acceptances, monthly average deposits, borrowings, guarantees, endorsements, debentures, bonds, and other such obligations shall not exceed ten times its capital and surplus."

The Edge Corporation engaged in banking operates at a competitive disadvantage against its commercial bank and foreign agency or branch counterparts within this restrictive leverage ratio. The Edge Banking Corporation depends heavily upon deposits and acceptances outstanding to provide funding of loan portfolios which typically consist of trade credits based upon merchandise movements. These portfolios are protected against concentration of risks by the 10% liability limits imposed under Section 211.9(a) and (b) of Regulation K. Operating within the same control framework, and subject to the same thorough examination procedures, it would appear that Edge Banking Corporations can operate at leverage ratios consistent with those permitted to their competitors. The present limits imposed by Regulation K on aggregate deposit and acceptance outstandings in relation to capital funds severely restricts the profit potential of the Edge Banking Corporation.

To provide the flexibility in funding of domestic and international loan activities, we recommend that the limitation on aggregate deposits, borrowings and similar liabilities and guarantees issued as provided in Section 211.9(c) of Regulation K, be applied only to debenture bonds and promissory notes as required by the statute, and that in all other aspects formulae similar in concept to those applied to commercial banks be utilized by examiners.

B. Receipts of Deposits from Domestic Concerns

Section 211.7(c) of Regulation K reads in part, "It will ordinarily be considered incidental to or for the purpose of carrying out transactions abroad for a Corporation to receive in the United States demand and time (but not savings) deposits that are not to be used to pay expenses in the United States of an office or representative therein....(2) from any other person if the deposit (i) is to be transmitted abroad, (ii) is to provide collateral or payment for extensions of credit by the Corporation, (iii) represents proceeds of collections abroad which are to be used to pay for goods exported or imported or for other direct costs of exports or imports, or periodically transferred to the depositor's account at another financial institution, or (iv) represents proceeds of extensions of credit by the Corporation."

For the majority of Edge Banking Corporations, transactions with domestic firms engaged in export-import trade form an important source of earnings. The usual method of establishing an ongoing business relationship with such entities is to establish credit facilities and then encourage usage. The offering of a credit line is usually conditional upon establishment of a meaningful deposit relationship which most often requires maintenance of balances against the line and against usage. The narrow interpretation generally applied by Examiners for the Board does not coincide with the customary business development practice as outlined above. Edge Banking Corporations are often subject to criticism based on balances maintained by domestic concerns in support of line requirements where usage has not as yet developed, or where the domestic concern is making use of other services such as credit checkings, exchange quotations, etc., and does not require direct borrowings. If the Edge Corporation is unable to maintain accounts for customers so that they are available for use when needed, it operates at a distinct disadvantage to its competitors in the same market.

It is recommended that Section 211.7(c) be amended to eliminate the specific requirements as to the types of transactions for which domestic source deposits can be drawn and a more general instruction based on the character of business conducted by the depositor and the nature of the account relationship with the Edge Act Corporation be substituted.

C. Limitations on Certain Guarantees Issued

Section 211.7(d) 3 provides that a Corporation may "Guarantee customers' debts or otherwise agree for their benefit to make payment on the occurrence of readily ascertainable events, if the guarantee or agreement specifies its maximum monetary liability thereunder and is related to a type of transaction described in sub-paragraph (1) of this paragraph." A footnote to this Section provides an extremely broad definition of the type of undertaking referenced by including guarantees issued covering loss or non-conformance of shipping documents.

Section 211.9(b) specifies that unsecured liabilities to a corporation or any one person of the type described in 211.7(d) (3) may in no event exceed 10% of a corporation's capital and surplus.

Section 211.9(c) further specifies that aggregate "outstanding unsecured liabilities under guarantees or similar agreements (described in 211.7(d) (3) may in no event exceed 50% of its capital and surplus."

The limits described above have been a cause of some concern to an active segment of the Edge community since included in the 1963 revision of Regulation K. The broad coverage as specifically indicated by the footnote to Section 211.7(3) (d) has evidently raised questions in the minds of both Edge bankers and Federal Reserve Examiners as to the types of the "similar agreements" which must be included under individual and aggregate limits.

It would appear logical and necessary to impose individual customer limits on guarantees or similar agreements in situations where the liability incurred is similar in character to an acceptance liability, e.g., deferred payments under letters of credit, clean letters of credit, agreements serving as a payment mechanism, and other such arrangements. The individual limits appear unduly restrictive when applied to a stand-by situation where, by reasons of the character of the transaction or technical arrangement, draw-down is highly unlikely, as is the case in most performance guarantees and, in particular, guarantees issued covering loss or non-conformance of shipping documents.

Imposition of an aggregate limit of 50% of capital and surplus on such guarantees or similar agreements is a serious constraint when coupled with the existing broad interpretation of liabilities included in such limit. All Edge Act Corporations deemed to be engaged in banking offer letter of credit services. With the speed of modern transport, it is not unusual for merchandise to arrive before documents requiring issuance of a guarantee to secure release and avoid pier charges. Such undertakings represent a major segment of guarantee liabilities in any Edge banking operation. If an Edge Corporation could not issue such agreements by reason of limit, it would be effectively precluded from conducting further letter of credit business. It should be noted that except in cases of outright fraud, the "shipside bond" issued in an amount equal to the volume of the shipment covered does not yield a realistic measure of liability. If merchandise delivered does not meet purchase contract specifications, negotiations ensue between the exporter and importer for an adjustment in price. This restriction would be removed should Section 211.9(c) be deleted as recommended above.

We further recommend that Sections 211.7(d) (3) and 211.9(b) be amended so as to include in limits prescribed therein only those guarantees or similar agreements which represent true unsecured financial undertakings under which the issuing corporation assumes a true and measurable credit risk.

D. Use of Loan Proceeds

This problem concerns loans made by Edge Act Corporations to domestic corporations, the proceeds of which are used to finance offshore operations. Frequently, the borrowers in such cases are unable or unwilling to provide satisfactory evidence in the tangible form of photostats, drafts, notes, etc., to confirm that a transaction is permissible under Section 211.7(d). They are willing to provide only a written good faith statement that the loan proceeds are being used in a transaction that is within the provisions of that section. Unless the Federal Reserve examiners are willing to accept such a statement of the borrower, this problem appears insoluble at the present time.

It is recommended that the Federal Reserve Examiners accept in such cases the good faith statements of the borrowers provided that the borrower is clearly one that has offshore uses for the proceeds, and where the lender confirms that he is in possession of a specific written description statement of the borrower concerning the specific use of the funds. It is understood that in such cases the examiners are required to make a value judgment based on the activities of the borrowing company.

E. Employment of Funds in the Money Market

Section 211.7(b) prescribes the following with respect to the employment of funds. "Funds of a corporation not currently employed in its international or foreign business, if held or invested in the United States, shall be only in the form of (1) cash, (2) deposits with banks, (3) bankers' acceptances, or (4) obligations of, or obligations fully and and unconditionally guaranteed by, the United States, any State thereof, or any department, agency, or establishment of, or corporation wholly owned by, the United States." The above excludes from investment certain conventional money market instruments, in particular municipal obligations not guaranteed by a State. These exclusions limit the flexibility of Edge Act Corporations in their investment and the ability to employ funds on a tax-free basis.

It is recommended that the Federal Reserve Board change the above regulation and permit investments in other types of tax-free obligations and commercial paper. If deemed necessary, limits could be established in relation to a corporation's total assets.

FEDERAL RESERVE ACT - REGULATION K
COMPARISON OF LIMITATIONS

STATUTE (References are to paragraph numbers used in Statutory Appendix to Regulation K	Regulation K
25(a)#5 Permits Corporations to issue debentures, bonds and promissory notes, with liabilities not to exceed 10 times capital and surplus under such limitations as the Board may prescribe.	211.4 Prohibits issuance without Board approval of anything except promissory notes due within one year.
25(a)#6 Permits Corporations to buy and sell securities, but not shares of stock (except as provided in #8, which permits purchase of stock in corporations not doing business in the U.S. and not buying and selling goods, with approval of the Board). 12 U.S.C. 24 does not by its terms apply to Edge Act banks. Although a Corporation's U.S. business must be incidental to the transaction of foreign business (25(a)#10), there is no apparent reason why a Corporation couldn't be permitted to underwrite, sell and distribute securities abroad.	211.5 (except second sentence of subparagraph (b)): Prohibits underwriting, selling or distributing securities, except obligations of the national government in which the Corporation has a branch or an agency and except as permitted for member banks under 12 U.S.C. 24 (which permits selling without recourse for customers); and in particular, prohibits selling or distributing securities in the U.S. (except private placements of participants in its investments or credits) or underwriting securities so sold or distributed.
25(a)#10 Any business done by a Corporation in the U.S. must be incidental to transaction of foreign business. 25(a)#6 Corporations may exercise such powers as the Board deems usual in connection with the transaction of business or other financial operations in the countries in which the Corporation transacts business. There is no provision which specifically mentions trust powers as permissible powers.	211.5(b) (second sentence) Prohibits a Corporation from acting as trustee or registrar with respect to securities distributed in the U.S.A.

Federal Reserve Act - Regulation K, Comparison of Limitations (continued)

STATUTE (References are to paragraph numbers used in Statutory Appendix to Regulation K	Regulation K
There is no specific statutory prohibition against a U.S. branch, but such a prohibition may perhaps be implied from 25(a)#3 (a Corporation's Articles of Association must state "the place" in the U.S. where its home office is to be located) and 25(a)7 (a Corporation has power to open branches and agencies in foreign countries and in dependencies or insular possessions of the U.S. with Board approval).	211.6(a) A Corporation may not establish a U.S. branch. With Board approval it may establish agencies in the U.S. for specific purposes, but not generally to carry on its business.
25(a)#7 A Corporation may open branches and agencies in foreign countries and in dependencies or insular possessions of the U.S. with Board approval.	211.6(b) A Corporation may establish branches or agencies "abroad" with Board approval. Once it has established one branch or agency in a foreign country it may establish further branches or agencies in that country on 30 days' notice to the Board, unless otherwise advised by the Board.
25(a)#10 No Corporation shall carry on any part of its business in the U.S. except such as in the judgment of the Board is incidental to its international or foreign business.	211.7(a) Corporations may transact such limited business in the U.S. as is usual in financing international commerce.
No specific statutory provision. This is apparently a determination by the Board pursuant to 25(a)#10 as to what is incidental to a Corporation's international or foreign business.	211.7(b) Funds of a Corporation not currently employed in its international or foreign business, if held or invested in the U.S., shall be only in the form of (1) cash, (2) deposits with banks, (3) bankers acceptances, (4) obligations of or guaranteed by the U.S., any State, or any U.S. department, agency or corporation owned by the U.S.

Federal Reserve Act - Regulation K, Comparison of Limitations (continued)

STATUTE (References are to paragraph numbers used in Statutory Appendix to *Regulation K*)	Regulation K
25(a)#6 Permits Corporations to receive only such deposits in the U.S. as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the U.S. 25(a)#6 also provides that Corporations shall carry reserves in amounts prescribed by the Board, but not less than 10% of deposits. There is no requirement that Regulation D itself or Regulation Q apply to Edge Act banks.	211.7(c) Corporations may receive in the U.S. demand and time (but not savings) deposits that are not to be used to pay expenses in the U.S. of an office or representative in the U.S. from: (a) foreign governments (b) persons conducting business principally at offices abroad (c) individuals resident abroad (d) anyone else if the deposit - (i) is to provide collateral or payment for extensions of credit by the Corporation; (ii) is to be transmitted from abroad; (iii) represents proceeds of collections abroad which are to be used for payment for exports and imports and related costs, or periodically transferred to the depositor's account elsewhere; or (iv) represents proceeds of extensions of credit by the Corporation. Such deposits are subject to Regulation D and Regulation Q as if the Corporation were a member bank, but reserves may not be less than 10% in the aggregate. Note: 211.7(a) also permits such deposit facilities as are usual in financing international commerce.
No specific statutory provisions.	211.7(d) (1), (2) and (3) Provides that it will ordinarily be considered "incidental to the international or foreign business" for a Corporation to finance the following, including payments or costs (but not expenses in the U.S. of an office or representative in the U.S.):

Federal Reserve Act - Regulation K, Comparison of Limitations (continued)

STATUTE (References are to paragraph numbers used in Statutory Appendix to Regulation K	Regulation K
	(a) contracts, projects or activities performed abroad (b) import and export of goods (c) delivery of imported goods; assembly and packaging of imported goods for resale, without any essential change in the goods (d) domestic shipment and temporary storage of exports or goods being accumulated for export, if the Corporation is financing the exportation. Corporations may also participate in or acquire obligations arising out of such tranactions and may guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events, if the guarantee or agreement specifies the maximum monetary limit. Note: Reg. 211.7(a), permitting Corporations to do such limited business in the U.S. as is usual in financing international commerce, may permit a Corporation to do things not mentioned in 211.7(d).
No specific provision.	211.7(d) (5) Permits a Corporation to receive certain instruments for collection abroad and to collect such instruments in the U.S. for customers abroad. (Foreign collections are mentioned also in Reg. 211.7[a].)
No specific provision.	211.7(d) (6) Permits a corporation to hold securities in safekeeping for or to buy and sell securities for account of foreign customers.

Federal Reserve Act - Regulation K, Comparison of Limitations (continued)

STATUTE (*References are to paragraph numbers used in Statutory Appendix to* Regulation K	Regulation K
No specific provision. This section is unnecessarily strict when it requires the foreign corporation not to be qualified in the U.S. A foreign corporation could be qualified in the U.S. and still only do such business here as is incidental to its foreign or international business.	211.7(d) (7) Permits a Corporation to act as paying agent for securities issued by foreign governments or other organizations organized under foreign law and not qualified to do business in the U.S.
25(a)#8 Permits a Corporation with Board approval to acquire stock in any corporation, domestic or foreign, not engaged in buying or selling goods or commodities in the U.S. and not transacting any business in the U.S. except such as in the judgment of the Board may be incidental to its international or foreign business.	211.8 Permits a Corporation, without Board approval, to invest not more than $500,000 in not more than 25% of the voting shares of a corporation not doing business in the U.S. Board approval must be obtained for acquisitions beyond those limits. The stock must be disposed of if the corporation engages in underwriting, selling or distributing securities in the U.S. or if the Board decides that the holding is inappropriate under 25(a) of the Federal Reserve Act.
25(a) #6 Permits a Corporation to accept bills or drafts drawn on it subject to such restrictions as the Board may impose. It also provides that the Board may limit the aggregate amount of liabilities of any class incurred by the Corporation.	211.9(a) Requires a Corporation to be fully secured as to: (a) 50% of all acceptances in excess of 100% of capital and surplus; (b) all acceptances in excess of 200% of capital and surplus; (c) all acceptances for any one person in excess of 10% of capital and surplus, except to the extent that any of the above represents international shipment of goods and is fully guaranteed by banks.

Federal Reserve Act - Regulation K, Comparison of Limitations (continued)

STATUTE (References are to paragraph numbers used in Statutory Appendix to Regulation K	Regulation K
25(a)#6 Provides that the Board may limit the aggregate amount of liabilities of any class incurred by the Corporation.	211.9(b) Provides that except as the Board may otherwise specify, the total liabilities to a Corporation of any person may not exceed 10% of its capital and surplus if it is engaged in banking. These limits do not apply to: (a) drafts drawn against actually existing values (b) obligations arising out of the discount of commercial or business paper actually owned by the negotiation (c) unmatured acceptances made by a Corporation but not held by it (d) obligations of the U.S. and its agencies, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, the Inter-America Development Bank; a foreign government (if 25% of the obligation is supported by the full faith and credit of one of the foregoing); a foreign government of a country where the Corporation has a branch or agency with at least equal outstanding liabilities payable in the same currency.
25(a)#6 Provides that the Board may limit the aggregate amount of liabilities of any class incurred by the Corporation.	211.9(c) Puts a limit on all outstanding liabilities on account of acceptances, deposits, borrowings, guarantees, endorsements and so forth, of 10 times capital and surplus, except that unsecured liabilities under guarantees or similar agreements may not exceed 50% of capital and surplus.

Appendix II

FEDERAL RESERVE ACT
Section 25, 25(a) and Regulation K
MONETARY LIMITS

ACTIVITY	SECTION 25	SECTION 25(a)	REGULATION K
Limits applicable to parent-corporation regulations	25-3: 10% of parent's capital and surplus aggregate limit on investment in stocks of all banks or corporations engaged in foreign banking.	25(a)-12: 10% of parent's capital and surplus aggregate limit on investments in stocks of Section 25 & 25(a) Corporations.	(See note)
Limits applicable to operations of Section 25 and 25(a) corporations			
Reserve requirements	None	25(a)-6: Corporation is required to maintain reserves against deposits as if it were a State Member bank under Reg. D, but minimum reserve may not be less than 10% of deposits.	211:7(c) (2): Same as Section 25(a)-6
Dividends	None	25(a)-20: Corporation shall, before declaration of a dividend, transfer 1/10 of net profits for the preceding six months to surplus until surplus amounts to 20% of capital stock.	None

Note: Interlocking limit appears in Section 213.4 (Regulation M). Aggregate amount invested in foreign banks and corporations organized under Section 25 and 25(a) may not exceed 25% of parent's capital and surplus.

Federal Reserve Act - Section 25, 25(a) and Regulation K - Monetary Limits (continued)

ACTIVITY	SECTION 25	SECTION 25(a)	REGULATION K
Acceptances outstanding	None	None	211.9(a): General limit. Full security required for all outstanding acceptances in excess of twice the Corporations's capital and surplus. 50% security required for all acceptances in excess of capital and surplus but less than twice capital and surplus. Individual Limit: Limited to 10% of capital and surplus for account of any one borrower unless excess is fully secured or represents international shipments, is fully covered by a primary obligation to reimburse which is guaranteed by a bank or banker.
Loans and guarantees	None	None	211.9(b): Liabilities of any one borrower to the Corporation (excluding acceptances outstanding) are limited to: (1) 50% of capital and surplus if the Corporation is not engaged in banking (i.e., demand deposits and acceptance liabilities do not exceed capital and surplus). (2) 10% of capital and surplus if the Corporation is engaged in banking. Note: "Liabilities" include extensions of credit, shares of stock, and unsecured guarantees or similar agreements. This limit extends to firms controlled by the borrower. Many exceptions.

Federal Reserve Act - Section 25, 25(a) and Regulation K - Monetary Limits (continued)

ACTIVITY	SECTION 25	SECTION 25(a)	REGULATION K
Acquisition of stocks in other organizations	None	25(a)8: Except with prior approval of the Board investments by Edge and Agreement Corps. are limited to 10% of the Corporation's capital and surplus in any one organization not engaged in banking, and 15% if engaged in banking.	211:8(a): Under general consent. $500,000 (but not more than 25% of the voting stock) in shares of a foreign corporation not doing business in the United States. 211:8(b): All other acquisitions require specific consent. 211:8(2): Limits in 211.8(a) and 25(a) shall include any investments in other corporations controlled by the foreign corporation. All other acquisitions require specific consent.
Borrowings	None	25(a)-12: Borrowings by Edge and Agreement Corps. on promissory notes, bonds, debentures limited to ten times capital and surplus.	211:4: Issuance of debentures, bonds, promissory notes with tenor in excess of one year requires prior approval of the Board.
Aggregate liabilities	None	None	211:9(c): Liabilities of a Corporation for acceptances, monthly average deposits, guarantees and other obligations are limited to ten times capital and surplus except with prior permission of the Board. Within this limit, outstanding unsecured guarantees and similar agreements may not exceed 50% of capital and surplus.

Senator STEVENSON. Why haven't there been encouraging signs earlier? What has been the excuse, the reason for failing to act on your suggestions? How long has this been going on?

Mr. MELVILLE. For at least 5 years. The first Bankers Association for Foreign Trade policy statement in this regard was in 1973, and we have been working with the Board and the Board's staff for at least 7 years.

It is particularly acute in our case, because we are unique in this country, and we are unique in the Fed system.

We worked first with Governor Mitchell, who is no longer with the Board. We have been working with Governor Holland, and he is not there now. Part of the problem has been the transition which I think the Federal Reserve Board of Governors is going through at this very moment.

Senator STEVENSON. We may be in a position to help on that. I should think Mr. Miller would be very interested in these questions and very concerned about their competitiveness.

Could you be a little bit more specific about the nature of these restrictions, and why more regional banks haven't combined to form Edge corporations?

Are you suggesting to us that the problem is not in the law, it is in the interpretation and enforcement of the law?

Mr. MELVILLE. I think it has to do more with the interpretation of the statute, 25(a). Regulation K, goes far beyond the statute and it is, I think, the age-old problem that bankers have with the regulatory agencies, that statutes are enacted, and then interpreted by regulatory agencies, and they tend to be interpreted very narrowly.

I don't want to get into the technical aspects of the statute and regulations—I will, of course if you like—but they are very complicated. I have provided, as a part of my statement, two attachments which go into the subject in some technical detail.

One is the attachment which was actually developed with our cooperation by the Bankers Association for Foreign Trade's Committee on Edge Act Overseas Branches and Affiliates. This covers some five points having to do with deposits from domestic customers, limitation on liabilities, limitations on certain guarantees issued, and a number of other interpretations contained in Regulation K which I think go far beyond the statutory intent of Congress.

Beyond this, I have attached as an appendix a comparison of limitations in the Federal Reserve Act and Regulation K, and monetary limits in the Federal Reserve Act and Regulation K. These attempt to give specific definitions and in fact, if you will, a practical guide as to how the statutes can be changed in terms of their present interpretation.

Senator STEVENSON. That is fine, the attachments will all be made a part of the record too.

Does your institution in fact stimulate export business in the areas which are served by your bank owners?

Mr. MELVILLE. We do indeed. We do in our business conduct a regular commercial banking business. We also have some specialties. Specialties would mean that these are activities not normally undertaken probably by our member banks.

One of these specialties is the assembling of large credits. Recently we put together a $92 million credit for a U.S. export-oriented firm.

Nine of our member banks—not all, of course, participate in all of the credits—but nine of our member banks have joined us in this very large credit for a major American multinational corporation.

We have done many lesser deals; this is a large deal for us. But it is not atypical that these would range in the area of from $10 million to $15 million. Most involved the short-term financing of American exports abroad.

To give you another typical example, we recently completed the financing of a large utility vehicle shipment to Peru.

We, Allied Bank, are willing to finance local importers all over Latin America and the Far East, and this kind of financing does help our customers and those of our member banks.

Senator STEVENSON. As Mr. Fenton was suggesting, do you accept foreign receivables as security for loans?

Mr. MELVILLE. Yes, we do. Normally these foreign receivables—this is a very familiar financing technique to us—these foreign receivables are normally lodged with banks abroad, so that we can have some sort of oversight through correspondent banks.

And going one step further, in point of fact this $92 million financing I referenced earlier has to do with financing foreign receivables.

So it is not an unfamiliar technique.

Senator STEVENSON. And, in addition to providing credit, do you provide services and help with all of the mechanisms, as Mr. Fenton was suggesting be done? Do you also do that?

Mr. MELVILLE. We have a Wall Street agency, our operations group, about 75 people, who are familiar with these techniques. Yes, we do provide extensive service to our member banks in this regard, and to customers.

Senator STEVENSON. Including helping small businesses to understand and take advantage of DISC benefits?

Mr. MELVILLE. In fact, because we are a medium-sized bank, we can't hope to cope with all of the demands of the largest multinations; our marketing strategy is directed toward the medium-sized and small exporter, yes.

Senator STEVENSON. They are the ones that need it the most.

Mr. MELVILLE. Yes.

Senator STEVENSON. Now getting back to where we started, why don't more regional banks combine to form Edge Act corporations?

You indicated that the difficulty was the restrictions which I take it mean regulations as opposed to the law itself. Is that the only reason?

Mr. MELVILLE. I think that regional banks develop their international business in phases. The question that confronts planners and managers of all regional banks is, I suppose, where to begin to service the needs of their customers, most of them being medium-sized customers.

Most of them begin by financing international trade themselves and providing financial support services.

The next natural offshoot to that is trade financing overseas with correspondent banks.

As their business in foreign markets grows, representative offices are sometimes established, bringing the bank closer to foreign customers.

As expansion of clients in the market grows, then they might consider a branch abroad.

I think until all of these are in place, until this development reaches a certain maturity, if you will, the investment in a subsidiary on a joint basis with other regional banks is something that is not considered.

I would say that our 18 member banks represent a degree of sophistication in international finance which has led them to form this consortium. While I don't mean to detract at all from the good efforts that are being made by many other smaller regional banks in the United States, I think most smaller regional banks in the United States have not reached the level of sophistication in international finance that our member banks have—our member banks are the leading banks in their regions, for the most part—to prompt them to make the investment.

Part of it then is developmental, not entirely restricted to the limitations of Regulation K.

Senator STEVENSON. Would you all elaborate on the extent to which the antitrust laws are an impediment? For example, should they be relaxed in order to permit the formation of trading companies, perhaps on the Japanese model, or joint bidding on foreign contracts, including packaging of deals as foreign companies do, perhaps cooperative research efforts in order to cooperatively invest in R. & D. for products to be sold abroad, and any other such possibilities?

Would anybody like to take that one on?

Mr. WELLER. I will start, Senator. On the trading companies, I would just like to say a few things that have not been introduced into the record.

Number 1, we are assuming that this is a Japanese invention. If we go back through history, I suspect it might be a Phoenician invention, and our British and French and Spanish cousins have used them throughout the years.

Senator STEVENSON. You wouldn't suggest we copy the Phoenician policy?

Mr. WELLER. No, sir. I might also suggest that the concept of a trading company is not exactly unknown to the large corporations. It is not unusual at all in the organization chart of a large multinational, which might be basically product-organized, to find an international division which is essentially marketing-oriented and which performs for a many-product corporation the functions of a trading company.

Senator STEVENSON. How do we pick up little corporations in a way which enables them to market on a global basis and to absorb price fluctuations, exchange rate risks, and so forth.

Mr. WELLER. This is exactly where we do not have, Number 1, the number of trained people available for it. For instance, we in United Technologies, have a UTI, United Technologies Division, which is essentially marketing-oriented, which solves the problems you have just described very well for us.

If you said, "Why don't you take on some small companies?" well we don't have the trade people to do it. And if I may say, here is where you start getting the impact of 911; this is where you start——

Senator STEVENSON. 911?

Mr. WELLER. The change in the tax policy for U.S. residents abroad. It discourages rather than encourages having more trained Americans going overseas to do this type of thing, because now you are going to have to have more American citizens who are familiar with American business and who can bridge the gap between the small manufacturing companies and the very large manufacturing and trading companies. So when you start playing with that section, you discourage it.

In terms of joint R. & D., if it is going to be export-oriented, and IRS questions the salaries of these people involved in R. & D. for foreign sales, and disallows deduction of their salaries from U.S. income, it discourages you.

The United States doesn't have a well-defined policy saying we don't want to discourage you from exporting more.

Senator STEVENSON. I wanted to come to some of these other questions, but I was trying to start with the antitrust laws. It was my impression on all of these points at some stage you can encounter difficulty with the antitrust laws.

Mr. WELLER. Not being an attorney, I don't want to speak as an expert. But just being a business executive who gets rather goosey when the Department of Justice becomes interested in you, yes, I would say in trading companies I would have misgivings on being the lead partner and adding smaller companies to the trading organization that we now have. I would be afraid of becoming the dominant partner.

Senator STEVENSON. Even though the purpose is not to suppress competition, but in fact to enable the U.S. corporations to compete?

Mr. WELLER. Yes, sir, but we still have that stigma of dominant position staring us in the face.

Senator STEVENSON. Unfortunately we don't have many dominant positions left in the world.

Mr. WELLER. I appreciate that. But the interpretation is on how companies operate within this country. If we give them the benefits of exports and spread their goods all over the world, do we then fall under suspicion of dominating the other industries so they can become part of our family?

The goal, the market, we are seeking, we are certainly not dominant in. But the position within the United States is the one we are being evaluated on. And there we have the quandary that we are in.

Joint bidding procedures, yes, there would be very many times when they would make good sense, and we can, under the existing law, put in joint bids. But how do you perform them? You have to have arm's length bargaining involved in the process. We can't dictate prices to a small company, otherwise we are taking advantage of a dominant position here in the United States.

Senator STEVENSON. I think what you are suggesting is that we may need a new concept of dominance and perhaps IBM is a good case in point. The Justice Department seeks to break up IBM at the same time that the Japanese make a calculated policy decision to enter the computer market on a global basis with the most advanced computers, the next generation of computers, at home as well as in foreign markets, a new order of competition for IBM at the same time it is defending itself from complaints by this Government of its dominance.

I am a lawyer, but not an antitrust lawyer. Maybe the antitrust laws, or their interpretation at least, need to take into account, or take greater account of dominance globally as opposed to a national concept.

Any other suggestions on the antitrust question?

Mr. BABSON. We feel very much as Mr. Weller does. We are very squeamish about any of this joint bidding, for example. We see great merit in doing it, through say an engineering contract on a large international project. However, the minute you start selecting or have somebody select who the suppliers are, who the consortium is going to be, why then you have the lawyers on our side being very squeamish about the wisdom of it, the Justice Department and what will happen to us.

Going to the trading company question, I again underscore what Mr. Weller has said, and would only add one comment to that. We have had before the DISC came along, this is Ingersoll-Rand now—we had a Western Hemisphere Trading Co., as many other companies did, to handle negotiations in Latin America, and so on.

However, with the DISC coming in, and its being a law which seemed to have some teeth and substance, rather than play around with this WHTC trading company, which was a little vague in the IRS interpretation, and even though it was less beneficial for us to go through the DISC with our exports, we did that and dropped the Western Hemisphere activity. Once again, it was with the idea that, this DISC is not really as good as the Western Hemisphere. And that was before the 1976 Trade Act, so now it is even less encouraging to us to compete in the Latin American market. So the trading company is not new, but I certainly would not ever think that we would consider or be able to consider it, not only from the personnel problems that have been mentioned, but from the potential legal problems of dragging in smaller companies into a trading company that would be strictly a corporate entity.

I am not a lawyer either, but I do know our attorneys and all of us are squeamish as the devil about this whole antitrust situation. Anytime something like that comes up, people just back away and say it isn't worth the effort to try to get something done on that basis. So I think you should be questioning really some antitrust attorneys on this in some depth. But I do believe it is a fertile field as a means to perhaps encourage exports, and perhaps get us more competitive in some of these foreign projects.

Senator STEVENSON. If any of you have access to attorneys who could give us suggestions as to how the antitrust laws should be changed to permit combinations where necessary to enable us more effectively to compete abroad, we would be glad to have them. We don't have in this committee jurisdiction over the antitrust laws, but it is a matter we are concerned with, and it might be of some assistance.

Mr. FENTON. The small companies are not concerned with the antitrust laws, but I was going to comment about the trading company question which you raised.

The great advantage of the Japanese trading company is that it is built around a bank, with all of its satellite companies. And it is able to use its credit to help the small companies. Coming back to my point, the biggest disincentive of small companies is the lack of working capital. It is no less true in this country than it is in Japan. I have long felt this. In fact, I nearly started a trading company at one point some 10 years ago. The bank happened to have a subsidiary that was an incipient trading company. I have long felt that if the banks would be into setting up a trading company for their clients, we might get somewhere. As far as I know, the banks have not tried to do that in this country. Maybe they are not allowed to, I don't know.

Senator STEVENSON. Well, that is the question. Do you know, Mr. Melville, would that be a nonbanking activity?

Mr. MELVILLE. I don't have a copy of Reg. Y with me. I think that is a nonbanking activity, I think it cannot be done. I may be wrong.

Mr. FENTON. Maybe that is a legislative contribution that could be made.

Senator STEVENSON. The staff tells me it probably would be prohibited under the Bank Holding Company Act.

Mr. MELVILLE. Reg. Y, yes.

Senator STEVENSON. There we do have jurisdiction, so we might look at that.

Now on the tax question, Mr. Weller, could you explain what you said earlier about the deductibility of salaries as business expenses in connection with R. & D.?

I am aware of some problems that U.S. businesses have had in deducting the expenses of R. & D., one case in particular in which the IRS sought to require capitalization of all of the R. & D. expenses.

I was not aware of any differentiation that the IRS made between R. & D. expenses for the development of products in foreign commerce, as opposed to domestic commerce, and since the products are generally the same, how can there be such a differentiation?

What is the position of IRS on that?

Mr. WELLER. The auditing procedures in the last few years have more and more questioned foreign sales versus domestic sales and the allocation of expenses that ultimately went in to foreign sales as against sales in this country.

Senator STEVENSON. They attempt to allocate the costs between foreign and domestic sales?

Mr. WELLER. Yes, sir.

Senator STEVENSON. Disallowing the costs allocated to foreign sales?

Mr. WELLER. Yes, sir.

Senator STEVENSON. Is there a basis for that discrimination against foreign sales in the law? Or is this another case of the bureacracy amok?

Mr. WELLER. Well, sir, it is an interpretation of the previously mentioned section 861.

But on that basis there have been allocations made. We saw this quite often in Otis, when we were a separate corporation, that each year we were going through a much more severe auditing procedure, and attempting to justify the engineering costs in this country, salaries of people like myself, who spend a lot of time overseas fostering overseas sales of our products.

Senator STEVENSON. That would be a strong disincentive then, would it not?

Mr. WELLER. It certainly is.

Mr. BABSON. You are right, this has been the result of some bureaucratic, in our view, activity just before the last administration went out. The Treasury came out with some new regulations on 861 which led us into this problem, and tax people throughout industry are very upset about what another IRS are going to do. This, of course, is one reason that the IRS is auditing along the lines Mr. Weller suggested, that the regulations came out, were finalized just before the last administration went out, and in our view—and this can be argued—no opportunity was given for hearings or anything to dig into this in depth or to respond in depth. So this is a major problem for the tax side.

Senator STEVENSON. That is a problem that the present Secretary of Treasury, Mr. Blumenthal, should be able to understand. I was not aware of it before. We will follow that up and see if we can't find out about it.

What I want to make certain about is whether this is a problem that is rooted in the law or in its interpretation. Either way it sounds to me as if it is a problem that could be solved, and maybe by attention to the interpretation of the law by IRS. We will follow up on that.

Mr. WELLER. I have a strong feeling about this, because as you look at our exports, except in high technology areas, we are practically a developing nation, sending over agricultural products and buying all kinds of manufactured products from all over the world. This is extremely important to us.

Senator STEVENSON. And the high technology is changing, too.

Mr. WELLER. Yes, sir. It certainly is.

We should say a word about 911, as far as the tax impact, as well, if we might.

Senator STEVENSON. Very well.

Mr. WELLER. In my testimony I did mention the ripple effect from phasing out 911. The fact is, corporations will be faced with extremely large expenses in keeping American citizens overseas, trying to make them whole, so they don't get hurt. You want to send good people over, and obviously in the face of a tax situation which will be difficult for them, you just have to pay them more, which makes us highly uncompetitive and it says that a lot of positions that are filled with Americans today overseas will be filled with other technical people from other countries.

The Americans are now used to specifying American equipment when they order vendors equipment for these projects overseas, and obviously the Englishmen and the French have been brought up in a different society and they are more comfortable with some of their products.

It is going to result, in our opinion, in a definite loss of American exports, a more difficult competitive bidding situation if you are bidding on a continental specification as against an American specification.

Senator STEVENSON. Of course it has made it more difficult now with the depreciation of the dollar.

Mr. WELLER. Excuse me, sir?

Senator STEVENSON. The depreciation of the dollar has made the problem more acute, has it not?

Mr. WELLER. It has in some cases. Obviously it has also helped us in some cases. But unfortunately some of our competitors have found other ways to get around the difference in the currencies in other export subsidies within their own country.

Mr. BABSON. I might add one point, too, to Mr. Weller's comments. There has been evidence, at least we have seen it, that even labor has come out, is coming out, or is thinking along the lines that 911 does have a serious impact on jobs in this country. They recognize the specifications capability of Americans overseas, and this goes back to your engineering contractors, to those people who do specify, and also to the job capability of exporters in this country. So there seems to be a rather positive view, at least among some of the labor leaders, that this is something they can support.

Senator STEVENSON. Gentlemen, I have a 12:30 meeting on the House side.

Thank you very much for your help this morning. The meeting is adjourned.

[Thereupon, at 12:30 p.m., the hearing was adjourned.]

APPENDIX D

WRITTEN STATEMENT OF

GLEN E. STINSON,
VICE PRESIDENT AND GENERAL MANAGER
OF UNION SWITCH AND SIGNAL DIVISION,
WESTINGHOUSE AIRBRAKE COMPANY

My name is Glenn E. Stinson, Vice President and General Manager of Union Switch & Signal Division of the Railway Products Group of American Standard, Inc. I have been involved in the transportation business for 31 years and since 1973 have been in charge of Westinghouse Air Brake Co., Union Switch & Signal Division.

WABCO's Union Switch & Signal Division, headquartered at Pittsburgh, Pa., manufactures railroad switching and signalling, electrical and electronic control systems and communication equipment marketed to railroads and transit systems throughout the world. Two U.S. plants, one located in Swissvale, Pa. and one in Batesburg, S.C., employ over 1800 people producing these vital rail transportation goods which enhance the social and economic growth of countries worldwide.

As a producer of goods for the railroad industry both domestically and worldwide, and as a company that depends to a very large degree on export sales, Union Switch & Signal Division of Westinghouse Air Brake Company would like to lend its support to renewal of the Charter of the Export-Import Bank of the United States.

In recent years the operating results of our division have been gratifying. However, without support of Eximbank financing program, Union Switch & Signal's performance would have been judged to be considerably less than satisfactory. For example, in 1977, export sales accounted for approximately one third of our total sales -- almost entirely supported by Eximbank financing. Fifty percent of 1977 profits were a direct result of this foreign business. Twenty-five percent of our work force was directly involved in producing these goods. There is little doubt that many jobs would have been in jeopardy had Eximbank support been absent from the marketplace. In the past five years, we can attribute about $22 million in sales financed through the Eximbank. Additionally, we submitted bids totalling nearly $155 million on other overseas business ventures. The opportunity to compete for these jobs would not have been possible without the availability of Eximbank funding.

In the near future, Union Switch & Signal will seek assistance from Eximbank to support upcoming projects in Brazil, Hong Kong, Greece, Egypt and Ireland. The magnitude of this business is anticipated to be over $100 million.

The organizations we compete against overseas are companies such as Trans Mark (Britain - British Rail), Soferail

(France - SNCF French Railways), (Sofretu Paris-Metro) CN-CP Rail Consultants, etc. These companies receive assistance from the government in two ways -- direct subsidiaries and long-term low cost loans. We receive no help from our government except through Eximbank. Without support of Eximbank programs, we are at a severe disadvantage in competing for international business which supports so many jobs in our division.

The welfare of our business, continued employment for hundreds of our production line workers, returns to our shareowners and the maintenance of sound community economics, are all dependent on our ability to grow and to meet the needs of our international customers. We look upon Eximbank as a vital and necessary element in successfully meeting these commitments. We urge renewal of Eximbank's charter.

WRITTEN STATEMENT OF EUGENE H. REMMER, PRESIDENT OF CHEMTEX, INC. BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE

Mr. Chairman and Members of the Subcommittee:

I am Eugene H. Remmer, President of Chemtex, Inc., a New York corporation with its principal offices in New York City. Chemtex is the largest U.S. engineering company dedicated to the design, erection and operation of plants producing man-made and synthetic fibers. Chemtex designs and builds plants to produce such synthetic fibers and films as nylon, polyester, acrylic and rayon. The products of these plants are used for tire cord, fish nets and other commercial industrial uses, carpet yarn, home furnishings and textiles. In the thirty years in which Chemtex has been in existence, we have built approximately seventy of these plants in nineteen foreign countries. In terms of installed capacity, Chemtex has built more of these plants than any other firm in the world, and we believe it is the only U.S. company devoted exclusively to this field of engineering.

Each of the plants Chemtex builds involves the sale of U.S. goods and services worth from $10 million to as much as $50 million. The capital goods and technical services provided are highly sophisticated and very labor intensive. Most of our sales have been to developing nations which have advanced well beyond the subsistence level and are engaged in significant national efforts to develop and expand the capital sectors of their economies, such as Taiwan, Korea, Turkey, and Greece. Until recently, our company has held a dominant position in these countries in the supply of these plants, a position which is now being challenged by ever-increasing competition from Japan, Germany, and other Western European countries.

Chemtex strongly endorses, and urges your support for, the Administration's proposal to extend the life of the Export-Import Bank for five years, to increase its financing authority from $25 billion to $40 billion and to increase its authority for guaranty and insurance activities from $20 billion to $25 billion.

Chemtex, quite frankly, could not continue to survive without Eximbank and the dynamic and responsive role which its programs and resources have played in the growth of our sales. The markets in which we operate frequently involve commercial and political risks which private financial institutions have difficulty in assessing and are reluctant or unwilling to undertake. We have found that Eximbank participation, whether in a direct financing role or in a guaranty role, has acted as a catalyst to elicit the private sector participation required for many of our projects to go forward. Private financing in many instances simply would not have been available without Eximbank's sharing of the risks involved and the application of Eximbank's experience in the evaluation of such risks.

Of the twelve Chemtex projects that were realized with Eximbank financing, the Olympic Fibers S.A. plant in Costa Rica provides a concrete example of the need for Eximbank. With a production capacity of 16 metric tons per day of polyester filament yarn, Olympic Fibers is the largest industrial installation in Costa Rica. U.S. goods and services worth $10,800,000 were provided by Chemtex to the $25 million facility. Although the Eximbank participation in this project in the form of a direct loan represented only 21% of the U.S. costs, it would not have been possible to obtain private financing without Eximbank's involvement and its expertise in assessing country credit risk.

A second characteristic of our markets is that our customers seek long-term financing for the plant, equipment, and services purchased. Competing demands on the limited foreign exchange resources of our customers, and the nature of our product, large, high technology projects with long pay-back periods, require long-term financing. Such financing would generally not be available to foreign purchasers of U.S. goods and services without a pivotal role being played by Eximbank in participating in the financing of the transaction or providing guaranties to private lenders.

A third characteristic of our market is the growing intensity of foreign competition, especially with respect to credit terms. Japanese, German, Austrian and other competitors in these markets offer attractive financing terms, generally subsidized by foreign official export credit, as an inducement to prospective purchasers. Officially supported export credit competition cannot be met by U.S. private lenders without assistance from Eximbank.

I have emphasized specific reasons why Chemtex supports Eximbank because I believe our experience can be extrapolated to the existing and potential U.S. export sector. Every concerned American is aware that it is imperative (and a paramount responsibility of this Administration and this Congress) to arrest and hopefully reverse such interrelated economic trends as the decline of the dollar, the portended inflationary spiral in this country, the trade deficit in calendar 1977 of more than $26 billion, and this country's disadvantageous trade position. Trade deficits of this magnitude cannot be sustained without continued devaluing of our currency and resultant debilitating inflation. The Wall Street

Journal on March 6 reported a January trade deficit, the twentieth in a row, of $2.38 billion. A recently released Commerce Department survey of the U.S. world trade outlook for 1978 suggested that, while the trade deficit for 1978 was expected to be somewhat less than the record 1977 deficit, it would still be of a magnitude dangerous for our economic and political well-being and that of the rest of the free world.

At a time when it is absolutely essential to increase exports from the U.S. to counter the declining U.S. share of the world export market, we have not made a national commitment to export promotion and expansion, a national priority for all other developed nations. Perhaps this is because the United States has in the past been less dependent upon exports than any other developed nation. Where exports are roughly 4% of the U.S. gross national product, the average proportion of GNP exported by all other developed nations is 15%, nearly four times as high, and for Japan, the figure exceeds 30%. Lacking either extensive domestic markets or adequate supplies of raw materials, other major nations long ago had to turn to exports for economic growth, and, in some instances, survival. It is therefore no surprise that export expansion ranked at or near the top of their national priorities.

The United States' historical ability to run a substantial export surplus without major national effort; the relative weakness of our competitors for a period after World War II; combined with the relative unimportance of exports to the U.S. economy with its huge internal marketplace and abundance of available raw materials; all these factors allowed us to ignore exports for a long time.

Today an increasingly competitive world marketplace and the high rate of import growth in the United States require a long overdue national commitment to export expansion. Without minimizing the importance of tax and trade policies to such a program, a central element to the successful implementation of such a national export expansion program is an active, innovative Eximbank, with a strong mandate from Congress and with sufficient flexibility to offer competition to the frequently subsidized foreign official export credit institutions.

I have referred several times to foreign competition on credit terms. Since the recession and accompanying unemployment of the mid-1970s, the governments of most industrialized countries have sought to stimulate their economies by increasing exports. All of the United States' major international competitors have substantially increased the level of authorizations for their export credit and insurance programs in recent years. France, Japan, and the United Kingdom officially support a much larger share of their national exports - between 25% and 45% - than does the United States, which supports about 15% through Eximbank. France and the United Kingdom have also continued their generous inflation indemnity programs, while Japan has introduced an export loss reserve system, whereby 7% of annual foreign project costs are deductible from an exporters' taxable income as a reserve against loss. These are just a few examples of the many incentives, benefits, and various types of official support provided to the private export sectors of our foreign competitors. Specifically with respect to export credits, Eximbank will supply between 30% and 55% of direct financial support to a project or to capital equipment purchases. France, Italy, and the United Kingdom will support between 80% and 85% direct financing for their export sales, while Germany and Japan will support somewhat less, but more than 55%.

The types of projects in which Chemtex engages, which involve the building of major industrial plants in foreign countries, and Eximbank's assistance through long-term project loans or guaranties, have been criticized for their allegedly adverse impact on U.S. jobs. I can assert unequivocally that Chemtex's sales abroad do not hurt U.S. labor and do not send U.S. jobs abroad. The sophisticated, labor intensive capital goods which we sell to foreign buyers to use in the plants which we design for them create and maintain thousands of U.S. jobs, as do our technical support and assistance services. The Olympic Fibers S.A. project described earlier, for example, represents 720 man years of employment in the U.S., based on the sales of U.S. goods and services worth $10,800,000. I noted in Eximbank's authorization hearings a year ago that approximately $13 billion in export sales facilitated by Eximbank programs in the previous fiscal year were associated with about 500,000 U.S. jobs. Approximately 40% of these export sales involved Eximbank's guaranty and insurance programs, where risk perceptions of private exporters and private financing sources are substantial. In many of these cases, U.S. firms would not have received project contracts, sales of U.S. goods or services would not have been made, and U.S. jobs not generated as a result, without Eximbank participation. An authoritative and in-depth study of the correlation between U.S. jobs and private U.S. foreign investment by the U.S. Tariff Commission in the early 1970s found that

> industries characterized by heavy overseas investment in productive facilities appear also to be those which not only contribute most heavily to U.S. exports but also have had the least impact on the upsurge of U.S. imports - with exactly the reverse results appearing for those industries in which strong foreign investment activity is not characteristic. */

The Tariff Commission's conclusions are consistent with Chemtex's experiences, in which the design and installation of plants for foreign buyers has created additional U.S. jobs instead of displacing U.S. workers.

I believe that export expansion is vital to our national economic health and well-being. Export expansion will mean more, not fewer, jobs for U.S. workmen. Eximbank, and its ability to pursue innovative approaches to the vigorous competition of foreign export credit institutions, is the linchpin to a successful export expansion effort. To permit it to achieve the necessary program flexibility, Eximbank's charter must be renewed and its authorizations increased as proposed by the Administration.

Eugene H. Remmer,
President of Chemtex, Inc.

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*/ "Competitiveness of U.S. Industries" Report to the President, U.S. Tariff Commission, Publication 473, Washington, D.C., April 1972.

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EXPORT PROMOTION

STRATEGY

AND PROGRAMS

February 14, 1978

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EXECUTIVE SUMMARY

Background

This study provides a basis for refocusing ITA's current export assistance efforts in order to:

-- better meet the needs of small and medium-sized firms;

-- work more cooperatively with private sector sources of export assistance and avoid duplicating what they can do better; and

-- improve the quality and effectiveness of ITA export services.

Major Findings

1. Among needs which ITA is capable of meeting, those considered most important by U.S. firms, irrespective of their size and export experience, are:

   -- specific sales or representation leads which the firm can review at the home office

   -- hard intelligence that pinpoints the most promising markets for specific products

   -- opportunities to meet face to face with potential foreign customers without having to travel abroad

2. Smaller, less experienced firms generally need more help in exporting than large, established exporters. They are less aware of the potential of exporting, less confident about their ability to export, and less knowledgeable about how to do it and where to go for help. In addition, because their staff and resources are limited, they cannot afford to pay as much for needed assistance as larger firms.

3. U.S. firms--large and small--can obtain export assistance from many sources in the private sector, as well as from ITA. However, while the services are comparable in many respects, there are significant differences among them as to content, geographic coverage, cost and effectiveness in particular situations. In a number of cases, ITA services are better able to meet the need, particularly for smaller firms that cannot afford the higher cost of private sector services and for firms in outlying areas of the country where the private sector services are less well represented.

4. For the most part, however, except for certain difficult market situations (e.g., in emergent markets where data and marketing facilities are limited), the larger firms' needs for assistance are well met by private sector sources, or through their own corporate contacts abroad. Smaller firms, on the other hand, are generally ignored by profit oriented service organizations, who much prefer the large firms as clients.

5. While ITA services are clearly needed, particularly by smaller, less experienced firms, most such services are not widely known or used. In addition, among firms using ITA services, their satisfaction with them is below what it should be. In fact, a majority of firms surveyed feel that ITA is meeting their most important needs least well, while doing a better job meeting their lowest priority needs.

Conclusions and Recommendations

In order to better meet the priority needs of firms for export assistance:

1. ITA should primarily help small and medium sized firms, since the larger, more experienced exporters are better able to help themselves. Specificially, ITA assistance should be targeted in the following order of priority:

   Group 1

   Small, inexperienced exporters
   Small, experienced exporters
   Medium-sized, inexperienced exporters
   Medium-sized, experienced exporters

   Group 2

   Large, inexperienced exporters

   Group 3

   Large, experienced exporters

2. ITA should refocus its current program mix to put more emphasis on those services which small and medium sized firms most need and want and which they would be most willing and able to use. Specifically:

-- ITA should do more to foster a stronger export consciousness among U.S. firms domestically by providing better and more specific marketing information and more personalized service that will help firms overcome impediments, solve export problems, develop effective marketing strategies, steer them into the best markets for their products, and get them properly established in those markets.

-- Taking into account the more limited resources and capabilities of smaller firms, ITA should concentrate primarily on those services above which are:

o the most readily accessible in all parts of the country;
o relatively convenient to use;
o relatively inexpensive; and
o require less time away from the home office

-- In order to accomplish this refocussing of effort, assuming no increase in overall export promotion funding, some amount of resources should be reprogrammed from overseas promotion services toward domestic programs in the above areas.

-- This shift should be preceded by an assessment of the costs and benefits of making program changes, leading to several options for restructuring the program mix. As many of these changes as possible should be reflected in the FY 1980 budget.

3. ITA should take steps to improve the quality and effectiveness of its services to make them more responsive to users' needs and more valued and worth using. This will require:

-- better coordination among Washington, the District Offices and overseas missions to deliver needed services promptly and in the form desired;

-- greater use of high speed communications facilities to expedite service; and

-- more tailoring of services to the specific product interests of firms

4. ITA should work more closely with private and quasi private sources of export assistance to extend the supply and quality of overall assistance available to the business community. Pending further analysis of private sector capabilities, now underway, ITA should consider:

-- greater use of state and local development agencies, trade and industry associations, and other "multipliers" to organize joint or complementary promotional initiatives with ITA

-- increased procurement of private sector marketing information and research for dissemination to small and medium sized firms that could otherwise not afford it

-- closer collaboration with academic institutions to strengthen their international marketing curricula and to provide more intensive training programs for prospective international marketing executives.

INTRODUCTION

This study addresses certain fundamental questions that have been raised about what the U.S. Government should be doing to promote exports, why, and for whom. These questions reflect underlying concerns that the Department of Commerce's Industry and Trade Administration (ITA)--the U.S. Government agency primarily charged with export promotion--may not have been directing enough of its efforts to the most critical areas. The problem is more complicated than this suggests, however, because there has been little agreement among those expressing such concerns as to what are, in fact, the areas most deserving of attention.

Three issues stand out in this connection, all of which have a major bearing on what level and mix of export services are most appropriate for ITA and to whom they should be directed.

-- First is whether ITA export assistance is necessary at all in the light of flexible exchange rates? Some argue that exports will respond sufficiently to world market forces and that there is little or no need, therefore, to provide special export assistance to firms. Others contend the market is imperfect and that more and better export assistance is needed to help firms overcome the imperfections and more fully realize their export potential.

-- Second is whether ITA is competing unfairly against the private sector in providing export assistance. Some argue that the private sector can provide all or most of the export services ITA is now providing and that ITA should therefore phase out its programs in these overlapping areas. Others claim that many of the "alternative" services are not consistently available, accessible, effective or affordable to the majority of U.S. firms; that serious gaps remain which the Government is uniquely or better able to address; and that ITA assistance should therefore be intensified to fill the gaps.

-- Third is whether ITA is helping the most appropriate types of companies. Some argue that ITA should primarily assist small or inexperienced firms, since they need it most and are least able to help themselves. Proponents of this view recommend, therefore, that the programs offered by ITA should mostly be those geared to the temperament, level of sophistication, and financial capabilities of the smaller, less experienced firms. Others argue, however, that larger and more experienced exporters also need help to fully realize their export potentials and that such firms are better able to utilize and respond to the assistance given. Thus, they contend, ITA services should also be available to meet their needs.

Each chapter of this study deals with one or more of these key issues.

- Chapter 1 looks broadly at the policy basis for export promotion and the Government's role in providing assistance in this area.

- Chapter 2 reports what U.S. firms identify as their most important needs for export assistance. This analysis is based on responses to a questionnaire sent to 5,000 randomly selected firms, in November 1977. The respondents were asked to rank, in order of importance to them, nine separate categories of assistance ordinarily required by exporting firms. Respondents were also requested to indicate the size of their firm and their experience level in exporting so that any differences in needs that particular types of firms may have in these respects could be isolated.

- Chapter 3 looks at the "alternatives" question; specifically, whether services now provided by ITA can or could be obtained adequately from non-ITA sources. The services examined for this purpose are the same as those covered in the "exporter needs" survey, except for a further refinement in two of the nine categories to yield a total of 11 separate categories of export service. For each category of assistance, an inventory of non-ITA sources was developed and evaluated as to clientele served, content, quality, reliability, accessibility, responsiveness, timeliness, cost and other indicators of adequacy and effectiveness from the users' point of view.

  The findings in this chapter were based largely on personal interviews with some 191 individual firms and organizations during the period August- November 1977. The interview sample included suppliers (60%), as well as users (40%) of each of the services covered.

- Chapter 4 presents a profile of ITA's existing and potential client universe by size of company, industry category and geographic location. This profile of the exporter

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universe will provide a better basis for determining which types of companies and industries would be the most appropriate for ITA to target on, and in which particular areas of the country such target companies and industries are most likely to be found.

To prepare this multi-part study, a Task Force was established, comprising members from appropriate Departmental units, including:

Office of the Secretary
Office of Budget, ITA
Bureau of Field Operations, ITA
Bureau of Export Development, ITA

The study was conducted under the general direction of the Office of Market Planning, which has primary responsibility, within ITA's Bureau of Export Development, for planning and evaluating export promotion programs.

CHAPTER 1

POLICY BASIS FOR EXPORT PROMOTION: RATIONALE AND STRATEGY

Introduction

Ever since the shift occurred from fixed to more flexible exchange rates in 1971, questions have arisen about the continued need for Federal export promotion programs. The basic issue posed by this change is: whether the "freer" market can itself accomplish what export promotion has traditionally sought to achieve -- viz., an export sector that operates as close to its full potential as possible. Such a condition would exist in theory when all companies actually capable of exporting competitively are doing so as fully and effectively as the market will allow. To date, there is still no consensus on the need for official export promotion and, partly as a result, budgets for this activity have been cut.

This chapter examines the role of official export promotion in the light of current U.S. and world economic conditions. A more detailed analysis of this subject is contained in an ITA staff report entitled "U.S. Export Promotion Programs: Policy • Rationale • Strategy • Accomplishments " (OMP/2, August 1977).

I. Rationale and Purpose of Export Promotion

It is clearly in the national interest that the U.S. export sector, like those of other world economies, operate as close to full potential as possible. Yet, for a host of reasons, -- e.g., attitudinal constraints, lack of knowledge, financial limitations, regulatory impediments, foreign trade barriers, governmental interventions in the marketplace, etc. many U.S. firms capable of exporting are not. Similarly, many exporters are selling less abroad than a perfectly free and open market would allow.

Where impediments to exports exist and cannot be overcome by the private sector alone, the Government has an obligation to assist. Export promotion is one form of assistance. By encouraging more firms to export and by helping new as well as experienced exporters to overcome impediments in the marketplace and to compete more effectively abroad, the U.S. can strengthen its export sector and bring important benefits to the domestic economy.

Such benefits include:

- assuring that U.S. products which enjoy a comparative advantage in foreign markets are not denied the opportunity to compete effectively;
- serving as a countercyclical influence during periods of domestic recession;
- reducing domestic unemployment by creating additional jobs in export related industries;
- offsetting protectionist tendencies;
- reducing the risk of international price fixing, cartel formation and other impediments to the operation of an open international marketplace;
- contributing to our balance of payments;
- assisting developing countries by supplying them with needed capital goods and services.

The success of our trading partners in assisting their firms to export is evidenced by the substantial proportion of their GNP derived from sales abroad. It is significant that our major competitors have recently intensified their own export expansion activities in the face of serious payments and recessionary problems in their economies. These foreign programs generally are heavily subsidized and form an integral part of their overall economic and foreign policy. Lacking support to the same extent, U.S. firms are often placed at a disadvantage vis-a-vis foreign firms in competing for markets and business abroad. There is, thus, a need to improve U.S. industry's export performance not only through improved marketing assistance programs, but also through improvements in the policy environment for exporting.

II. Company Targeting Strategy

An important issue in providing export assistance is which types of companies the Government should help most. Ideally, the best companies to target on would be those which (a) are most in need of assistance to fully realize their export potentials; (b) have the best chance to export competitively; (c) can make the best use of Government services; and (d) whose involvement in exporting would most benefit the U.S. economy. Unfortunately, few firms are likely to meet all these criteria.

One view is that only new or small or inexperienced exporters should be assisted, since these firms tend to be less able to help themselves. On the other hand, it is also generally true that the more inexperienced or financially hard pressed a firm is, the less able it is to take advantage of the help given and to put it to good use. Thus, it is argued that the more experienced, competitive firms should also be assisted, because they can make the most effective use of the aid, and this would lead in turn to a bigger export return for the taxpayer's dollar. Assisting experienced firms would also appear warranted in particularly difficult marketing situations, such as in less developed markets where data sources are scarce and unreliable and promotional facilities few and far between.

Both positions have validity, suggesting the need for a reasonable balance in the types of companies assisted. For the most part, however, as shown more fully in Chapter 3, the export assistance needs of larger firms can be met by private sector services, or through their own corporate contacts. These services in a number of instances are as good as or better than ITA's, but invariably cost much more. This puts them beyond the reach of the average small firm, for whom ITA may be the only viable source of export help.

Thus, it is appropriate that ITA focus its efforts primarily on small and medium sized firms, especially those which are less experienced and less established abroad. Further, within this category, special consideration should be given to minority business and to firms in economically distressed communities and industries.

More specifically, ITA will give highest priority to assisting firms in Group I below, second highest priority to Group II firms, and lowest priority to firms in Group III.

Exporters Assistance Priority List

	Column I 1/	Column II 2/
Group I:		
Small, inexperienced................	76,000	10,500
Small and very small experienced....	21,000	N/A
Medium inexperienced................	8,300	3,200
Medium experienced..................	7,700	N/A
	113,000	13,700
Group II:		
Large inexperienced.................	400	100
Group III:		
Large, experienced..................	1,500	N/A
GRAND TOTAL....................	114,900	13,800

1/ Column I - represents the estimated universe of firms within the sub categories (refer to Chapter 4, Page 178, Table 5).

2/ Column II - represents current estimate of export-capable firms in each category which are not now regularly exporting (ref. Page 178). This estimate will be updated when the new Census Exporter Origin Study becomes available in summer, 1978.

Definitions

Size: Very small firms -- 1-9 employees, under $5 million in sales.
Small firms -- 10-99 employees, under $5 million in sales.
Medium firms -- 100-999 employees, $5.1-$50 million in sales.
Large firms -- Over 1,000 employees, $50.1 million in sales and over.
Sales and size are directly related (ref. Table K, Page 39).

Experience: An "experienced" exporter is a firm that has exported regularly for at least three years. An "inexperienced" exporter has never exported before or has been exporting for less than three years.

III. Program Strategy

The primary responsibility for bringing U.S. goods to world markets lies with private enterprise. Without salesmanship and painstaking attention to developing and servicing specific markets for specific goods, U.S. firms can not fare well in the intensified competition for these markets. Nevertheless, as noted, successful trade promotion also requires the assistance of Government programs.

In providing this assistance, ITA must assure that its programs address the most important needs of its target clientele and do not duplicate comparable services readily available from other sources. Charges for these services should take into account not only their cost to the Government, but also the Government's obligation to provide basic assistance to its corporate citizens that will benefit the nation as a whole, and the ability of smaller firms to pay.

Flexibility is essential if the level and mix of program activities is to be truly responsive to the national interest and to client needs. An increased program level, for example, may be warranted when:

-- a further export-led stimulus to the U.S. economy is needed to help combat domestic recession and unemployment;

-- a further increase in exports is needed to help redress large U.S. trade deficits;

-- a more intensive U.S. export effort is needed to respond fully to accelerated import demand abroad, such as in the OPEC countries or in highly developed markets during boom periods;

-- a more aggressive program response is needed to help U.S. suppliers better meet intensified, government-backed foreign competition.

Conversely, a more restrained program level may be appropriate when:

-- the U.S. economy is operating at full capacity;

-- the U.S. is running substantial balance of payments surpluses; and

-- world demand is stagnant or unable to absorb significantly increased U.S. exports.

In the foreseeable future, U.S. and world economic conditions more closely approximate the first set of criteria. This suggests a need for a more intensive effort by Government and the private sector to increase U.S. exports.

Flexibility in program emphasis is also necessary if objectives and needs are to be met adequately. Programs vary in their purpose; their cost and complexity; and their impact. Some programs, for example, are designed to meet needs at different stages of a firm's experience curve in exporting. Some are more costly to use and therefore more affordable than others. Some also tend to produce quicker returns, an attractive feature provided the cost is manageable.

Selecting the appropriate program mix must take into account not only what firms need and want as they progress as exporters, but also their ability and willingness to use the assistance provided. On this basis, four broad kinds of export programs appear necessary if the competitive position of U.S. exporters is to be improved:

-- Export Motivation Programs: U.S. companies, particularly non-exporters, need to be made more aware of the benefits of exporting and more confident in their ability to export, so that more will export on a regular basis.

-- Export Information Programs: Once motivated, U.S. companies need to be better informed about how to export, where to go for assistance, where the best markets are for their products, who the most promising buyers and distributors are, and the laws, regulations and business practices of foreign countries.

-- Programs to Assist in Penetrating Foreign Markets: Once motivated and informed, U.S. companies need more help in getting properly established in foreign markets and in meeting competition from foreign suppliers. This means helping them devise effective marketing strategies; find and appoint good agents and distributors; contact potential customers; and advertise, exhibit and otherwise promote their products in the marketplace itself.

-- Foreign Buyer Stimulation Programs: Parallelling efforts to motivate, inform and assist U.S. companies, foreign buyers need to be made more aware of U.S. goods and services, so that they will be motivated to seek U.S. sources of supply.

ITA offers specific programs and services in each of these four broad areas. They include:

- -- information on the benefits of exporting; on how and where to export; on market conditions and practices in individual foreign countries; on market potentials for specific U.S. products in such countries; and on the identities and capabilities of prospective foreign buyers and representatives abroad;
- -- specific sales and representation leads for U.S. products abroad;
- -- assistance in making successful bids for major overseas export contracts;
- -- opportunities for U.S. firms to publicize, advertise and exhibit their products abroad; and
- -- opportunities for U.S. firms to meet directly with foreign buyers and representatives, either abroad or in the U.S. itself.

In the final analysis, considering the emphasis to be placed by ITA on small, new or inexperienced exporters, and particular needs such companies have for assistance, ITA must ensure that adequate resources are devoted to needed services in the counseling, information and rep- and buyer-find areas which are relatively inexpensive for the recipient firms, are easy to use, require little or no time away from the home office, and can be widely disseminated. Specific ITA programs that meet these criteria include the following (listed in alphabetical order):

A. Rep and buyer find services

- o Agent/Distributor Service (ADS)
- o Catalog Shows and Video Catalog Shows
- o EMC Match-Makers Program
- o Export Agent Identification System (EAIS)
- o Export Contact Lists -- FTS/EMLS
- o Foreign Buyer Program
- o In-Store Promotions
- o Major Export Projects
- o New Product Information Service (NPIS)

- o Strategic and Industrial Product Sales (SIPS)
- o Trade Opportunity Program (TOP)
- o World Trade Data Reports (WTDR)
- o Proposed new initiative: expand NPIS to include any products of NTE/NTM firms

B. Export motivation and counseling services

- o Counseling on where to export and how to do business in specific foreign markets (involves answering written and phone inquiries and consultations with business visitors on global, country and/or industry marketing opportunities, problems, strategies, etc.
- o How-to-export publications/articles/seminars
- o Proposed new initiatives: Export Advisory Teams, Market Evaluation Service

C. International marketing information

- o Country publications (OBRs, FETs, Country Sectoral Surveys)
- o Country seminars
- o Economic/commercial information (FMRS, Commerce America articles, International Marketing Newsmemo)
- o Product market research (GMS)
- o Proposed new initiative: mini market surveys

In addition to the above services, it is also essential that overseas sales promotion services receive adequate support. While such programs are more costly to the participating firms, and require more time away from the office, they serve an essential marketing purpose. They take the firm and its products into the foreign marketplace itself, permitting direct exposure to potential customers in their own milieu. This is generally considered to be the most effective way to penetrate and expand an overseas market.

Successful exporting, in the end, requires some commitment of time and money. There is no adequate substitute for direct salesmanship in the foreign market itself. Ultimately, as more and more small and medium-sized firms are introduced to exporting, and become more experienced and confident in their ability, they will graduate to the point where they can effectively utilize services that expose them directly and personally to the foreign marketplace and to prospective overseas customers. Small and medium sized firms (as well as large firms) reported that they were most familiar with ITA programs of this type -- especially the overseas product exhibitions -- used them more than the other programs, and found them to be the most satisfying in meeting their needs.

ITA programs included in this category are (in alphabetical order):

- o Business Sponsored Promotions (BSPs)
- o Overseas product exhibitions (including Trade Center shows and trade fairs)
- o Overseas Trade Missions
- o Product Marketing Service (PMS)

CHAPTER 2

EVALUATION OF INDUSTRY NEEDS IN EXPORTING

This chapter reports what U.S. industry itself feels are its most important needs for export assistance. The analysis is based on a survey of industry undertaken during the month of November 1977. The survey was conducted through a written questionnaire and was designed to compare the responses from U.S. firms in terms of size, experience characteristics, and nature of business, and to yield the following information:

- How industry ranks its needs in exporting, and if smaller firms and inexperienced exporters rank needs differently from larger firms and firms with more export experience.

- Extent to which industry feels its needs are being met.

- The business community awareness, use of, and satisfaction with specific ITA programs and services.

- The correlation between different size firms and such factors as sources of export information, employment of professionals specializing in exports, length of experience in exporting, and percentage of export sales to current annual sales.

- Industry views on the reasons for their success or difficulty in exporting, and in which areas they feel fewer, new, or improved ITA programs are most needed.

Due to time constraints, a more thorough analysis of the data provided by the survey was impossible at this time. Further analyses are planned, however, and should provide additional information on the usefulness and value manufacturers place on export development services offered to the business community.

Major Findings and Conclusions

1. Exporter Needs

Based on the survey findings, what exporting firms want most are:

- o specific sales or representation leads which the firm can review at the home office;
- o hard intelligence that pinpoints the most promising markets for specific products; and
- o opportunities to meet face to face with potential foreign customers without having to travel abroad.

Less wanted is more general assistance that does not lead or point directly to new export business, such as information on why exporting is beneficial, on how to export, and on where to go for help. This was the pattern of responses for firms of all sizes and experience levels in exporting.

The survey also indicates that, even among the most wanted types of service, some are clearly preferred over others. Those ranked highest share certain common traits -- they are all relatively easy to obtain and use; they cost less; they enable the firm to react to opportunities instead of having to find their own; and they require little or no time away from the home office. Included in this group, for example, are sales or representation leads which the firm can review at the home office; opportunities to meet face to face with potential foreign customers without having to travel abroad; and specific information on market conditions, practices and potentials which can be obtained and analyzed domestically.

By comparison, opportunities to exhibit, travel, publicize or otherwise expose the company and its product abroad were ranked somewhat lower in priority. While these activities, which take place in the foreign market itself, are more effective in meeting a firm's basic marketing objectives -- e.g. obtaining market exposure, identifying new customers, and generating actual new business -- they also cost more, are less convenient to use, take more time away from the home office, and require more of a corporate commitment toward exporting.

While a preference for lower cost services is to be expected to some extent, there is a more fundamental reason for this attitude in the case of exporting. For most U.S. manufacturers, exporting has always had a low priority. The dominant preoccupation has been and remains the domestic market -- the world's largest. In fact, the vast majority of U.S. manufacturers -- perhaps 90% -- do not export at all. Even among active exporters, the top 250 companies probably account for some 70% of total manufactured exports. The remainder -- around 30,000 firms -- generally export less than 15% of their total production, and most export no more than 5-10% of their output.

To a large extent, this limited involvement in exporting stems from misconceptions about the profitability and complexity of export activity. There is a prevailing view that exporting is not profitable, too risky, too complicated and not worth the effort. Such attitudes are clearly inhibiting; they go far toward explaining why many firms, even those with more export experience, are essentially apathetic toward exporting and would tend to prefer less costly and less complicated ways of meeting whatever export marketing needs they have.

Aside from attitudes, a number of other constraints also affect export behavior and preferences of firms, and reinforce tendencies toward more modest approaches, particularly for smaller firms and firms with less export experience. Financial constraints are especially important. Many firms simply cannot afford costlier ways of developing export markets, even if more effective. Time is also a factor. Small firms have limited staff and cannot spare officials for extended business trips abroad. The time factor also underscores the importance of specific, direct assistance that can be promptly applied, as opposed to more general information and advice that would need to be absorbed and pondered before action could be taken.

These attitudinal and other constraints facing U.S. firms have been well documented in numerous "behavioral" studies in the export field. These studies have looked both at non-exporters to determine why they are not exporting, as well as existing exporters to find out what had initially prompted them to get into exporting. (See in particular the studies of Snavely (1964), Pinney (1970), Senai (1970), the Oregon Business Review (1971), Cunningham and Spigel (1971), Simpson (1973), Bilkey and Tesar (1975), Pavord and Bogart (1976) and Langston and Teas (1976) -- referenced in the appended Biblography).

Additional corroboration is found in this survey -- especially in the respondents' answers to the optional questions (Section 6.) The respondents were asked what they felt were the principal reasons for any success they may have had in exporting, and what they felt were the principal impediments to exporting. The success factors most often cited were internal to the firm -- a management strongly motivated and committed to exporting, a well designed and aggressive export strategy, and close attention to customers' sales and service needs. Among external factors cited most as a reason for success were quality and competitiveness of the product and strong foreign demand.

On the negative side, firms cited doubts about competitiveness, lack of knowledge and expertise, lack of trained personnel, management indifference, fears about not getting paid, high costs, government red tape and regulatory restrictions, foreign trade barriers, and inadequate governmental support.

These perceptions and characteristics of U.S. exporters cannot be overlooked in developing program priorities. The implications are clear. Programs that do not take account of the attitudes and capabilities of the companies to be served, and are not adapted to their perceived needs and wants, will not adequately reach the desired target audience. Thus, the programs offered must be those which are most suited to the needs and capabilities of the target firms, -- i.e., smaller firms with relatively less export experience -- and which such firms would be most willing, able, and ready to use.

2. Awareness and Use of ITA Services

ITA has a number of services designed to meet the needs in all nine categories of assistance covered in the survey. The survey findings show, however, that most such services are not widely known or used. This is particularly true of the services which should be most helpful and affordable to smaller, less experienced firms, particularly those new to export. For example, awareness of four of the least costly services that provide specific marketing advice and information and direct leads on prospective overseas customers -- Business Counseling, Agent/Distributor Service, World Traders Data Reports and the Foreign Buyer Program -- were known to fewer than 30% of the small-sized respondents (under 100 employees). Similarly, use of these services by the smaller firms aware of them ranged from a low of only 10% for the Foreign Buyer Program to 45-50% for the Agent/Distributor Service.

Generally, the findings indicate that awareness of services increases with the size of the firm. For example, Business Counseling was known to be available by only 20-24% of the small-sized companies, but by 45% of the respondents with more than 1,000 employees. Similarly, the WTDRs were known by 65% of the large-sized respondents, but by only 34-36% of the small sized group. Obviously, no matter how valuable a service may be, it will not be used if it is not known to exist. A greater effort by ITA would thus appear to be warranted to increase the level of awareness of services among small and medium sized firms.

However, even when firms are aware of a service, they still may not use it. Usage also depends on ability of the firm to pay and its perception of the value of the service. In this survey, use of specific ITA services was found, like awareness, to correlate generally with size of the firm. For example, while overseas product exhibitions were the most widely known of all ITA services -- among all sizes of respondents -- only 39% of the smaller (under 50 employees) firms aware of it reported using this service, compared with 66% of the aware larger respondents (over 1,000 employees.) Similarly, Trade Missions, while also one of the better known programs, was used by only 20% of the smaller respondents aware of the program, but by 47% of the largest respondents.

Both programs involve overseas travel and more of an investment in the participants' time, money and energy. Since overall satisfaction with these programs is higher than for other programs, particularly in the case of overseas product exhibitions, the cost factor appears to explain the lower propensity of smaller firms to use such services relative to larger firms. As further support for this conclusion, the less costly Trade Opportunities Program had the highest percentage of firms who were aware of the service using it -- ranging from 62% for the smaller respondents to 79% for the largest -- even though it ranked among the lowest in satisfaction.

One inference to be drawn from these findings is that use of the better known, but more costly services could be increased among smaller firms if costs to participate could be lowered. This would suggest reducing fees and possibly defraying other costs associated with participation, such as travel costs.

3. Satisfaction with ITA Services

Based on the survey findings, satisfaction with most ITA services is below what it should be. In terms of meeting firms' needs for the nine categories of assistance listed in the survey, the respondents rated ITA's overall performance at "5" on a scale of 1 to 10 (10 being highest). The highest mean score was "6.4" for meeting the needs for "opportunities to display or otherwise expose products abroad"; the lowest rating was "3.6" on the extent to which needs for "specific sales and representation leads" were being met.

Of particular interest was the finding that the needs considered highest in priority were felt to be the least well met. For example, access to specific sales and representation leads was the most important need cited, but received the lowest rating on meeting the need, as indicated. Other priority needs considered not well enough met as yet were:

- specific information on market conditions, practices and potentials in foreign countries
- information about and lists of individual foreign buyers and/or representatives
- opportunities to meet directly in the United States with individual foreign buyers and/or representatives

These findings help to pinpoint the greatest gaps in meeting needs for export assistance. If these priority needs are to be met adequately, an improved ITA performance will be needed. Such improvements may require an expanded program effort by ITA in the areas indicated, an increase in effectiveness, or both.

The survey also sought respondents' views on their satisfaction with specific ITA programs. Here, too, the findings suggest considerable room for improvement. They may also explain the relatively low rate of usage of certain ITA services noted in (2) above.

By and large, the ITA services found least satisfying were those requiring less user commitment of time and money, such as Business Counseling, A/DS, TOP, and Foreign Buyer Program. The most satisfying program was one which provided the participants direct exposure in the foreign marketplace -- the overseas product exhibition service in Trade Centers and Trade Fairs abroad. Those findings suggest a need for improving the quality of the relatively inexpensive services wanted most and also encouraging and assisting more smaller firms to participate in the overseas promotion programs, which participants generally consider to be more effective and satisfying.

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Section 1: EXPORTER NEEDS

Respondents to the survey were asked to rank, in order of importance to them, nine categories of assistance ordinarily required by exporting firms. The 1,316 manufacturers who responded as of the cut-off date listed their needs for assistance in the following order of priority.1/ The four highest priority needs were:

(1) Specific sales or representation leads for products abroad;

(2) Specific information on market conditions, practices, and potentials in foreign countries;

(3) Information about and lists of individual foreign buyer and/or representatives; and

(4) Opportunities to meet directly in the United States with individual foreign buyers and/or representatives.

Needs ranked (5) and (6) in priority were: opportunities to publicize company, products, and interests abroad; and opportunities to display or otherwise expose products abroad. The needs considered of lesser priority, by a wide margin, were:

(7) Assistance in making successful bids for major overseas contracts;

(8) General information on how and where to export;

(9) Information on the benefits of exporting.

These priorities represent an overall ranking, irrespective of company size or degree of export involvement. To determine the extent to which needs may differ among firms, respondents were asked to indicate the size of their firm (in employment and sales terms), whether and how long they had been exporting, and whether they had export professionals on their staff. The following Tables A through D indicate how respondents in the different size and experience categories ranked their needs for assistance.

1/ Separate rankings were elicited from non-manufacturers, e.g., Export Management Companies (EMCs), engineering and construction firms, and financial institutions. Results of the survey for these groups will be part of a follow-on analysis to be done later.

TABLE A
COMPARISON OF RANKINGS OF NEEDS BY MANUFACTURER SIZES

Needs	Number of Employees 1-50	51-100	101-250	251-500	501-1000	Over 1000
specific sales or representation leads for my product(s) abroad.	1	1	1	1	1	2
information about and lists of individual foreign buyers and/or representatives.	2	3	3	3	3	3
specific information on market conditions, practices, and potentials in foreign countries. . . .	3	2	2	2	2	1
opportunities to meet directly in the United States with individual foreign buyers and/or representative.	4	4	4	4	5	7
opportunities to publicize my company, product(s), and interests abroad.	5	5	5	5	6	4
opportunities to display or otherwise expose my product(s) abroad.	6	6	6	6	4	5
general information on how and where to export.	7	8	8	8	8	8
assistance in making successful bids for major overseas export contracts.	8	7	7	7	7	6
information on the benefits of exporting. . . .	9	9	9	9	9	9

TABLE B
COMPARISON OF RANKINGS OF NEEDS, BY EXPERIENCE

Needs	Never or only occasionally exported	Actively exporting
specific sales or representation leads for my product(s) abroad.	1	1
specific information on market conditions, practices, and potentials in foreign countries. . . .	2	2
information about and lists of individual foreign buyers and/or representatives.	3	3
opportunities to meet directly in the United States with individual foreign buyers and/or representative.	4	5
general information on how and where to export.	5	8
opportunities to publicize my company, product(s), and interests abroad.	6	4
assistance in making successful bids for major overseas export contracts.	7	7
opportunities to display or otherwise expose my product(s) abroad.	8	6
information on the benefits of exporting. . . .	9	9

TABLE C

COMPARISON OF RANKING OF NEEDS - BY SIZE OF MANUFACTURER AND EXPORT EXPERIENCE[1/]

NEEDS	NUMBER OF EMPLOYEES											
	1-50		51-100		101-250		251-500		501-1000		Over 1000	
	Non	Exp	Non	Exp	Non	Exp	Non	Exp	Non	Exp	Non	Exp
specific sales or representation leads for my product(s) abroad	1	1	1	1	1	1	1	1	2	1	2	2
information about and lists of individual foreign buyers and/or representatives	2	2	3	2	4	3	2	3	3	3	4	3
specific information on market conditions, practices, and potentials in foreign countries	3	3	2	3	3	2	3	2	1	2	1	1
opportunities to meet directly in the United States with individual foreign buyers and/or representative	4	5	6	4	2	5	6	5	4	5	5	7
opportunities to publicize my company, product(s), and interests abroad	5	4	7	5	8	4	7	4	8	6	6	4
general information on how and where to export	6	8	4	8	5	8	4	8	5	8	8	8
assistance in making successful bids for major overseas export contracts	7	7	8	7	7	7	5	7	6	7	3	6
opportunities to display or otherwise expose my product(s) abroad	8	6	5	6	6	6	8	6	7	4	7	4
information on the benefits of exporting	9	9	9	9	9	9	9	9	9	9	9	9

1/ Export experience is described in two categories:
"non"(exporting)--firms which never or occasionally exported;
"exp"(orting)--firms which are actively exporting

TABLE D

COMPARATIVE RANKINGS BY MANUFACTURERS EMPLOYING EXPORT PROFESSIONALS AND MANUFACTURERS HAVING NO EXPORT PROFESSIONALS

NEEDS	With Export Professionals Rank	Without Export Professionals Rank
specific sales or representation leads for my product(s) abroad.	1	1
specific information on market conditions, practices, and potentials in foreign countries. . . .	2	3
information about and lists of individual foreign buyers and/or representatives.	3	2
opportunities to publicize my company, product(s), and interests abroad.	4	5
opportunities to display or otherwise expose my product(s) abroad.	5	6
opportunities to meet directly in the United States with individual foreign buyers and/or representative.	6	4
assistance in making successful bids for major overseas export contracts.	7	8
general information on how and where to export.	8	7
information on the benefits of exporting. . . .	9	9

As these rankings indicate, little deviation from the overall listing of priorities was found among different types of manufacturers. This suggests that smaller and less experienced firms want basically the same kinds of assistance as the larger, more experienced exporters. In both cases they appear to consider general information about the benefits of exporting and about how and where to export relatively less important than specific services that provide a more direct and immediate return, such as rep and buyer-find leads, specific marketing intelligence, and opportunities to meet face to face with potential foreign customers. Even among the latter, however, there seems to be a general preference for services that meet these needs in the least expensive, most convenient way, enabling the firm to react to opportunities rather than create them; and requiring little or no time away from the home office. The four highest priority needs, for example, all satisfy these cost/convenience criteria. Priorities (5) and (6), on the other hand, while affording direct access and exposure to the overseas market, are more costly to use, require more of an initiative by the firm itself, and require leaving the home office for on-site investigations abroad.

These rankings are consistent with the findings of earlier studies, e.g. by the Advertising Council (Marsteller Research, 1976), by McManis and Company (1976), by Arnold, et al, (Harvard University, 1974), by the U.S. Department of Commerce (1973) by Small Business Administration for the Government Accounting Office (1973), and by the University of Oregon (1971).

Respondents to the Advertising Council Survey mentioned the following areas as the most important to them:

- How to evaluate/select potential distributors
- Specific trade leads
- Foreign import regulations
- Selected market research data.

An article in the Oregon Business Review by William van der Ster, entitled "International Business Promotion in Oregon," dated September 1971 showed results of firms' ranking of twelve specific services and program efforts in order of importance. Both international and non-international firms cited "market information about overseas markets" and circulation of "inquiries received from abroad" as the most important priorities.

A third study, conducted for the GAO in 1973, by the Small Business Administration stated that specific market information and guidance were the most important needs of many small manufacturers. Comments included:

--"If some one approached me with a definite sales lead and the assistance to make the sale I would export."

The report also concludes that, generally, small businesses do not have the time or resources necessary to convert general market data into sales.

A U.S. Department of Commerce study in 1973, "Exporter Motivation and Characteristics, the Exporting Community and the BIC Audience," concluded that "The trade opportunities program is a most needed promotional vehicle, as both international and non-international firms ranked circulation of overseas inquiries second in importance to foreign market data, as needed services."

The McManis study of December, 1976, contracted for by ITA (then DIBA) had the following to say:

--"The only individual in the (small) company who can usefully interact with DIBA is the entrepreneur. However, that individual's time is at a premium and is required for very pragmatic business activities. Therefore, the only DIBA services likely to be useful are those which give "how-to" results-oriented answers to common business problems, rather than those which provide generalized, "nice-to-know" information. "This survey showed that...many... (small companies) complained of receiving too many communications from DIBA, more than they could possibly keep up with. Yet, they know they could benefit from the kinds of assistance...

--"...For them (medium size companies), the most useful DIBA programs will be those which give direct, practical advice on solving operational business problems, such as how to obtain a distributor in Saudi Arabia.

Following is an interpretation of the responses for the several categories of export assistance covered in the survey:

General information on how to export ranked lowest in overall priority, although it was ranked in first place by 11% of the respondents. Non-exporters in the 51-100 and the 251-500 employee groups ranked "general information..." as their fourth need, and non-exporting firms in the 101-250 employee group ranked it fifth.

The need for specific marketing information increases in importance depending upon the size and experience of the manufacturer. All manufacturers rank this need high. Small non-exporting companies rank it in third place, medium-size exporters rank it second, and both non-exporting and exporting large companies rank it in first place. Also ranking this category highest were non-exporting manufacturers having over 1,000 employees.

Opportunities to meet directly in the United States with foreign buyers/representatives ranked fourth in priority for the smallest non-exporting manufacturers, but seventh for the largest experienced exporters. It seems obvious that smaller manufacturers, especially the non-exporters, will look first to and welcome having potential business brought to their door. This is understandable inasmuch as the risks, marketing costs, and time spent on travel abroad for a small manufacturer can be burdensome if not prohibitive.

Publicizing company products and interests abroad ranks slightly higher among existing exporters (fourth), than non-exporters (fifth). Companies of all sizes except those over 500 employees also ranked it fifth in importance. To the extent that publicizing is an active step toward export marketing, while receiving trade leads can be passive consideration of exporting, a possible explanation for the lower ranking by non-exporters is that they are not yet committed to exporting and may not want to receive and have to respond to unwanted or burdensome inquiries, generated by publicity. Existing exporters, on the other hand, are prepared to receive and respond to inquiries and orders. Reason dictates that Commerce should exercise care in publicizing abroad non-exporters' products, until and unless there is a firm management commitment to answer all overseas inquiries appropriately and seriously.

<u>Assistance in making successful bids for major overseas export contracts</u> was rated lower in priority -- seventh out of the nine categories -- by manufacturers of all sizes and experience levels in the sample. Since capabilities in this field are mostly limited to a select group of contractors and engineering, construction and consulting firms, the relatively low ranking by manufacturers is understandable. Presumably, this category of assistance will rate higher once the responses from the engineering and construction industry are tabulated.

The need to <u>utilize trade display facilities or otherwise expose company products/interests abroad</u> ranked variously from eighth to fourth position, respectively, from very small non-exporting manufacturers to the largest experienced exporting manufacturers. Clearly, the rank depends on both size and experience. Generally, it ranked sixth for all experienced exporting manufacturers having up to 500 employees, and ranked fourth for experienced large manufacturers.

Most firms that participate in overseas exhibits (60%) do so primarily as a means of obtaining specific sales leads or representation leads, the need considered highest in priority for firms of all sizes. However, there are fewer manufacturers who are prepared to use this technique for that purpose, largely because of the cost involved, even though exhibitions are generally more effective in generating business than less costly, stay-at-home techniques. An overseas exhibition can cost between $5,000 and $25,000 for the total cost of one event, Frequently, these expenses will be too much for a small manufacturer to accept. One of the most frequently mentioned complaints on the questionnaire was the high cost of trade shows abroad.

In summary, the data in Tables A through D show that small manufacturers are less willing and/or able to use the more expensive programs and services in trade promotion. Given that many small manufacturers have a high interest and commitment to exporting, but lack a willingness or capability for risk-taking abroad without a firm foundation or marketing knowledge, it is necessary to provide specific evidence that there exists a viable, profitable market by providing, at the lowest cost possible, opportunities to sell or enter representation agreements. All manufacturers, from the smallest to the largest, agree that their greatest needs are low-cost specific leads, detailed product-oriented and market oriented information, and buyer/representation contacts in the United States.

Section 2: ITA PROGRAMS RESPONDING TO EXPORTER NEEDS

ITA has many programs which respond to one or more of the needs identified above. Some are easier to obtain and use; some are less expensive; some require little or no foreign travel; and some are more specific, direct or effective in meeting a particular need than others. The following lists the various ITA programs that can be used by firms to meet their needs in each of the nine ranked categories (See the Appendix for descriptions of each service listed):

- Specific sales or representation leads

  - Trade Opportunities Program
  - Major Projects and Major Industrial Products
  - Overseas Product Exhibitions
  - Trade Missions
  - Catalog and Video Catalog Exhibitions
  - Foreign Buyers Program
  - New Product Information Service

- Specific information on market conditions, practices, and potentials in foreign countries

  - Country Specialist Counseling
  - International Marketing Reports and Publications
  - Foreign Market Research

- Information about and lists of individual foreign buyers and/or representatives

  - World Traders Data Reports Service
  - Export Contact Lists

- Opportunities to meet directly in the United States with individual foreign buyers and/or representatives

  - Foreign Buyers Program

- Opportunities to publicize my company, product(s), and interests abroad

  - New Product Information Service
  - Exporter/Agent Information System (a proposed new program which is presently under study)
  - Catalog and Video Catalog Exhibitions
  - Trade Missions
  - Overseas Product Exhibitions

- Opportunities to display or otherwise expose my product(s) abroad

  - Overseas Product Exhibitions
  - Catalog abd Video Catalog Exhibitions
  - In-Store Promotions

- Assistance in making successful bids for major overseas export contracts

  - Major Projects and Major Industrial Products

- General information on how and where to export

  - Domestic Publications
  - Seminars
  - Multiplier Activities
  - General Business Counseling Services

- Information on the benefits of exporting

  - Media Export Awareness Campaigns
  - "E" and "E Star" Awards
  - All other program contacts with the business community

The foregoing list of programs and needs demonstrates that most programs, especially the active, "contact" programs such as counseling, overseas exhibits, foreign buyers, etc. respond to more than one need or objective of firms involved in exporting.

Section 3: EXTENT TO WHICH NEEDS ARE MET BY ITA PROGRAMS

Respondents were asked: "If you have received any Commerce help designed to meet the needs (identified above), rate the extent to which you feel your needs are met by Commerce services." By and large, the respondents felt that Commerce had not met their needs as fully as desired. Overall, the value placed on ITA services in meeting the nine categories of needs listed averaged to a "five" on a scale of one to ten, with 6.4 the highest mean score received and 3.6 the lowest. See Tables E and F for overall ratings in this respect, and individual ratings by size of firm.

Of particular interest is the finding that Commerce rates highest in meeting the needs ranked lowest in priority, and conversely ranks lowest in meeting the needs ranked highest. For example, information on the benefits of exporting ranked lowest in priority of need, but ranked highest in terms of value in meeting that need. Conversely, trade leads ranked the highest in terms of need, but was rated very low in extent to which Commerce was felt to be meeting those needs.

TABLE E
OVERALL RANKING OF NEEDS COMPARED WITH HOW WELL COMMERCE MEETS THOSE NEEDS, AND SHOWING WHERE NEEDS EXCEED SATISFACTION

Needs	Needs Rank	Needs Met Rank	Needs Exceed Satisfaction
information on the benefits of exporting	9	1	
general information on how and where to export	8	3	
specific information on market conditions, practices, and potentials in foreign countries	2	4	XX
specific sales or representation leads for my product(s) abroad	1	6	XX
assistance in making successful bids for major overseas export contracts	7	9	XX
information about and lists of individual foreign buyers and/or representatives	3	7	XX
opportunities to display or otherwise expose my product(s) abroad	6	2	
opportunities to meet directly in the United States with individual foreign buyers and/or representative	4	8	XX
opportunities to publicize my company, product(s), and interests abroad	5	5	

TABLE F

RANKING OF HOW WELL COMMERCE MEETS NEEDS
(BY SIZE OF FIRM)

NEEDS	1-50	51-100	101-250	251-500	501-1000	Over 1000
	Employment Sizes					
information on the benefits of exporting. . . .	1	1	2	1	1	2
general information on how and where to export.	2	2	4	3	2	2
specific information on market conditions, practices, and potentials in foreign countries. . . .	4	3	3	4	3	3
specific sales or representation leads for my product(s) abroad	5	6	7	5	4	5
assistance in making successful bids for major overseas export contracts	7	7	9	7	6	8
information about and lists of individual foreign buyers and/or representatives.	5	5	6	6	5	6
opportunities to display or otherwise expose my product(s) abroad.	2	1	1	2	3	1
opportunities to meet directly in the United States with individual foreign buyers and/or representative.	6	8	8	7	7	7
opportunities to publicize my company, product(s), and interests abroad.	3	4	5	4	5	4

NOTE: Duplications of rank indicate tied scores.

Section 4: AWARENESS, USE OF, AND SATISFACTION WITH SPECIFIC ITA PROGRAMS

Respondents were asked to indicate their awareness of several specific ITA programs; and, if aware of any, whether they had used them; and, if used, to give a rating of the value of each. The results are shown in Tables G-I below:

TABLE G

PERCENT OF FIRMS AWARE OF SERVICES BY SIZE OF FIRM

Number of Employees	GMS (%)	WTDR (%)	AD/S (%)	TOP (%)	Fairs Centers (%)	Trade Missions (%)	Business Counseling (%)	Seminars (%)	Foreign Buyers (%)
1-50	49	34	30	55	85	63	24	48	13
51-100	51	36	32	61	81	58	20	48	13
101-250	59	49	41	67	87	73	29	52	18
251-500	58	47	44	68	90	75	27	57	24
500-1000	70	53	54	74	93	82	36	71	23
Over 1000	76	65	47	73	95	87	45	73	30

NOTE: Percentages are of those 1,316 respondents who reported awareness of the listed service.

TABLE H

PERCENT OF AWARE FIRMS USING SPECIFIC SERVICES, BY SIZE OF FIRM

Number of Employees	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
1-50	41	40	45	62	39	20	22	31	10
51-100	39	43	50	65	49	25	16	27	10
101-250	45	58	45	64	52	21	21	35	7
251-500	64	67	58	66	60	30	36	60	34
501-1000	65	73	63	76	60	21	36	49	20
Over 1000	74	84	57	79	66	47	26	44	32

NOTE: Percentages are of those respondents "aware" of the service (Table G) who reported using it.

TABLE I

SATISFACTION OF USERS WITH SPECIFIC SERVICES, BY SIZE OF FIRM

(Mean Scores from 1 to 10, with 10 being highest)

Number of Employees									
1-50	5.0	4.9	5.2	4.0	5.3	5.0	5.0	5.3	5.0
51-100	5.1	5.1	4.6	4.0	6.1	6.0	5.1	5.2	6.4
101-250	5.3	5.8	4.5	4.6	6.0	5.7	5.9	5.3	3.5
251-500	5.6	5.7	4.8	4.1	6.4	6.3	5.1	5.7	5.6
501-1000	5.9	5.8	5.3	4.5	6.5	3.5	4.1	6.2	3.7
Over 1000	6.0	6.3	5.3	5.2	6.7	5.6	4.9	6.2	4.8

NOTE: Ratings are by those in Table H who reported using the service.

Overall:

I. Awareness

The programs most known by respondents are:

- Commerce Department Trade Shows/Trade Fairs
- Trade Missions
- Trade Opportunities Program
- Global Market Surveys
- Export Promotion Seminars

The lesser known programs are:

- World Traders Data Reports Service
- Agent/Distributor Service
- Business Counseling Service
- Foreign Buyers Program

II. Use

The programs most widely used by respondents are:

- Commerce Department Trade Shows/Trade Fairs
- Trade Opportunities Program
- Global Marketing Surveys

The lesser used programs are:

- World Traders Data Reports Service
- Export Promotion Seminars
- Agent/Distributor Service
- Commerce Department Trade Missions
- Business Counseling Service
- The Foreign Buyers Program

III. Satisfaction

The programs most satisfying to respondents are:

- Trade Shows/Trade Fairs
- World Traders Data Reports (WTDR)
- Commerce Department Export Promotion Seminars
- Global Market Surveys
- Commerce Department Trade Missions

The less satisfying programs are:

- Business Counseling Service
- The Agent/Distributor Service (A/DS)
- Foreign Buyers Program
- Trade Opportunities Program (TOP)

These findings are similar to what other studies have found. For example, Opinion Research Corporation, in its report for the Bureau of International Commerce on "Businessmen's Awareness and Attitudes Toward Exporting and Export Promotional Efforts" (September 1971), found that most of the respondents (91% of exporters and 76% of non-exporters in the sample) were aware of the trade center/trade fair programs overseas. The larger the company the higher the awareness of the trade centers/fairs program, as well as other programs. Awareness of market research was second; availability of personal counseling third; loans/guarantees/insurance fourth; Foreign Service Counseling was in fifth or last place.

The 1974 Harvard study also reflects these findings:

"A general comment which many businessmen had was that their information needs were specific, but that BIC's information was too general. In cases such as TOP and ADS, where the service is supposed to provide specific contacts overseas, many businessmen felt that the contacts provided were not relevant to their specific product lines. Even with more generalized services such as market surveys, a number of businessmen felt that the information was not specialized enough."

The Harvard study also showed that the most frequently used programs were Commerce Department Trade Shows and the Trade Opportunities Program. Those, along with Trade Missions, Export Promotion Seminars, and Global Market Surveys, were among the best known programs. The Agent/Distributor Service and the Business Counseling Service were the least known and least used services. The Foreign Buyers Program was not listed among the programs at that time.

Although some services ranked higher in usage than in other cases, it should be realized that out of 1,316 responding manufacturers, of which 77% are active exporters, no service had more than 500 users, or only 38% of the manufacturers sampled. In addition, propensity to use these services is higher among larger firms than smaller firms. For example, the largest manufacturer is two-to-five times more likely to use any specific program than the smallest manufacturer. An example of this is: 74% of the manufacturers who are aware of the program (having over 1,000 employees) use Global Market Surveys (GMS), but only 41% of the manufacturers who are aware of the program (having less than 50 employees) use GMSs.

Global Market Surveys ranked fourth in awareness, but generally third in usage. Respondents rated them "5.5" in satisfaction. Generally, awareness and usage were higher among the larger firms. Also, the larger the company, the higher the satisfaction with the GMSs, although the highest score was only "6."

World Traders Data Reports Service was used by only 40% of the smallest companies, but by 84% of the largest. Percentages are of those who were aware of the service. Overall, this service ranked fourth in usage, although it was used by only 58% of those who were aware of the service. It was sixth in awareness. The appreciation of its value grew with the respective company groupings, with the largest firms giving WTDR a "6.3" rating. Overall, users rated it "5.6" in satisfaction.

The Agent/Distributor Service was used by 45% of the smallest companies who were aware of the service, and 57% of the largest who were aware. The largest companies appear to need this service to a lesser degree. The survey indicated that 95% of the largest manufacturers have agents/distributorship arrangements overseas, along with licensing, joint-venture and subsidiary arrangements, compared to only 60% of the smallest companies having agents/distributors abroad. This service ranked seventh in awareness and sixth in usage. It rated "5" in satisfaction.

The Trade Opportunities Program placed third in awareness and was used more frequently by smaller companies; however, proportionate to the number of companies in each size group, the larger manufacturers are more likely to be users of TOP leads than the smaller companies. The largest companies rated this program "5.2", compared to "4" rating for the smallest companies. This seems to indicate that greater success is achieved in using TOP by the larger companies than the smaller companies, but the program had the lowest overall satisfaction rating ("4.3") of all programs.

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The relatively low rating for this program stems primarily from difficulties with the product classification systems. The present coding system, based on SIC industry codes, is often not specific enough to clearly identify a subscriber's product. Thus, leads are received which frequently do not match the subscriber's interest. A new project has been initiated to develop a classification system which will overcome this problem.

Business Counseling Service was used by 83 respondents or only about 24% of the respondents who were aware of this program. Only the Foreign Buyers Program had less usage among respondents. Once again, it was the larger company that was proportionately using this service to a greater extent than the smaller company. Overall, Business Counseling ranked, both in awareness and in usage, in eighth place, and a "5.1" in satisfaction. The smaller companies (less than 500 employees) rated it higher than the larger companies (over 500 employees.)

Commerce Department Export Promotion Seminars ranked 5th in both awareness and usage, and third in satisfaction. Proportionate to the number of companies in the size groupings, the larger companies were more frequent users than the smaller companies.

Foreign Buyers Program, was the least known service. Only 45 out of 1,316 said that they used this program. In terms of value, it was rated overall "5" by those respondents, with eleven giving it a high score of "8" to "10", and eighteen giving it a poor score of "1"-"3". At the same time, the need to meet directly in the United States with individual foreign buyers and/or representatives placed fourth in overall exporters' needs, as previously indicated.

Commerce Department Trade Shows/Trade Fairs was used by more respondents (496) than any other service. The awareness of this program was highest, and overall satisfaction with this program among users was also the highest ("6.0"). Ratings ranged from 5.3 to 6.7 from the smallest to the largest companies. This program and WTDRs had the widest range of ratings between small and large companies.

Commerce Department Trade Missions ranked second in awareness, but only seventh in usage (201 users or about 26% of the respondents who were aware of the program). There is a relationship between size of firm and use of trade missions. Only 20% of the smallest, but 47% of the largest who were aware of the program used trade missions. All groups using it gave it an average of "5.4" in satisfaction. These companies having 500-1,000 employees rated it a low "3.5".

Section 5: RESPONDENT CHARACTERISTICS

The questionnaire was sent to 4,900 firms which were selected at random from the following sources:

- 4,000 registrants from the Bureau's American International Traders Index (AITR)
- 450 respondents to export advertisements distributed by the Ad Council campaigns
- 450 subscribers to the computerized Trade Opportunities Program

Some 38% of the recipients of the survey questionnaire responded, 1,316 manufacturers' responses being processed prior to the cutoff date of December 1, 1977.1/ The respondent group is considered reasonably representative of exporting and potential exporting manufacturers.

The final grouping of tables shows various characteristics of the respondents, e.g. size by employment, export experience, type of organization, annual sales, etc.

DISTRIBUTION OF MANUFACTURERS, EXPORTING MANUFACTURERS, SAMPLE, AND RESPONDENTS BY SIZE USING NUMBER OF EMPLOYEES

	1-10	11-100	101-1,000	Over 1,000	Total
# Manufacturers (SIC 22-39)	141,000	93,000	16,000	2,000	252,000
# Manufacturers estimated presently exporting	4,200 2/	16,700	7,700	1,400	30,000
# Manufacturers estimated interested in exporting 3/	2,500	6,300	1,900	4/	10,800
# Manufacturers in sample	+ -3,300		+ -1,300	+ -300	+ -4,900
# Manufacturers responding	716		449	151	1,316
Respondents as % of manufacturers interested and/or exporting	2%		5%	11%	3%

1/ Over 1,900 responses will be included in the final in-depth analysis, to include responses received after the cutoff date, as well as responses from other than manufacturers.
2/ Firms under 10 employees category account for less than one-tenth of one percent of U.S. exports
3/ Estimations based on figures extrapolated from Chapter 3 of this study
4/ It is not possible to estimate the number of large companies that might be interested in exporting.

TABLE J

PERCENT OF MANUFACTURERS HAVING VARIOUS
TYPES OF EXPORT ORGANIZATION, (By Size of Firms)

PERCENT OF RESPONDENTS

Number of Employees - Manufacturers

Organization Type	1-50 (%)	51-100 (%)	101-250 (%)	251-500 (%)	501-1000 (%)	Over 1000 (%)
Parent firm without Export Department	60	42	34	14	15	7
Parent firm with Export Department	27	32	33	40	44	47
Division, marketing abroad independently of Parent Firm	5	13	18	31	29	33
Subsidiary/Separate Corporate Entity	6	11	13	15	12	11
Other	2	2	1	1	0	2

The smaller a manufacturer's size, the more likely that it has no export department. Conversely, the larger the size of the manufacturer, the more likely that it has an export department, or an independent marketing division. The incidence of manufacturers having independent marketing divisions increases sharply as the size of the manufacturer increases.

TABLE K

TOTAL ANNUAL SALES (By Size of Firms)

Percent of Respondents

Sales (in millions)	Number of Employees - Manufacturers 1-50 (%)	51-100 (%)	101-250 (%)	251-500 (%)	501-1000 (%)	Over 1000 (%)
Less than $1	55	0	0	0	0	0
$1.0 - $4.9	41	80	24	1	2	1
$5.0 - $49.9	3	19	76	93	75	11
$50.0 - $74.9	1	0	0	2	17	15
Over $75	0	1	0	4	6	73

The data in Table K show, as would be expected, that as the size of the manufacturer increases, so does its total annual sales. The data also provide a basis for correlating two possible measures of the size of a firm -- number of employees and total sales. Specifically, the Table shows that 96% of the respondents with fewer than 50 employees had sales under $5 million, as did 80% of the respondents in the 51-100 employee category. Such firms (under 100 employees) can reasonably be considered "small" on this basis. There is also a high correlation between employment in the 100-1,000 range and total sales under $50 million. All respondents with 100-250 employees had sales under $50 million, as did 94% of the firms with 251-500 employees and 77% of firms with 501-1,000 employees. This group could reasonably be considered of "medium" size. The great majority (88%) of the respondents with more than 1,000 employees had sales above $50 million, although only 73% had sales above $75 million. While such firms can be considered "large", a sizable portion of them (12%) had sales under $50 million and 27% had sales under $75 million.

TABLE L

PERCENT OF EXPORT SALES TO ANNUAL SALES (By Size of Firms)

Percent of Respondents

Export: Sales Ratios	Number of Employees - Manufacturers 1-50 (%)	51-100 (%)	101-250 (%)	251-500 (%)	501-1000 (%)	Over 1000 (%)
No exports	16	6	6	3	2	1
1-5 Percent	37	37	38	31	34	24
6-15%	21	28	28	31	34	38
16-25%	9	10	11	17	21	17
Over 25%	17	19	17	18	9	20

As will be seen from Table L above, the largest number of exporters fall between the range of one to fifteen percent of exports to annual sales, for all size manufacturers. The percentages of firms having no export sales decreases with the manufacturers' size group.

TABLE M

PERCENTAGE OF EXPORTING MANUFACTURERS HAVING VARIOUS MARKETING ARRANGEMENTS 1/ (By Size of Firms)

Marketing Arrangements	1-50 (%)	51-100 (%)	101-250 (%)	251-500 (%)	501-1,000 (%)	Over 1,000 (%)
			Number of Employees			
Agents/Distributors	60	73	75	81	86	95
Licensees	8	13	16	30	35	67
Joint Ventures	5	6	8	20	15	44
Foreign Subsidiaries	5	11	17	34	43	71
None of Above	33	20	17	14	12	1

This table shows that the smaller size manufacturer generally has agent and distributor arrangements in lieu of other marketing arrangements. The large manufacturers use, to a greater extent, other types of marketing arrangements in addition to agents and distributors. There is an overall increasing variety of marketing arrangements as the size of the manufacturer increases.

It also demonstrates the correlation between the employment size of the exporting manufacturer and...

	Coefficient 2/
--Percentage of manufacturers having licensee arrangements	.99
--Percentage of manufacturers having foreign subsidiaries	.98
--Percentage of manufacturers having joint ventures abroad	.95
--Percentage of manufacturers having agent/distributors	.91
--Percentage of manufacturers having export professionals	.91

1/ Multiple answers disallow summation of the percentages to 100.

2/ The coefficients of correlation are calculated as follows:

$$R=\frac{\sum(Xi-\bar{X})(Yi-\bar{Y})}{n(Sx)(Sy)} \quad \text{where } Sx=\sqrt{\frac{\sum(Xi-\bar{X})^2}{n}}\ ; \quad Sy=\sqrt{\frac{\sum(Yi-\bar{Y})^2}{n}}$$

TABLE N

PERCENTAGE OF EXPORTING MANUFACTURERS HAVING PROFESSIONALS SPECIALIZING IN EXPORT SALES (By Size of Firm)

Percent of Respondents

Export Professional	Number of Employees					
	1-50 (%)	51-100 (%)	101-250 (%)	251-500 (%)	501-1,000 (%)	Over 1,000 (%)
YES	17	22	45	58	77	89
NO	83	78	55	42	23	11

There is a functional relationship (linear) between the percentage of exporting companies having professionals in any given group and size of company. With each increment of employment size, the probability that the company will have an export professional increases by 15% (average). There is a 90% probability that the largest of the six groups, those having over 1,000 employees, employ an export specialist. There is nearly a perfect linear relationship between the export professionals (dependent variable) and the size of the company (independent variable).

The values of the coefficients approach unity in each case and indicate a very high degree of correlation. The coefficients show a definite and close connection between the variables of size, export arrangements, and export professionals. It can also be stated that there are positive correlations between size of manufacturer and...

--Probability of having more than three years export experience
--Increasing total annual sales
--Increasing percentage of export sales to total annual sales.

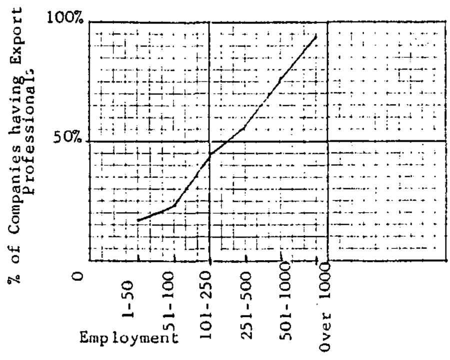

TABLE O

COMPARISON OF SOURCES OF INFORMATION USED
BY FIRMS WITH AND WITHOUT PROFESSIONALS

Sources of Information	With Export Professionals (% Using Source)	Without Export Professionals (% Using Source)
Own company contacts	94	66
Trade Associations	60	28
Chambers of Commerce	58	17
State and Local Governments	51	14
Commercial Airlines	50	9
U.S. Department of Commerce	47	60
Other domestic companies	9	42
Export Management Companies	5	41
U.S. State Department	4	22
Commercial Banks	5	18

Table O provides a comparison between manufacturers with export specialists (39% of the sample) and those without export specialists (61% of the sample) regarding the use of various sources of export information. The manufacturers with export specialists use many more sources of information and more frequently than companies having no export professionals working for them. Also indicated is that companies without export professionals rely primarily on the Commerce Department as a source of information, after their own company contacts, while companies with export professionals are more likely to use other sources in addition to their own contacts abroad.

TABLE P

EXPORTING MANUFACTURER (By Size of Firm and Experience)

	Number of Employees						
Experience Level	1-50	51-100	101-250	251-500	501-1,000	Over 1,000	Overall
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Less than one year	7	6	4	2	3	0	4
One to three years	18	20	15	12	9	0	14
Over three years	75	73	81	86	88	100	82

Note: Percentages are rounded.

Table P above shows a high correlation between the size of a firm and its export experience. The probability that an exporting manufacturer has exporting experience more than three years increases with the size of the manufacturer.

Section 6: EVALUATION OF QUALITATIVE FACTORS

Firms were invited to make optional comments in three subject areas: (1) Ideas for new, expanded, or reduced export promotion programs or services from the Department of Commerce; (2) Opinions on the major impediments now being faced by U.S. firms trying to export, and (3) Assessment and examples of success as an exporter, and factors responsible for that success.

Approximately 70% of the export management companies and approximately 55% of the manufacturers volunteered written comments in this optional section of the questionnaire. The response rate did not differ markedly according to size of manufacturers.

The factors cited by firms in their "Reasons for Success" comments are noteworthy. Almost all are firm-or management-oriented, i.e., company or management adaptability/motivation, company marketing strategy, and product characteristics. Trade show participations, both Government sponsored and private, were mentioned only thirty-seven times (about 3% of the comments) and in Financing, EX-IM Bank and FCIA were mentioned only two or three times. On the other hand, only about one-fourth of the Impediments mentioned were firm or management oriented. This perception of the external private sector, U.S. Government, and foreign governments, as well as internal factors as the villains keeping firms from exporting, or hindering their export efforts, is consistent with the findings of other studies. For example, McConnell and Hoyte (1975), in their model of export behavior (Chap. 6), found that information regarding "Environmental Factors" is the basis for the process of internal decision making regarding exporting. While a complete analysis of this ITA survey has not yet been made, there seems to be a high level of similarity between:

- -- the problems facing firms uncovered by McConnell and Hoyte and this sample; and
- -- correlations between problems cited and experience or performance and size of firm.

Follow-on analysis of this survey's results are expected to be most helpful if, as expected, similar correlations are found.

A. Ideas for New Programs

Sales and Representation Leads

The most frequently mentioned/desired type of service is providing specific sales or representational leads for specific products. Many comments, however, are critical of existing services of this type, namely the TOPS, ADS, and EMLS. Lack of timeliness, specificity and lack of sufficient evaluative data on agents, and distributors are some of the major reasons for such criticism, particularly among smaller firms. Many respondents mentioned specific instances in which they received notices of an invitation to bid only a day or two prior to the deadline for submission.

A relatively large number of respondents suggest expanding programs for facilitation of direct buyer/seller contacts both here and abroad. Several thought it would be a good idea to bring selected agents/distributor to the U.S. to meet interested suppliers on a regional basis.

Many firms would like the present agent/distributor-finding services, ADS and EMLS, to provide more specific data and more evaluative detail. Generally firms, particularly the smaller ones, want information which will enable them to evaluate a prospective representative's competence, experience, reputation and technical background. Similarly, a small number of comments urge improvement of the WTDR service, specifically some desire speedier delivery, others propose an expansion of the scope of information contained in the report, many emphasize a need for lowering the fee.

Trade Shows/Missions

The second type of program most frequently mentioned is the overseas Trade Shows. More than 75% of the comments are evenly divided between respondents pleading for lower fees and those recommending improvement and expansion of existing shows and missions. Many smaller firms favor missions to a large degree because of the lower costs involved. Several respondents mention the need for more extensive post-event follow-up services.

Catalog shows are favorably mentioned, but by a relatively lesser number of respondents.

Government Aids

The number of comments on lower fees ties in closely with the significant number of remarks which urge the introduction of all types of government incentives, aids, guarantees, and credits, as well as the expansion and improvement of current EXIM/FCIA programs, including SBA. A few, however, specify the types of assistance which would be most helpful: Special airline fares and special postage rates for exporters to help lessen the impact of these costs. Some others suggest government assistance with technical translations. The continuation and/or improvement of the DISC is suggested by a number of the respondents. In this same context of government assistance, a relatively substantial number of responses point to the necessity for improvement in the quality of support provided by the Foreign Service abroad. The comments in this category seem to reflect a sense of frustration in dealing with commercial staffs at our overseas posts, either because of their unresponsiveness, as perceived by the firms, or inability of firms to obtain replies to communications. Several firms felt that there should be but one organization in the U.S. Government to help exporters.

Responsiveness

It was generally requested that all DOC services, programs research and information be made more specific, timely, more realistic and also more reasonable in cost. This opinion is generally expressed by respondents which have used and are still using several or more of our services and publications, and which are dissatisfied. In these comments, non specific programs are mentioned. Several firms suggested that DOC provide more specific country data, better reporting of foreign market developments and trade opportunities as well as providing trade regulations information.

Other Recommendations

A number of specific recommendations were made by individual respondents, including that ITA publish a "How to Export" manual, and EMC directory, a more complete listing of Trade Shows worldwide, a directory of exporters and a directory of buying agents in U.S. Several urge that export control procedures be made more reasonable, fair, and less burdensome, showing more sensitivity to the needs of small firms. One respondent suggests that District Offices be given local approval for routine export control matters. A few respondents suggest across-the-board reduction of programs; that Congress "back-off" on its boycott and bribery stands; that more support be accorded U.S. products in the multilateral trade negotiations; and implementation of the PEC Task Force report recommendations.

B. Major Impediments

The U.S. Government itself is most frequently cited as the major deterrent to export expansion. A significant number of firms state that the entire field of U.S. government export regulations, requirements and procedures, particularly export control, is the greatest impediment. In addition, a sizable group of firms mention the boycott regulations as a problem area, and an even larger number of respondents complain, some bitterly, about excessive paperwork, delays and bureaucratic procedures. The implementation on January 1, 1978 of a new regulation calling for the spot-checking by customs of export shipments is seen as aggravating the problem. Most respondents cite the licensing procedures and attendant paperwork required not only by DOC but also the State Department's munitions control. Several firms attribute losses of sizable orders to licensing delays, particularly smaller firms and EMC's.

Another major impediment can be broadly described as tax/finance problems: insufficient financing, government credits, and incentives for export transactions; uncertainty of the DISC facility; and lack of FCIA and EXIMBANK support/responsiveness. The current U.S. tax policy, with its lack of export incentives and its unfavorable impact on U.S. citizens residing overseas, is identified as a deterrent by a fairly wide range of firms.

A considerable number of firms of all sizes consider a major obstacle to exporting to be the lack of a unified, coherent, clearly enunciated USG export policy supporting the export community and subscribed to by all agencies and branches of government. A clear sense of frustration seems to be reflected by some firms which responded to ITA export encouragement activities, only to be subsequently discouraged by a lack of responsiveness or obstructive attitudes on the part of the U.S. government offices. The lack of Foreign Service support is mentioned by a relatively significant number of respondents. This is generally described in terms of lack of post responsiveness to the needs of visiting American business persons, and to the lack of post response to business written communications. When these comments are combined with the suggestion for improved service in the first section above, the total represents a substantial number of firms citing the absence of appropriate assistance from Foreign Service posts.

With regard to EMC's, major impediments cited all relate, in one way or another, to financing and cost problems. Transportation costs seem to be the bane of the EMC's operation, with lack of credits/financing and escalating manufacturer's selling prices almost on a par. Significantly, the EMC, being highly sensitive to prices, ranks foreign price and other competition near the top in this area.

Under the heading of foreign government impediments the most frequently mentioned are the tariffs, non-tariff barriers and other trade regulations. These were cited by firms in virtually every size category, excluding FMC's. Various foreign government incentives, subsidies, financing, and protection of local industry are also frequently cited as major impediments, but to a lesser extent. There are also a significant number of respondents citing foreign price and other types of competition as a serious export expansion impediment. Japan is the country mentioned most frequently in this regard, although Germany, France, United Kingdom and others are also cited.

The third major impediment mentioned by respondents is problems attributable to the companies themselves, such as: lack of expertise in locating and collecting good overseas customers and agents/distributors; lack of knowledge of foreign markets; lack of top management commitment; top management ignorance, fear and/or in flexibility; fear of not getting paid; and lack of trained personnel. The lack of trained personnel is mentioned only by the smallest firms. Also, among the smallest firms, lack of foreign market knowledge and identification of capable reps are frequently mentioned impediments. Language barriers, production devoted entirely to the domestic market, and lack of foreign market potential are also mentioned, but to a much lesser degree.

External factors, such as excessive transportation costs (principally ocean freight rates) are mentioned by a large number of firms. Many point to the ocean freight rate conference structure as the chief culprit. Others refer to the advantages of lower rates enjoyed by foreign exporters.

High and escalating production costs which lead to higher selling prices are listed by a substantial group of firms as an important constraint on greater sales abroad. The increasingly higher costs of travel, participating in trade shows and other promotional activities, are also seen as a problem, particularly by the smallest firms. Currency fluctuations, devaluations, and problems of foreign exchange availability are mentioned by firms of all sizes, while the business practices of U.S. banks are specifically mentioned mainly by EMC's.

Assessment by Respondents of Their Export Success

The responses to the question about export success can be grouped into three main categories: 1) the company's own marketing strategy and approach; 2) personal characteristics and qualities of company management; and, 3) product characteristics.

In the first category, the establishment of an effective agent/distributor network, together with active, ongoing support of those representatives, is reported to have been the leading factor in accounting for export success. Prompt delivery with efficient technical service capability and follow-up is mentioned as the next most significant reason, closely followed by promotional activities, direct mail, domestic and international advertising, and trade shows.

Travel and personal contacts by company executives and staff are the single most frequently mentioned reasons for export success for all sizes of firms with the exception of the largest, which also mention agent/distributor network and product quality. Hard work, patience, adaptability are also mentioned but much less frequently.

In the third group, product quality and uniqueness, including advanced technology, is considered the most significant reason for export success according to respondents. Pricing and company product image and reputation are considered to be of lesser importance. Foreign demand is mentioned by a still smaller number.

Relatively few comments refer to financial factors, comments about DISC being the most prominent.

TABLE Q - IMPEDIMENTS TO EXPORTING

Cause		Number of Comments
A. Private Sector Factors:		
1. Lack of knowledge in locating agents/distributors		72
2. Lack of foreign market knowledge		71
3. Lack of management commitment and company policy		44
4. Fear of not being paid		42
5. Lack of adequate personnel		32
6. Difficulty in locating customers		30
7. High cost of travel and promotion of products abroad		25
8. Language barriers		19
9. Domestic market in U.S. taking all of production		14
10. Restrictive U.S. banking practices		13
11. Lack of market potential abroad		13
12. Fear of loss of patent/trademark protection		6
13. Lack of finding a good Export Management Company		1
		382
14. Excessive transportation costs		94
15. U.S. inflationary pressures causing products to be uncompetitive		89
16. Foreign prices are lower, and other competitive factors abroad		80
17. U.S. floating exchange rates and currency fluctuations abroad		29
18. Loss of U.S. technology		19
19. U.S. labor strikes and other labor factors		7
20. Padding of prices by agents/distributors		2
		320
TOTAL Private Sector Factors:	702 (44%)	
B. United States Government:		
1. Paperwork, delays beacuse of bureaucratic procedures		120
2. Specific export procedures		75
3. Boycott of U.S. goods		63
		258
4. Lack of U.S. government financing		77
5. Lack of U.S. government incentives		51
6. Uncertain status of DISC		40
7. U.S. tax policies		39
8. Problems with Export-Import Bank and Foreign Credit Insurance Association		36
		243
9. U.S. Government is non-supportive and counter-productive		119
10. Lack of U.S. Foreign Service support		15
11. Lack of quality Commerce Department personnel		8
		142
TOTAL U.S.Government imposed impediments:...	643 (40%)	
C. Foreign Governments:		
1. Tariffs, Trade regulations, NTB's		156
2. Foreign Government incentives, subsidies, financing and protection of local industries		95
		251
TOTAL Foreign Government imposed impediments:	251 (16%)	
TOTAL All impediments:	1,596	

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TABLE R REASONS FOR SUCCESS

Reason	Number of Comments
A. Company Adaptability/Motivation	
1. Close personal contacts abroad	132
2. Travel abroad	77
3. Hard work, patience, perseverance, self-reliance	90
4. Adaptability to cultural mores, languages, etc.	64
5. Strong management commitment	29
6. Luck	8
	400
B. Company Strategy	
1. Established representation abroad	111
2. Provide follow-up and service to customers/agents/distributors	63
3. Analyzed the market	47
4. Good personnel here and/or abroad with know-how	40
5. Prompt delivery	34
6. Meet and adapt to the market requirements	30
7. Supported foreign representation	27
8. Found a good export management company or export agent to handle exports	19
9. Provided financing	12
	383
C. Product Characteristics	
1. High quality/Unique products	116
2. High level of technology/R&D	40
3. Prices are competitive	49
4. Image and reputation of company and/or products	35
5. Foreign demand high	34
6. Patented product	4
	278
D. Promotion	
1. Direct mail and international advertising	45
2. Trade show participations	37
3. Demonstrated products to customers	9
	91
E. Financing	
1. Used DISC	7
2. U.S. banks were helpful/Export-Import Bank/FCIA	3
	10

TOTAL All comments..1,162

TABLE S IMPROVEMENTS

A. Exhibitions	
1. Expand or improve Shows, Missions and provide more follow-up	59
2. Reduce participation fees	46
3. Expand Catalog Shows	11
4. Expand domestic show participation	4
5. Support more Trade Associations in shows/missions	1
	121
B. U.S. Government Roles	
1. Make programs more responsive to industry needs	35
2. Improve Foreign Service support	28
3. Provide services/programs at more reasonable price	9
4. Reduce government programs (not needed)	8
5. Make Commerce information more realistic and reliable	8
6. Make Commerce seminars more relevant and specific	15
7. Increase Multi-national Negotiations in support of U.S. exports	6
8. Have only one government organization to help exporters	4
	113
C. Foreign Market Data	
1. Improve reporting of foreign market changes	15
2. Provide more trade regulation information	11
3. Improve country desk information	5
4. Expand and improve Global Market Surveys	5
5. Focus on target industries more specifically	4
6. Publish lists of country credit standing	2
7. Make overall services, information and research more timely and specific, i.e. product oriented	53
	95
D. Trade Leads	
1. Make leads under TOP more specific and program more effective	50
2. Make leads more specific (without reference to TOP)	16
3. Expand programs for direct buyer/seller contacts here and abroad	17
4. Make trade leads more timely	9
5. Provide more help in major projects (timeliness, etc.)	14
	106
E. Agents/Distributors	
1. Improve A/DS, EMLS, by providing more detail, evaluation of companies, and more specific detail	33
2. Improve, expand, speed-up World Traders Data Reports and lower fee	17
3. Bring agents/distributors to U.S. to meet potential suppliers	3
	53
F. Incentives	
1. Provide government incentives, guarantees, credits	41
2. Provide financing assistance from SBA, Export-Import Bank, Foreign Credit Insurance Association	23
3. Continue DISC	14
4. Provide special low airline fares, special postal rates for exporters	8
5. Provide technical translation service	4
6. Provide United Parcel Service worldwide	2
	92
G. Publications	
1. Publicize more widely Commerce services/programs	10
2. Provide a more detailed "How-to-Export" manual	8
3. Publish a directory of Export Management Companies and explain benefits in using EMC's	7

4. Publish a directory of U,S. exporters	2
5. Publish a directory of foreign government buying agencies in the U.S.	1
6. Provide a more detailed list of trade shows worldwide	1
	29

H. Advertising

1. Provide advertising overseas for exporters	13
2. Expand New Product Information Service	3
	16

I. Export Procedures

1. Make procedures more reasonable, fair and less burdensome	16

TOTAL all comments..................................641

TABLE T
Relationship of Company Size to Reasons for Export Success

Employment	Reasons			
	Close customer contact/travel	Establish foreign representation	Quality product	Competitive Pricing
EMC's	27%	3%	7%	6%
1-50	7	5	6	3
51-100	11	8	7	3
101-250	13	9	8	2
251-500	22	10	10	1
501-1,000	11	3	6	1
Over 1,000	12	13	13	4

	Company strategy 1/	Company commitment 2/	Foreign subsidiaries/J.V.
EMC's	38%	25%	-
1-50	1	6	-
51-100	13	6	-
101-250	22	8	-
251-500	36	12	-
501-1,000	22	17	-
Over 1,000	32	17	9%

1/ Support foreign representatives, hire professionals here/abroad, develop market knowledge, provide prompt delivery, provide technical and service follow-on, develop promotion abroad

2/ Adapt to cultural differences, use foreign languages, hard work, self-reliance, perseverance, patience, management commitment

TABLE U
Relationship of Company Size to Impediments Mentioned

Employment	Impediment Comments				
	U.S. Administrative/ Government Policies	Foreign Business Practices 1/	2/ Financing, Collection	Costs, Prices Exchange rates	Lack of Foreign Market Knowledge
EMC's	35%	22%	19%	30%	less than 1%
1-50	17	9	9	12	6%
51-100	18	8	10	13	10
101-250	15	16	11	18	6
251-500	25	17	12	19	5
501-1,000	28	22	14	18	1
Over 1,000	51	24	11	20	3

1/ Incentives, government subsidies, tariffs, NTB's, government financing, protection of local industry

2/ Lack of U.S. government credits, Export-Import Bank/Foreign Credit Insurance Association inadequacies, general lack of financing, fears regarding non-collection

Ranking of Respondents in terms of the Proportionate Number of Impediment Comments:

1. Export Management Companies
2. Over 1,000
3. 501-1,000
4. 251-500
5. 101-250
6. 51-100
7. 1-50

IMPEDIMENTS/REASONS FOR SUCCESS RATIOS

	# of Comments	=	Ratios
Export Management Companies	231/242		.95
1 - 50	350/266		1.3
51 - 100	139/117		1.2
101 - 250	174/155		1.1
251 - 500	135/141		.95
501 - 1,000	75/56		1.3
Over 1,000	181/140		1.3

The Impediments/Success ratios can be interpreted as follows:

The groups that found more reasons for success in exporting than impediments to exporting were the Export Management Companies and the group having between 251-500 employees. Those groups having comments reflecting more concern for impediments than for reasons for success were the smallest manufacturers and the largest manufacturers, although for different reasons. The smallest manufacturers were relatively more concerned with questions of price, costs, financing and collection procedures, while the largest manufacturers having more than 500 employees were relatively more concerned with questions of foreign business practices. This is understandable, due to their interests in establishing and maintaining profitable international business operations, such as foreign subsidiaries.

CHAPTER 3

SOURCES OF EXPORT ASSISTANCE: ITA AND NON-ITA SERVICES COMPARED

Introduction

The preceding chapter identified the most important needs U.S. firms have for export assistance. As will be shown in this chapter, such assistance is available from any number of sources, both within the U.S. and abroad. This includes government sources as well as profit and non-profit service organizations in the private sector. The fact that both the government and the private sector offer services in this area, however, suggests that there could well be some duplication of effort in what they each do.

Concerns about this point warrant a thorough investigation. Clearly, if comparable services can be obtained outside the Federal Government, and these services are fully capable of meeting the needs of firms the Government is also trying to assist, then the Government should not be involved. On the other hand, the Government does have a responsiblity, as a public service, to fill gaps that exist when the private sector "alternatives" are either unavailable, inadequate, or ineffective in meeting needs for assistance.

This study was undertaken to obtain a better profile of private sector capabilities in the export assistance field. Its purpose was to determine not only what alternative services are available from non-ITA sources, but also how adequate and effective they are -- or could be -- relative to ITA's, in meeting industry's needs, particularly the needs of small firms. With this information, ITA can better make decisions on which of its export assistance activities should be:

(a) phased down or out because adequate alternatives are available;

(b) intensified to fill gaps where the alternatives are not available, adequate or effective;

(c) continued because the alternative sources cannot provide their own services adequately without access to ITA's.

(d) modified in order to better address identified needs

To this end, the analysis focussed on the following eleven specific categories of export assistance now provided by ITA: (See also attachment 1.)

- Exhortation/encouragement to export
- Instruction/counseling on how and where to export
- Information on specific foreign markets
- Market research on specific products for export
- Assistance in identifying and contacting prospective agents and distributors abroad
- Assistance in identifying and obtaining export sales leads
- Commercial reference data on individual foreign firms
- Assistance in advertising and publicizing products abroad
- Assistance in exhibiting products abroad
- Assistance in traveling abroad for business purposes
- Assistance in meeting foreign businessmen in the United States

These eleven categories correlate with the nine categories included in the "exporter needs" survey discussed in Chapter 2, with added refinements in two cases.

The study was conducted in two phases, each involving personal interviews with appropriate U.S. firms and organizations in different regions of the country. (See attachment 2 for Interview Guides used in these discussions.)1/ The first phase involved interviews with 115 organizations providing one or more of the eleven categories of assistance -- to determine what types of service are available from such organizations, who they are reaching, how they are delivered, and what they cost. Included in the sample were banks, trade and industry associations, chambers of commerce, world trade centers and associations, universities, export management companies, publishers, specialized international business information organizations, market research consultants, port authorities and state and local development agencies. The sample was drawn from both internal and outside sources, including recommendations from the District Export Councils, "multiplier" organizations, and ITA District Offices.

In the second phase, interviews were held with 76 existing and potential users of export services, both of non-ITA as well as ITA services -- to determine how adequate and effective such services are from the users' point of view. Here, the emphasis was on such factors as comparative content, quality, reliability,

1/ A complete list of all interview contacts, as well as write-ups of each interview held, are available to appropriate parties for inspection in Room 7099-C, 377-5291.

accessiblity, responsiveness, speed and affordability of the service. The sample was randomly selected from various sources, including ITA's American International Traders Register; lists of past users of ITA services; state directories of manufacturers and exporters, and other industry and financial directories.

The conclusions drawn are still preliminary at this stage. Time constraints did not allow for a larger sample of contacts by which more judgment and facts could have been obtained. This work will continue, however, and a more definitive report, with specific recommendations, will follow.

Major Findings and Conclusions

Export assistance services are available from many sources in the United States and abroad. The U.S. Government -- principally ITA -- is only one such source. Others include:

- public and quasi-public organizations at the state and local level, such as state development agencies and port authorities;

- private, non-profit institutions, such as chambers of commerce; trade and industry associations; world trade associations; universities; and professional societies and associations;

- profit-making enterprises, such as export merchants; manufacturers representatives; export management companies; export consultants; freight forwarders; transportation companies; warehousing firms; banks; factors; insurance companies; accounting firms; law firms; publishing houses; the trade press; market research firms; credit reporting firms; advertising agencies; exhibition management companies; travel agencies; hotel chains; and companies specializing in integrated marketing information and assistance services; and

- foreign governments and specialized agencies of the United Nations and other international organizations.

Reasons for providing a given service differ among the sources. In the case of private commercial organizations, "profit" is the motive. Export services are provided either for direct income or to increase use of other income-producing services of the organization. In the case of governmental, quasi-public and non-profit sources of assistance, "public interest" is the motivating factor. By providing export services to individual firms, it is assumed that legitimate constituent needs will be met and that, as a result, important benefits will accrue to the group, community, state or region involved, and ultimately, to the nation as a whole.

Differing motives for providing a service, however, are not in themselves significant in determining an appropriate role for ITA. That is, the key issue is not why a service is provided, but whether and how adequately needs are being met. If the same public goals pursued by ITA can be fully achieved alternatively -- by other sources of assistance -- then ITA's services would be largely redundant. Even if all needs cannot be met alternatively, there would still be reason for ITA to construe its role narrowly. Basically, ITA should confine itself only to important gaps not otherwise being filled, and its services should complement and reinforce those offered alternatively, rather than duplicate or compete with them.

The distinction between complementarity on the one hand, and duplication on the other, however, is not easily drawn. For example, even when an ITA service is identical in content to a non-ITA service, it may still not be duplicative if, for example, the non-ITA source:

- is only meeting needs of certain types of U.S. firms (e.g., large firms who can afford the price);
- is available only to U.S. firms in particular locations (e.g., in large U.S. industrial or port cities); or
- is offered only in particular overseas markets (e.g., in the highly industrialized countries of Europe and Japan).

Most ITA services do not have identical counterparts in program content. Not only are there differences in the clientele, domestic locations and foreign markets served by ITA and the non-ITA sources, but there are also qualitative differences in the services provided (e.g., comparative reliability, accuracy, responsiveness, timeliness and so forth).

To determine the extent of actual overlap and duplication between ITA and non-ITA services, five basic questions must be asked:

-- Are all the services comparable in content and quality?

-- Are the services equally available and accessible to U.S. firms in all localities?

-- Are the services equally offered in all overseas markets?

-- Are the services equally effective in meeting the special needs of firms of all sizes, experience levels, and degrees of commitment to exporting?

-- Are the services equally affordable to firms in all income categories?

On balance, when viewed in the above context, most of ITA's services can be said to complement and reinforce the services provided by other sources, rather than overlap or compete with them.

More specifically, by far the greatest array of export services are exclusively provided by non-ITA sources. ITA has no direct involvement in these areas at all; hence, the issue of potential conflict does not arise. Included are export management services; preparing export documents; financing, insuring, warehousing, transporting, distributing and merchandising export goods; providing bookkeeping and legal services, and supplying logistical and technical support services, such as travel and lodging accommodations, communications, translations, etc.

The only areas of potential overlap are in the eleven categories of export assistance specifically covered in this study. These are the services which both ITA and the non-ITA sources provide in some form or other. By and large, however, in each category, significant differences were found as to clientele and localities served; foreign markets covered; and content, quality, cost and effectiveness of the services provided.

To some extent, these differences stem from inherent advantages of the Government in providing services for the "public good." ITA, for example, through its diplomatic connections, has access to certain kinds of data not generally available to private sources. Also, many ITA services are, in effect, spin-offs from policy-making and other ongoing official functions of the Government, and can be provided at costs that need only cover the add-on expenses of delivering the service to the public. By comparison, a private firm providing such services would have to charge enough to cover not only the delivery costs, but also the costs to develop the product in a form suitable for delivery, while still leaving a margin for profit. Obviously, this is only feasible in situations where demand for the service is broadly-based or high enough to yield an acceptable profit. An additional advantage of ITA is that it represents a single, centralized source of assistance in all the eleven categories covered. Even assuming such services could be obtained elsewhere, there is no one alternative source that could provide all of them. This means that any given user would have to go to a multiplicity of sources to obtain comparable assistance. While a few private organizations can and do provide integrated services, the fees they have to charge tend to be beyond the reach of the majority of U.S. firms.

Taking these factors into account, it is apparent that, from the users' perspective, significant gaps exist in services provided by non-ITA sources. This is particularly the case for smaller, less experienced firms; firms on limited promotional budgets; firms located outside the major U.S. industrial and port cities; and firms seeking assistance in the less developed countries of the world.

In the final analysis, while there is clearly room for increased cooperation and joint effort between ITA and non-ITA sources of export assistance, there seems little justification for ITA to defer to the other sources in any of the eleven categories studied. Each has unique strengths to contribute, and these help to offset respective weaknesses. Even so, however, gaps in service remain. More, not less, needs to be done by all sources, therefore, if additional export capable firms are to be drawn into exporting and if the existing exporters are to more fully realize their export potentials.

Section 1: SOURCES OF ENCOURAGEMENT TO EXPORT

Sources of encouragement to export include organizations and publications that educate the public about the benefits of exporting and urge that export efforts be pursued. The objective of export encouragement is to motivate more U.S. firms to get into exporting for the first time or to become more active as exporters than they might otherwise have been without the encouragement. This will contribute to a larger and more varied base of exporters and a steadily rising volume of export sales.

I. ITA Services

Industry and Trade Administration (ITA) has a variety of techniques to inform the U.S. business community of the potentials of international trade. Information publications on ITA programs are prepared, and direct mail campaigns are used to familiarize the business community with such programs. As an incentive to encourage excellence in exporting and to demonstrate to others that export success is possible, "E" and "E Star" Awards are granted to U.S. firms which have made an outstanding contribution to exporting. ITA directs a select advertising campaign to alert U.S. businessmen and the general public to the benefits and importance of exporting through the cooperation of the trade press and the Advertising Council. The outreach services of "multipliers," such as banking institutions and trade associations, inform businesses of the importance of exporting and the ITA services that are available. ITA representatives speak at various functions, and trade specialists from the field offices visit firms with export potential to provide them with information on exporting.

In addition to the ITA field offices, there are also 42 District Export Councils at the local level which, in cooperation with ITA, carry on export awareness campaigns. Council members are appointed by the Secretary of Commerce, usually for two-year terms. Their services are voluntary.

II. Non-ITA Services

Almost all types of organizations interviewed in this study either directly or indirectly encourage exporting, though none exists solely for that purpose. Usually the nonprofit organizations' interest in promoting exports results from the conviction that exports are desirable for the growth and economic well-being of the Nation and particularly the area which they serve. Profit-making organizations and associations which represent those organizations are interested in stimulating exporting in order to increase business. The principal means of encouragement is through exposing prospective clients to information about the benefits of exporting and, therefore, of joining the organization itself or purchasing its services. Such exhortation can be accomplished through a course at a university, an experienced exporter relating personal experiences, or a publication describing some of the advantages and mechanics involved. Many organizations act as multipliers for DOC.

The International Marketing Institute, affiliated with the Harvard Business School, conducted a study several years ago to determine what communities can do to promote exporting. For export awareness, the study concluded that the best approach is to get the entire community in the spirit of exporting rather than working with companies on an individual basis. World Trade Week, which is an annual event in several U.S. cities, is one such activity that contributes to community spirit. DOC plays an integral part in these events by providing logistical and promotional support. Also, the Secretary of Commerce is the National Chairperson of World Trade Week. The universities with international curricula sponsor seminars and workshops which involve people other than just the business community and are another source for community involvement.

World trade clubs, industry and trade associations, chambers of commerce, state agencies, and banks were found to contribute to export encouragement. World trade clubs publish newsletters, organize luncheon meetings with speakers, and conduct seminars on various aspects of exporting. The clubs also provide a forum for the exchange of ideas which can be a stimulant on an individual basis. One of the largest world trade clubs has a volunteer committee whose purpose it is to promote exports among smaller companies. Another trade club reported that its main purpose is encouraging local business firms to export who are not now exporting.

Activities of industry and trade associations that encourage exporting are generally limited to including information in their newsletters on trade fairs, seminars, trade leads, etc. Occasionally, they sponsor seminars which in several cases involved members speaking on personal experiences with exporting. Another association has a panel discussion that deals with diversified problems of overseas marketing. Another reported that encouraging firms to export is a major purpose of the organization. One association in a large city felt that aside from advertising in the newsletter, export promotion was the role of the local international trade club and DOC. In any case, the audience is limited to the membership of a particular industry and trade association.

Chambers of Commerce widely vary in their contribution to export encouragement. They promote the local economy and perhaps encourage businesses to locate and invest in the region. Some chambers are not at all interested in the international field. Others have activities such as an annual conference where speakers discuss the benefits of exporting. One publishes a foreign trade directory for $12.50 which lists export/import firms and international firms that deal with export and trade activities. They often work closely with DOC.

Some state agencies encourage exporting through activities such as distributing trade leads to assist businesses in expanding domestically and internationally. One state agency reported that it had deemphasized export promotion and instead encourages and facilitates industrial development and plant expansion in the State because the DOC and others take care of exporting.

Organizations like banks are sometimes active in the District Export Councils and encourage exporting through that activity. One bank reported making a concerted effort to increase the international activity of the bank by seeking prospective exporting clients. Like banks, export management companies have an interest in increasing the volume of exporting activities as well as the number of companies involved in exporting. One association of export management companies distributes folders to various manufacturers that contain a list of organizations that are members of the association.

III. Conclusions

Despite the exhortative efforts of ITA and many private sector sources of encouragement, there remains a considerable lack of awareness in the community at large about the benefits of exporting. Both ITA and the private sector services have similar messages, and both use similar media to get their points across. However, the impact of these efforts has yet to be fully or adequately felt.

In this area, concerns about duplication and overlap are misplaced. Clearly, there is room for increased exhortation by all sources involved, particularly on a cooperative basis. While ITA's is a continuing commitment, and the private sector has more pecuniary motives in its exhortative efforts, it is the aggregate effect, not motives, which are important.

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Section 2: SOURCES OF INSTRUCTION ON HOW TO EXPORT

Export instruction consists of advice and guidance to inexperienced firms on how to get started in exporting and how to export more effectively once involved. This would include advice on how to organize for export, assess market potential, devise marketing strategy, establish sales and distribution channels abroad, arrange insurance, financing and shipping of goods, obtain legal protection, etc. The objective of providing such instruction is to enable firms to overcome fears that exporting is to complex and therefore to be avoided, and also to help them become more efficient and to avoid costly and time-consuming mistakes once they do start exporting.

Respondents to the "exporter needs" survey ranked export instruction as very low in priority -- eighth out of the nine categories listed. This pattern held for nearly all sizes of firms. This result is in substantial conflict with the impression gained from more in-depth studies that non-exporting firms are often inhibited from exporting by the alleged complexities involved. If true, this would suggest a greater interest in learning more about the subject. One possible explanation for the discrepancy is that firms knowing little about a subject often do not realize how little they know or how much more there is to learn.

I. ITA Instructional Services

ITA's instructional services include how-to publications and brochures that lay out the basics of exporting and describe services available to help firms export; seminars, at which export procedures, problems and solutions are discussed by experts in various fields; and personal counseling by ITA trade specialists in Washington and in field offices to advise firms on export strategy and to help them solve particular marketing problems.

-- Publications include ITA's "A Basic Guide to Exporting" and "The EMC-Your Export Department." The former describes, in elementary terms, the various steps involved in exporting and where to go for different types of assistance. This "primer" is mailed out directly to firms and is used by District Offices in their instructional workshops and personal counseling of local firms. It has also been used in connection with the export awareness campaign conducted by the Advertising Council Inc., in cooperation with ITA, and has prompted some 18,000 of the 22,000 follow-on inquiries resulting from that campaign. The EMC publication is designed to make more widely known the fact that Export Management Companies can in many cases relieve U.S. suppliers of the burden of having to master the complexities of exporting and of having to set up their own in-house capability to manage the export activity.

-- Brochures are printed and distributed separately for each type of export service offered by ITA. These serve to acquaint firms with the range of specific services available from ITA to help them, as well as how each service operates, what it provides, and how it can be obtained.

-- Seminars and workshops are held at frequent intervals by ITA District Offices for small groups of local firms. The sessions may be held at the District Office or, when larger groups are involved, at the premises of a cooperating or co-sponsoring organization, such as a local chamber of commerce or bank. The seminars usually run for several hours at a time and feature talks by bankers, freight forwarders, EMCs and other experts in different phases of exporting who volunteer their services for the occasion.

-- Personal counseling on how and where to export is available from District Office trade specialists and from country and industry specialists in Washington. This could include evaluating the firm's market potential; pinpointing the greatest areas of opportunity; assessing the alternative approaches and promotional media available; and recommending a course of action.

District Office specialists regularly call on firms in their areas to offer assistance and advice. Local firms are also encouraged to call their District Office "account executive" directly if they have questions, need advice or information, or want export assistance of some other kind.

Washington-based country and industry specialists in ITA can provide personalized advice to direct firms to the most productive markets for their products and to help them devise marketing strategies most suitable for their products in those markets.

II. Non-ITA Instructional Services

There are a number of organizations other than ITA involved in giving instructional or "how-to" information on exporting to U.S. businesses. Typically, this is done through seminars/courses, counseling and publications.

A. Seminars and Courses

Seminars and courses are offered by such organizations as world trade clubs, chambers of commerce, educational institutions, state and local government agencies, industry and trade associations, banks, airlines, port authorities and consultants. Except for the professional education organizations, most of these groups prefer to cooperate in joint activities with ITA, particularly the District Offices, rather than independently sponsor and operate their own seminar programs. The nonprofit groups, such as the chambers and trade associations, participate as a service to members and the community. The profit-making organizations -- e.g., banks, airlines, freight forwarders, etc. -- also cooperate because of the exposure and good will created which they expect will benefit their main-line business. For example, one world trade club has worked with ITA, the local universities, and the Chamber of Commerce to organize seminars on financing, importing, freight forwarding and East-West trade. In another city, the Chamber of Commerce co-sponsors export seminars with ITA. There, the Chamber's role consists of providing space, publicity and credibility. With the help of ITA, one state commission will sponsor seminars on how to export in all regions of the state.

Joint seminar activity is preferred in these situations because budgets for any one organization are limited and the costs of operating independent seminar programs -- bringing in experts at consultant rates -- are high. The fees charged for seminars of this type are generally low, ranging from nil up to about $100 or so per session. The sessions themselves usually run no longer than one day and more commonly a half-day or less.

Certain organizations do sponsor independent export seminars and courses as an ongoing activity. This is particularly the case for professional educational institutions, such as universities and the American Management Association and the World Trade Institute in New York. These seminars deal not only with "how-to-do-it" instruction from an elementary point of view, but also with problems and solutions of a more specialized nature for more experienced exporters.

The American Management Association (AMA) has a staff of over 700 people, with 60,000 members. Half of their seminars are how-to oriented. They range from two to five days in duration, with a two-day session costing around $300-350 per participant. While the coverage is excellent, the seminars are only being offered in a few cities at the moment. Moreover, because of their price and duration, the AMA seminars tend to be less attractive to small-firm participants. Generally, the seminar participants are new, junior and mid-level personnel in large firms, whose management can better afford the expense and the loss of their services for a few days for training purposes.

The World Trade Institute, part of the New York World Trade Center, also has an active seminar program for exporters. The Institute runs an evening school of world trade and sponsors day-time seminars as well. The latter usually run two to four days in length and draw about half and half from within and outside the New York metropolitan area. Cost for a two-day seminar is about $195 on the average.

Other organizations that sponsor their own seminars from time to time usually limit them to under one day and charge more modest prices than the professional seminar organizers. Among these are some of the large chambers of commerce located in major port areas or internationally oriented cities. Colleges and universities have also developed various courses and seminars, both for students and for local businessmen.

B. Counseling

Counseling services are available in a hit and miss fashion from non-ITA sources. In most cases, those seeking counseling services are referred to ITA -- by banks, chambers of commerce, world trade clubs, state agencies, etc. Companies like banks, accounting firms, or freight forwarders provide counseling to their own customers, but the advice would usually be limited to their area of expertise. Members of world trade clubs and chambers of commerce have the benefit of other members to discuss particular problems. Only a few such organizations were found to have formal counseling programs. One chamber of commerce reported doing some business counseling on such things as shipping problems, pricing, and import restrictions, though many individual questions are referred to ITA. One state agency said that it provides one-on-one counseling to firms requesting basic information on how to export. However, this counseling is provided only on an as-requested basis and as time permits. Two export management companies reported counseling firms not involved in foreign trade. One counsels when it is desirable to find a specific item to fill out a product line. Another did a substantial amount of international trade counseling during discussions with prospective clients, most of whom had not previously been involved in international sales.

ITA is the only unified source of business counseling that covers all areas. With initiative, a person interested in exporting could obtain the advice and counsel needed, but a wide variety of sources would have to be tapped.

C. Publications

Many publications are available for the asking or for a fee which provide useful how-to information. Dun & Bradstreet publishes the Exporters' Encyclopedia, which is advertised as the most comprehensive how-to-do-it book of its kind. It costs $180 per year. The Port of New York-New Jersey published a World Trade Services Directory. Banks with international departments often have booklets describing the financial aspects of international trade, while freight forwarders typically provide literature on their services. Some universities also put out brochures on exporting.

Other non-ITA instructional publications include Prentice Hall's International Marketing by John Fayerweather ($3.95 paperback), and Richard Irwin's International Marketing by Phillip Cateora ($14.95).

III. Conclusions

Most seminars or courses available outside major metropolitan areas are conducted in cooperation with ITA District Offices. To cut off ITA services and support would probably create geographical gaps in service availability. The larger areas which have active world trade clubs and chambers of commerce could possibly fill the gap without ITA, but the smaller areas would probably not be able to generate the resources to conduct how-to seminars unless a university with an international curriculum were in the area.

There are many alternatives to ITA instructional publications in terms of content and affordability, but they are not widely known or accessible to firms in all parts of the country. The point that needs to be considered here is the distribution process. ITA has established distribution channels through field offices and cooperating multiplier organizations.

Non-ITA alternatives tend to be concentrated in certain locations, where the service organizations are most prevalent; or "static," as in the case of textbooks on marketing which require a visit to a library or bookstore.

Counseling services offered by non-ITA sources are spotty, and there is no evidence that without ITA services the gap would be filled.

Section 3: SOURCES OF FOREIGN MARKETING INFORMATION

Foreign marketing information consists of any information on foreign countries that serves to apprise recipients of what is happening in export markets abroad, and helps them determine which particular markets offer an export potential and how best to exploit it. This includes, for example, information on foreign economic conditions and prospects; on product and industry trends abroad; on business customs and practices and trade laws and regulations in the various countries; on the foreign government's overall trade policy and attitudes; on the sources and extent of market competition; and so forth. While most such information is provided in published form, it can also be obtained in person from country specialists or in response to written inquiries for specific pieces of information.

U.S. firms have indicated that access to this type of information, including more detailed market research discussed in Section 4, is one of their highest priority needs for export assistance. Respondents to the "exporter needs" survey ranked it second highest in priority among the nine categories of export assistance listed. Clearly, exporters feel they have a basic "need to know" about how and where their products can best be marketed abroad. To the extent they are better informed in this regard, they feel they are likely to make more intelligent marketing decisions and thus be more effective in their export operations against stiff foreign competition.

I. ITA's Foreign Marketing Information Services

The principal ITA information sources are:

-- Country Specialists provide U.S. firms with personalized guidance and information on any of the more than 150 overseas markets they cover. These officers have an in-depth knowledge of their assigned markets, based on first hand work experiences in the countries, their ongoing contacts with foreign government officials and businessmen, and their continuing liaison with U.S. Foreign Service posts abroad.

   They also have extensive data bases available on their assigned countries, including official statistics and current reports, studies, periodicals and other reference materials on all aspects of these markets. Drawing on this substantial data base and their own expertise, the country specialists are able to provide detailed information about marketing conditions, trends and prospects in specific foreign markets; advise firms how best to approach the market; and help them solve any marketing problems they may have in exporting to the country. (The problem-solving aspect of country specialist counseling is covered more fully in Section 2.)

Country specialists disseminate such advice and information in various ways. They counsel firms individually in person or by phone; answer written inquiries; give talks at country-oriented seminars and other forums; prepare articles and reports for publication; and refer inquirers to other sources of information and assistance as necessary. This service is provided free of charge, and each year thousands of individuals and firms alike make use of it through telephone calls, personal visists or correspondence with the country specialists.

-- Commerce America magazine is issued every 2 weeks to 5,255 subscribers, at a yearly subscription cost of $22. The "International Commerce" section of the magazine contains articles on economic and commercial developments in individual foreign countries and bulletins on foreign government actions in the trade field. Also regularly included are specific trade and investment leads abroad, announcements of upcoming overseas trade exhibits and other events sponsored by ITA, and reports on the results of recently held events. Twice yearly, the magazine issues a World Trade Outlook edition, which assesses the outlook for U.S. exports in each of 76 markets and regions abroad. All foreign marketing information contained in Commerce America is prepared for publication by ITA country specialists, based on reports from U.S. Embassies and Consulates abroad and voluminous reference materials they have amassed from foreign government sources, industry contacts and publications.

-- Overseas Business Reports (OBRs) are prepared by ITA country specialists on all of the major world countries. OBRs provide basic data on the economy and market of each country covered. Specifically included is information on the foreign trade outlook; best U.S. export prospects; distribution and sales channels; transportation system and facilities; advertising and research aids; trade regulations; import requirements and procedures; industrial property protection; labor availability; employment practices; taxation; and other items of interest to U.S. traders and investors in the country.

The entire series of reports on all countries costs $36.50 per year, or 50 cents per individual report. The reports range up to about 40 pages in length and are usually updated every two years for each country. Approximately 2,400 firms currently subscribe to the OBR series.

-- Foreign Economic Trends (FETs) are prepared for over a hundred countries, semi-annually in most cases, and run 8-10 pages in length. They are written by Foreign Service officers in the source country and published and distributed by ITA to some 1,400 U.S. subscribers. Their main emphasis is on recent developments in the foreign economy and the implications for U.S. traders and investors. The cost per subscription is $37.50 per year.

-- Country Sectoral Studies are in-depth reports on selected countries offering an unusually high market potential for U.S. products. The studies cover the key economic and industrial sectors of the country in considerable detail, with main emphasis given to the short and longer range sales implications for U.S. firms. Also included is an overview of the economy and pertinent information on how to do business in the country. The studies are sold for $3-5 each and range up to 300 pages in length. They are mostly based on research conducted by overseas contractors under supervision of ITA and the local U.S. Foreign Service post. To date, Country Sectoral Studies have been done on Brazil, Nigeria, Venezuela, Indonesia and Iran, with an additional study on Japan currently underway.

-- Foreign Market Report Service is a bibliographic and report-ordering service for U.S. business. Through it, U.S. firms can learn about and purchase actual copies of any of the hundreds of unclassified foreign market reports sent in each year by U.S. Foreign Service officers in more than 100 countries abroad. These reports typically cover such matters as economic, trade and industry trends in the source country; Government economic development plans and projects; changes in trade and investment policies and regulations; and best U.S. export prospects. Also available are in-depth market surveys prepared under ITA-let contracts abroad. The reports vary in length from 1-20 pages for Foreign Service airgrams and telegrams and upwards of 400 pages for contracted market surveys.

All pertinent reports are listed in a monthly Index, available to subscribers at $10 per year. The subscribers then order the reports they wish directly from Commerce's National Technical Information Service, at prices ranging from $3-$10 per report, depending on their length, or 55 cents for microfiche copies. Approximately 500 firms now subscribe to this service.

-- International Marketing Newsmemo Service disseminates ITA foreign market reports through some 350 cooperating "multiplier" organizations, including trade and industry associations, technical publishers, state development agencies, transportation companies, and general business organizations active in international affairs. On receipt of the reports from ITA, the multipliers publicize or distribute the reports to client firms through their own media.

II. Non-ITA Sources of Foreign Marketing Information

Information on foreign market conditions and trends is available from literally thousands of individual sources in the United States and abroad. In general, these can be grouped into five types of sources:

-- Organizations providing specialized international business information services as their principal activity.

-- The publishing industry -- including the daily press, wire services, and periodicals covering international business developments generally, specific foreign countries or regions, or specific industry sectors.

-- Commercial Services -- banks, accounting firms shipping and airline companies -- who provide marketing information primarily as a sideline to increase use of their main-line export services.

-- Business associations -- such as chambers of commerce, trade and industry associations, world trade clubs and similar groups -- whose membership services include newsletters or publications containing international business information.

-- Foreign governments and international organizations issuing publications in the United States.

A. Specialized International Business Information Services

Only a very few private organizations in the U.S. are now providing continuing, up-to-date coverage of overseas marketing conditions as their primary function. Among the largest and most active are Business International Corporation, Dun & Bradstreet International, SRI International and Chase World Information Corporation.

Of all the thousands of individual sources in the U.S., the organizations in this category are the ones which most closely parallel ITA as a one-stop clearinghouse for hard, original information on foreign market conditions and developments. As with ITA, they each draw on sizable domestic and overseas staffs to develop and prepare their information. In most cases as well, the information they publish is as relevant, practical and detailed as that offered by ITA. While they each receive and utilize ITA data as an aid in preparing their own materials, this is only one of many sources they tap and is in no sense an indispensible one. Thus, organizations in this category generally have a self-sufficient capability to provide as much and as good information on foreign markets as ITA.

There are, however, two key differences between ITA and these specialized international business information organizations: the cost of their information to users and and the type of clientele they serve. Their fees -- whether for single-copy reports or for package plan subscriptions -- are much higher than ITA's for comparable information; and, partly because of the high fees, their clients are invariably the large, well-established companies with multinational interests. For the most part, smaller, less-experienced exporters are neither sought after as clients, nor do they become clients.

Thus, for small firms, the specialized international business information organizations are not viable alternatives to ITA as sources of foreign marketing information. This is not the case, however, for the large, established exporters, who do use these organizations for marketing information, probably more than they use ITA, and are being well served by them.

(1) Business International Corporation (BI) headquartered in Geneva, offers perhaps the most extensive information services in this field. Launched in 1954, BI offers a combination of research, publishing and consulting services on a worldwide basis. It has major offices in Geneva, Vienna, Hong Kong, Rio and New York, plus some 500 other offices in the United States. Full time professional staff stationed abroad exceeds 130 persons. In addition, BI has a number of foreign correspondent

offices it works with and, as necessary, it can draw on select individuals abroad to provide information for clients on a case-by-case basis under contract.

BI information services represent a comprehensive system on world economic, government and market conditions. It publishes five weekly newsletters: one each on Latin America, Europe and Asia; one on international financial matters worldwide, (Business International Money Report); and one focusing on broader issues for managers of worldwide operations (Business International). It also offers a bi-weekly on Eastern Europe. Beyond these, BI publishes two series of country-by-country reports updated annually: one on Investing, Licensing and Trading Conditions Abroad; the other on Financing Foreign Operations. Finally, it publishes an average of 20 special research reports per year on individual topics of interest to internationally oriented firms (e.g., "Europe's Rules of Competition," "Industrial Democracy In Europe," "Compensating Overseas Executives," etc.)

BI's information services are available to subscribers only, either as an entire package or a package for each geographic region of interest. Cost per region is $12,000 per year. For this amount, for example, a subscriber to the Europe package would receive 50 copies each of Business Europe weekly, Money Report weekly, Business International weekly, the two series on Investing Licensing and Trading Conditions and Financing Foreign Operations for all of the European countries covered, and approximately 6 special reports on issues affecting European operations.

The $12,000 per region subscription price also entitles subscribers to attend BI-organized roundtables with high level foreign officials in the region (cost of participation extra); to obtain 12 hours of free market research (otherwise costing $40 per hour); and to make use of BI's counseling services domestically and abroad.

Additional BI services include:

- BI/DATA, an on-line statistical data base covering national accounts and marketing variables on 70 countries, and short-term forecasts on 35 countries. Data includes the Gross Domestic Product and its components in both current and constant prices, demographic and labor force data, wage, price and production series, exchange rates, etc. BI/DATA can be accessed via an international timesharing network, and includes built-in programs for currency conversion, common base year, per capita presentations, and growth calculations.

- FORECASTING SERVICE, includes in-depth analysis and medium-term forecasts of each of the 14 major Western European economies and nine of the most important markets in Latin America.

BI's clients are mostly the large U.S. companies with substantial international operations and experience. BI officials interviewed for this study said they would like to get smaller companies as clients, but doubted such companies could afford BI services.

(2) Another comprehensive information service is offered by Dun & Bradstreet International, headquartered in New York. Operations are conducted through 33 subsidiaries with 130 offices in 27 countries, including 21 correspondents in non-office countries to gather marketing information and intelligence on a worldwide basis. Services available include not only basic and current information on foreign market conditions and developments, but also background credit reports on individual foreign firms; business directories and listings of foreign firms in a number of major markets; a worldwide agent/distributor locating service; listings and data on manufacturers in the United States; and specialized market research services for individual clients. (The above services not involving overseas marketing information are discussed elsewhere in this report under the relevant service categories.)

Concerning just the foreign marketing information services of D&B, the principal product is the Exporters' Encyclopedia, probably the most complete, single source of international trade and shipping information available in the United States. At a cost of $180 per year, subscribers to Exporters' Encyclopedia obtain the annual "World Marketing Guide," a five-part, 1,600-page compendium of data on more than 220 world markets, including basic market characteristics in each country (economy, geography, etc.); trade figures; trade regulations; banking, transportation and other services available; and general information on international business law, export terminology, and export practices and procedures. The annual "Guide" is supplemented by twice-monthly bulletins reporting significant changes in regulations, conditions, etc., contained in the base document.

Also available with the Exporters Encyclopedia subscription or separately at $30 per year, is D&B's World Marketing Newsletter, a twice-monthly publication covering economic conditions, market developments and trade opportunities abroad.

(3) A third major organization specializing in overseas marketing information is the Chase World Information Corporation (CHASE), located in New York. Although a subsidiary of the Chase Manhattan Bank, CHASE operates independently of the bank as a source of information on foreign markets.

Principal informational services are included in CHASE's EXPORT TRADE SERVICES Program, which consists of the annual CHASE World Guide for Exporters; quarterly Export Credit Reports; and a "Hot Line" to CHASE trade specialists for individual counseling. Total cost of the package is $295 per year.

- CHASE World Guide for Exporters, an annual report covering 180 countries, supplemented periodically (usually weekly) by bulletins to keep it up to date. Mostly finance-oriented, the Guide contains current information on export financing methods in each country; interest rates on suppliers credits, collection experience and charges; foreign import and exchange regulations, etc. Cost of the Guide separately is $150 per year.

- Export Credit Reports, issued quarterly, provide a detailed analysis of credit terms and other exporters' practices selling to each of some 80 world markets. The reports, priced separately at $250 per year, further show the credit terms broken down by major product categories, thereby enabling U.S. suppliers to compare their terms with the average for specific industry groups in each of the 80 markets.

In addition to the EXPORT TRADE SERVICES package, CHASE also publishes periodicals and special reports on foreign markets, particularly on "third world" and centrally planned economies.

- Periodicals: East-West Markets - a bi-weekly survey of news and analysis of business developments with the countries of Eastern Europe and the Soviet Union, based on reports from correspondents on the scene. Mideast Markets - a companion piece focused on the developing countries of the Middle East and North Africa.

Reports: Agribusiness in the Middle East and North Africa - six volumes which provide a systematic examination of the agribusiness potential in Saudi Arabia, Egypt, Iran, Sudan, Iraq and Syria. Developing Business in the Middle East and North Africa - seven country studies - Iran, Saudi Arabia, Egypt, Iraq, Sudan, Gulf States and Kuwait which provide guidelines for initiating and implementing high potential operations in each of the major countries of the Middle East. Eastwest Business Cooperation and Joint Ventures - a series of eight reports which provide guidelines on establishing and conducting successful business relations with the countries of Eastern Europe - Yugoslavia, Hungary, Poland, Romania, Czechoslovakia, Bulgaria, German Democratic Republic and USSR.

(4) SRI International, formerly Stanford Research Institute, also provides specialized marketing information and research services covering most countries of the world. Headquartered in Menlo Park, California, SRI International has research groups and offices throughout the U.S. and abroad, with a total worldwide staff of about 3,000 people.

U.S. firms wishing to obtain SRI's international marketing information services on a regular basis can do so under two basic plans -- the International Associates Plan, at $500 per year, and/or the Business Intelligence Program, at $5,000 per year. Both plans are aimed at large multinational firms.

The International Associates Plan (650 members worldwide as of 1977) entitles members to three to five SRI International research reports per year on particular regions, countries, or topics of general international interest. The regional or country reports (e.g., "Business in Brazil") typically describe the local culture, government economic conditions, level of industrial and infrastructure development, labor force, financial conditions, and economic and industrial trends in the area covered. These reports are similar in content and length to ITA's Overseas Business Reports (OBRs) on individual countries. The topical reports focus on broader international business developments and the implications thereof.

Neither the area reports nor the topical reports are advertised or sold for general distribution to the public. SRI Associates receive them gratis as part of their $500 membership fee. Non-associates may, however, purchase some of the reports at fees ranging from $25 to $50 per copy (compared with 50 cents per copy for OBRs).

In addition to the three to five reports per year, SRI Associates are also entitled, at an additional cost, to attend the several SRI International Meetings held annually in various countries abroad. Each such meeting features one or more SRI research reports, publications and presentations. Only SRI Associates and invited guests and participants may attend.

SRI's Business Intelligence Program (formerly Long-Range Planning Serice) is an integrated information system that brings SRI International's expertise to bear on a broad range of business issues. The program reports to subscribers on any change -- economic, social, technological, or political -- that is expected to have major implications for corporate strategy. The principal outputs of the program are: (a) Research Reports: These are in-depth evaluations of the basic changes reshaping the business world over the next five to ten years; (b) Guidelines: These are short-term assessments of pressing business issues and their likely repercussions; and (c) Datalog: This is a monthly publication that brings members up to date on various SRI International worldwide events. In addition, seminars on topics of special interest to members are held at varying intervals in selected major cities worldwide.

Reports of the Business Intelligence Program cover a wide variety of such domestic and international subjects as Consumer Marketing in Japan, Decision Analysis, World Inflation, Fuel Cells, Renewable Energy Sources, Spain's Economic Development, etc. Approximately 30 Research Reports, 60 Guidelines, and 12 Datalogs are published annually for the $5,000 per year subscription fee.

B. The Publishing Industry1/

Relatively few publications and news services cover foreign markets in a systematic, comprehensive, reliable, and serious manner. The reason for this thinness of supply in the face of what would appear to be a huge demand -- to support an existing $120 billion per year export market, plus another $130 billion or more in overseas U.S. investment interests -- is economic. The cost of maintaining overseas reporting staffs -- particularly knowledgeable persons able to provide useful economic and political information -- is steep. The organizations that have succeeded -- or even survived -- in these efforts have shared two characteristics: (1) they have charged high prices for their products, thereby

1/ Information in this section draws partly on findings of a 1974 report on "Alternate Sources of Information on International Markets," prepared under contract by International Business-Government Counsellors, Inc.

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limiting their markets mostly to larger corporations; and (2) they have managed to combine their reporting on foreign markets with other activities and functions, including other publishing activities.

(1) Newspaper. The high costs of operating overseas news bureaus, combined with the longer-term decline in the American newspaper industry, have resulted in eliminating all but a few of the independent foreign reporting activities of the past. A few major newspapers -- Washington Post, Chicago Tribune, Los Angeles Times (combined daily circulation of 2,314,922) -- still maintain a few bureaus, partly for prestige, but their overseas coverage is largely political. The New York Times (daily circulation 820,239) is the one major exception to this general trend. It has been able to overcome the trend by syndicating its foreign (and domestic) coverage into a news service that many other U.S. newspapers buy. The Times offers continuing overseas coverage, with considerable economic reporting of both a regional and a national character. One other general purpose newspaper, The Christian Science Monitor (daily circulation 166,654) also provides extensive overseas economic content, particularly in the developing countries. It maintains few bureaus and relies largely on the contributions of free-lance journalists, which weakens quality and reliability. Nonetheless, it provides information on developing countries often not otherwise available in the press.

Among more purely economic and business newspapers, the leading U.S. publication, the Wall Street Journal (daily circulation 1,515,000), covers only the most important overseas topics, such as international trade and monetary negotiations, and a few major foreign financial markets. It attempts no systematic overseas coverage at all, but from time to time does offer excellent interpretive articles on major trends.

The Journal of Commerce (daily circulation 27,526), published in New York, specializes in three topics, of which one is international business (the others are transportation and commodities). It maintains several bureaus abroad and contracts for continuing correspondence from a half a dozen correspondents, or "stringers," in other markets. It offers a broad coverage of economic and industry conditions abroad, is reliant on international advertising, and circulates heavily among the international trading community in New York.

The Financial Times of London (daily U.S. circulation 1,999), though published abroad, does enjoy continuing circulation in the United States among international companies. Its coverage is worldwide in scope, partly through its own bureaus, partly through stringers and wire services.

Another foreign press source -- agence international d' information pour la presse, of Belgium -- publishes a daily, plus weekly supplement in English. Annual subscription is $572. Focusing mainly on Europe, it covers economic policy, business trends, company and banking news, foreign trade and customs, tariffs, EEC news, etc.

COST -- Annual Subscription Rates

Washington Post	$ 72.80
Chicago Tribune	78.00
Los Angeles Times	73.80
New York Times	125.00
Christian Science Monitor	45.00
Wall Street Journal of Commerce	80.00
Financial Times of London	178.00
Agence internationale d' information pour la presse	572.00

(2) Wire Services. Three wire services furnishing news to publications and others operate on a global scale, reporting worldwide information in English seven days a week. Two are American -- the Associated Press (AP) and United Press International (UPI) -- while the third, Reuters, is British. The number of U.S. companies subscribing to these services is not known, but would presumably be confined to mostly larger corporations that can afford the cost. Reuters' Financial Wire, for example, costs about $400 per month in 1973 (the latest report available.

(3) Trade Periodicals. Three types of trade periodicals offer information on foreign market conditions and developments. The first covers international trade matters

generally; the second focuses on particular foreign regions or countries; and the third is oriented toward specific industries or service sectors abroad.

(a) Generalized international trade periodicals: These are usually weekly or monthly magazines that cover a variety of topics of concern to exporters, such as foreign economic and financial developments; new development plans or projects abroad; changes in foreign and U.S. policies, laws and regulations affecting trade, and related matters. These periodicals contain information comparable to that found in USDOC's fortnightly Commerce America and the Foreign Market Reports available on a wide variety of overseas developments through ITA's Foreign Market Report Service. The principal non-Commerce magazines in this category include:

(i) International Business, published every two months by World Trade Associates, Inc., is the official publication of the World Trade Clubs of America. Separate editions are printed for the U.S. and five other regional markets -- the Middle East, Asia, Europe, South American and Africa. Each issue of the magazine generally focuses on a particular theme, such as banking, transportation or some other export service; how to get export help from Federal agencies; how to market products overseas; marketing developments in a selected country or region abroad, etc. International Business is reportedly the largest circulating world trade magazine in North America, reaching nearly 36,000 readers per issue. The cost to U.S. subscribers is $15.00 per year.

(ii) International Trade Reporter, issued by the Bureau of National Affairs, comprises three segments: U.S. Export Weekly ($225 per year), mostly dealing with Washington trade developments, such as changes in U.S. trade policies and regulations, major new export credits and development loans; and changes in foreign business regulations and controls; and Export Shipping Manual ($140 per year), a country-by-country reference, with weekly supplements, covering foreign trade regulations, import controls, foreign exchange conditions, and documentary requirements.

(iii) Rundt's Weekly Intelligence, at $240 per year, covers country developments such as broad economic and political conditions and currencies. Its Market Reports, at $100 per year, are issued 30 times yearly and offer in-depth coverage of individual countries. Rundt does not maintain overseas correspondents, but derives most of its information from the local press around the world. Rundt has also derived substantial income from consulting through the years.

(iv) International Reports Inc., established in 1947, is strong on international financial material, especially through its weekly International Reports which sell for $455 a year. This covers foreign exchange markets and government regulations influencing trade and investment. A weekly, International Business Intelligence, covers business, financial and industry developments worldwide, at $225 a year. Other publications cover government financing programs and national laws involving trade and investment.

(v) Pick's World Currency Yearbook, a more narrowly focused annual yearbook on world currency conditions and import regulations, plus monthly World Currency Reports that update this material. Annual cost is $120 for the yearbook, $350 for the monthly. Pick also does substantial consulting on overseas currency operations.

(b) Country-specific trade periodicals: A number of magazines are available that cover economic and marketing developments in particular regions or countries abroad. Most of them, however, are published abroad and, while printed in English, are not widely circulated in the U.S. The better known regionally oriented ones include:

Europe -- Economist (weekly, $50 per year)
Europe (daily, $630 per year)
Vision (11 times yearly, $32 per year)

Asia -- Asia Letter (weekly, $100 per year)
Modern Asia (10 issues, $50 per year)
Far East Economic Review (weekly, $47.50 per year)
Oriental Economist (monthly, $38 per year)

Middle East -- The Middle East (monthly, $18 per year)
Mid-East Business Exchange (monthly, $25 per year)
Middle East Economic Digest (weekly, $235 per year)
The Middle East Observer (weekly, $25 per year)

Africa -- Africa Report (6 times yearly, $15 per year)

Latin America -- Caribbean Yearbook (annually, $35 per year)
Caribbean Report (monthly, $15 per year)

(c) Industry-specific periodicals -- This segment of the publishing industry offers current, specialized coverage of developments in particular product or business fields, such as chemical, medical, constuction, advertising, banking or a specific function such as purchasing, design engineering or plant maintenance.

These specialized periodicals provide excellent treatment of company and competitive developments, new product developments, marketing opportunities, and technical information relevant to the sector covered. They are usually "must" reading for firms of all sizes specializing in that product or service field. However, relatively few such publications with U.S. circulations offer material on "foreign" developments in the sector. Those that do are usually published by the larger firms that also produce several other journals in related or different fields and are in a position to maintain experienced staffs abroad whose costs can be spread among the several publications at once. McGraw-Hill, for example, which publishes 24 separate industry journals, has bureaus of its own in eight countries. Largely for reasons of cost, as well as the narrow client base within a given industry sector, therefore, the great majority of U.S. trade and industry journals report exclusively on the domestic market.

Of a total of some 2,400 trade and industry journals currently published in the United States (of which only about 20% are accredited by the American Business Press, INC. -- the association of business publications publishers), perhaps only 50 or so provide regular coverage of the foreign scene. Generally, in these cases, foreign coverage is provided because the industries involved are basically multinational in character. This would be the case, for example, for the petroleum, mining, engineering and construction, automotive, aviation, chemical, electronics, data processing, food processing, wood and paper products, plastics, rubber, metalworking and medical supplies industries.

Examples of some of the prominent, internationally conscious U.S. journals in these fields include: World Oil, Engineering and Mining Journal, Engineering News Record, Automobile International, Air Transport World, Chemical Marketing Reporter, Electronics, Datamation, Food Processing, World Wood, Pulp and Paper International, Modern Plastics International, Rubber World, Iron Age Metalworking International, and Medical Laboratory Observer.

Most or all the publications in this category are sufficiently prestigious to have a foreign as well as domestic readership. Some of them, in fact, are so highly regarded and demanded abroad that special foreign editions or inserts are printed for overseas circulation. Typical subscription prices for U.S. circulation are in the $20-$40 per year range, with add-ons for overseas distribution.

In addition to the U.S.-produced publications discussed above, a number of foreign-produced journals also provide coverage of industry developments abroad. Obviously, those printed in English have larger circulations in the U.S. than the foreign language journals. For this reason, the Canadian, British and Australian journals tend to dominate in this field. Nevertheless, libraries maintained by larger U.S. firms, particularly the U.S. multinationals, typically contain all relevant trade and industry journals, whatever the language.

As would be expected, the foreign-produced journals focus primarily on industry developments in the home country. Where the industry is international in character, however, broader worldwide developments are also covered. Subscription prices for U.S. circulation are generally higher than the price for the U.S. equivalent journals.

NOTE: U.S. trade and industry journals not only represent a source of information for U.S. firms on overseas developments, as discussed in this Section; but also and perhaps more importantly, they serve as a vehicle for increasing awareness of U.S. technology, products and companies among foreign readers, who represent potential customers for the U.S. firms in the industries covered. This function of trade and industry journals is discussed more fully in Section 8, concerning services available to advertise and publicize U.S. products abroad.

C. Service Organizations

Internationally-oriented U.S. banks, accounting firms and, to a lesser extent, transport companies, also provide continuing publications dealing with overseas economic and market conditions.

(1) Banks. Considering the extent of their involvement in international trade and investment, surprisingly few large American banks provide regular information services on foreign countries and markets. Indeed, only two U.S. banks have substantial, ongoing publication programs providing this kind of information, both headquartered in New York -- the First National City Bank (Citibank) and the Chase Manhattan Bank. Several other banks publish periodic newsletters on country or regional developments abroad, and many banks with international departments will also counsel clients on such matters or distribute published information obtained from the Department of Commerce and other sources.

Banks have two natural advantages as sources of foreign marketing information. First, some have numerous branches or correspondents abroad that can send information back rapidly to the U.S. parent or affiliate. Second, some of them also have large economic research departments at headquarters that can process and publish this information. They maintain staffs of highly experienced international executives who can evaluate this material and provide personalized counseling to clients. These country specialists are as knowledgeable about their assigned countries as ITA's country experts, perhaps more so, partly because the bank specialists travel more frequently abroad for on-the-spot observation.

On the other hand, banks have two drawbacks as information sources for the business public at large. First, their main interest is in the financing of trade, not information per se. They provide counseling and information on foreign markets primarily to draw clients to the financial services. Thus, their published information, while useful, does not normally cover basic or underlying conditions in individual countries or regions abroad, and tends to be relatively thin, even in its coverage of new developments abroad, on matters of a non-financial nature. Second, because of their overriding interest in the financing of trade, banks are mostly after large, internationally experienced companies for clients -- those who will utilize the financial services heavily and repeatedly. These are the firms who, as clients, receive the bank's personalized counseling on foreign market conditions and whatever published material on the subject the banks have to offer.

Smaller firms with smaller trade accounts have limited appeal to the banks, and indeed, such firms have indicated difficulty getting banks to service even their finance needs, let alone furnish them with marketing information.

Citibank and Chase Manhattan, as noted, offer the most extensive information packages on a regular basis. Their clients are among the top corporations in the world.

Citibank has its own economics department with a staff of 100 persons domestically and abroad. Drawing on this staff and its branch networks in over 100 foreign countries, Citibank puts out a Foreign Information Service at a subscription price of $300 per year. Included in the package are:

- a weekly report on international trends and developments
- monthly economic reports on each of the 103 countries in which the Bank is represented covering marketing conditions and developments, the foreign exchange situation, money markets, government finance, commodity trends, etc.
- an annual report reviewing foreign exchange regulations and the changes therein in each country
- flash bulletins on important developments
- special periodic studies on countries, regions and functional topics.

Chase Manhattan Bank offers an extensive package of information services through its subsidiary, Chase World Information Corporation, as described in detail on pp. above. The Bank, itself, publishes only a bi-weekly newsletter -- "International Finance" -- covering noteworthy developments abroad of a mostly trade and financial nature. It is distributed free of charge.

Other banks publishing monthly or other periodic bulletins for clients on foreign marketing developments include:

- First National Bank of Chicago -- "International Economic Review," monthly, free of charge.
- Bank of America -- "Man-on-the-spot in Country," free of charge.

- Morgan Guaranty Trust Company -- "The Morgan Guaranty Survey," monthly, free of charge.

- Seattle First National Bank -- "International Update," nine times per year, free of charge.

- Hibernia National Bank (New Orleans) -- "World Marketing Report," six times per year, free of charge.

(2) Accounting Firms: Several of the major U.S. accounting firms, with offices around the world serving American companies, issue regular series of publications on foreign business conditions and laws in particular countries. Their major focus is on tax matters affecting U.S. business operations abroad, but most also provide general coverage of the legal and government environment in which American companies do business. The most active programs are run by Price Waterhouse, Peat Marwick Mitchell, Arthur Anderson, and Haskins & Sells. The publications are prepared for clients and are generally free of charge. They are not updated frequently and may be up to 5-10 years old for certain countries.

The Price Waterhouse series on foreign business conditions includes reports on 80 different countries entitled "Doing Business in (country) ." The reports cover general aspects of the country, its economy, people, government, business regulations and tax structure. Other titles are more narrowly focused on particular topics, such as "Individual Taxes in 80 Countries," "Corporate taxes in 80 Countries" and "Current Foreign Exchange Information Abroad."

Peat Marwick Mitchell publishes a series known as "International Tax and Business Guide to (country)," issuing several each year. Research and writing is done at their 300 offices overseas, with the finishing touch provided by their U.S. international division. Arthur Anderson publishes a comparable series on 30 countries, updated yearly, which is free to clients. An example would be the "Tax & Trade Guide -- Singapore," which focuses on doing business in that country. Haskins & Sells publishes a "Taxation in (country)" series on some 30 countries as part of its International Tax and Business Service.

(3) Transport Companies. Airlines and steamship lines have issued publications and brochures over the years that provide useful information on export practices, particularly as to shipping and air freight procedures and requirements. Among the shipping lines, for example

Farrell Lines (which is heavily concentrated in African routes) publishes a monthly newsletter on African economic news. Among the airlines, whose publishing budgets have been slashed drastically in recent years due to financial problems, Pan American used to publish "World Wide Marketing Horizons" every two months, a small magazine that was free to customers, circulating among 100,000 firms. It focused on trade leads derived from Pan Am's own sources, but was discontinued because of the high cost and Pan Am's inability to determine its effectiveness in generating business for its air cargo operations. Pan Am still publishes information on export practices, such as a recent handout on shipping to the Middle East sent to shippers and freight forwarders (5,000 copies). Pan Am is considering expanding this service to cover other regions or countries.

Other airlines offering similar types of information include Flying Tiger, Seaboard, TWA and Northwest.

D. Business Associations Offering Publishing Services

Publications programs are a popular service of most business associations. For some companies they are an important reason for joining. In most instances, however, the associations that provide published overseas market information lean heavily on reproducing other printed sources, particularly that provided by the Department of Commerce, rather than generating their own original material. Moreover, during periods of financial retrenchment for associations, these programs are often the ones cut back first. Some have been dropped in recent years.

Four kinds of business associations provide published material on overseas markets and economic conditions abroad:

-- First, are the local chambers of commerce on either a state or community level that maintain a foreign trade department. While more than 250 such chambers have at least one person handling foreign trade matters, this is usually a part-time function. The exceptions are the chambers in larger cities such as New York, Chicago, and Los Angeles.

-- Second, are the industry associations that serve a nationwide clientele within a particular industry or product sector, such as machine tools or electronics. There are several thousands such associations now active in the United States.

-- Third, are the world trade associations that are purely international in purpose, ranging from small world trade clubs to the National Foreign Trade Council with several hundred members.

-- Fourth, are the two-way chambers, such as the Philippine-American Chamber of Commerce, which tend to stress foreign investment and imports rather than exports. They are mostly located in New York

(1) Local Chambers of Commerce. An outstanding example is the New York Chamber of Commerce & Industry, whose 11-person international department services over 2000 members in the New York metropolitan area. Members receive a kit which includes information on all countries, with up-dates appearing in the Chamber's weekly World Trade Bulletin that covers trade contacts (leads and inquiries from abroad on export opportunities obtained through its affiliation with 250 overseas chambers of commerce), and news on changes in U.S. and foreign government regulations affecting trade (exchange controls, import licensing, fees). Also included in the kit are other useful pieces of information, such as passport regulations, holidays abroad, lists of foreign government trade entities in New York, etc. These publications are included in the price of membership, which runs from $280 minimum to $8,000 a year.

(2) Industry Associations. Although rarely developing their own information, these associations nevertheless represent an important secondary source of foreign marketing information for member firms, who must be clearly identified with the industry in order to join. Typical membership fees range from $30 to $100 per year. The information provided is usually industry-specific and therefore more germane to recipients than more generalized information on market conditions and prospects abroad available from other sources. Among the major sources of the information disseminated to members are other member-exporters in the association who share their experiences, and the U.S. Department of Commerce for whom the industry associations serve as export "multipliers." Industry associations cover a wide geographical area and serve large and small firms alike.

(3) World trade associations. These tend to divide between associations that service larger companies and those that assist smaller exporters. In almost all cases, the information they provide is obtained from other sources, such as the Department of Commerce, and repackaged in bulletins or newsletters of various kinds that are issued to members only.

The National Foreign Trade Council's membership comprises mostly the larger international corporations, with yearly dues ranging from $250 to $25,000. Publications are included in membership and do not normally circulate outside the group. The NFTC publishes four news digests covering separate regions, running 8 to 10 pages each: two (on Europe and Latin America) are weekly; the other two (on Pacific-Asia, and the Middle East and North Africa), twice monthly. Each digest summarizes current developments in the region as reported in local and other news media (with reference to the original source).

Among the world trade associations mainly serving smaller companies, one of the most prolific over the years has been the Foreign Credit Interchange Bureau (FCIB), now managed by the New York-based National Association of Credit Management. FCIB has about 1,000 members in the United States and abroad, comprising mostly professional exporters, such as Export Management Companies, but also some larger manufacturers and the large New York banks. While its main service is to provide credit reports on foreign firms (see Section 7), it also publishes a bulletin every two weeks covering changes in foreign exchange regulations worldwide, country by country, much of it based on the findings of members returning from trips abroad. It holds monthly roundtables on export problems and credit conditions, attended by up to 120 firms per session who discuss recent experiences they have encountered abroad. This exchange of information is then published in newsletters sent to FCIB members. Department of Commerce specialists are usually asked to comment on reports of changes in exchange and payment conditions abroad in preparation for these monthly roundtables. FCIB members pay $397 per year to join, which entitles them to all FCIB services. Price for the newsletter service alone is $100 per year.

(4) Two-way Chambers of Commerce. About 20 such chambers now operate in New York City, and all issue some kind of publication. Among them are the Philippine-American Chamber of Commerce, The German-American Chamber, the French-American Chamber, and the African-American Chamber. While most of their news bulletins are import-oriented, a few are valuable sources of information on overseas economic and market conditions. Virtually all the news items included, however, are reprints or digests from other

sources. The newsletters are usually free or at nominal cost to members, but membership itself includes a fee (e.g., $300 a year to belong to the Philippine-American Chamber, and $200 to $1,000 annually to join the African-American Chamber).

E. Foreign Governments and International Organizations

Many foreign governments in the United States issue publications, usually in newsletter form, covering general economic conditions in their countries. Their purpose is to educate the American public and to generate interest in doing business. They are primarily focused on exporting to the United States, but frequently are useful for American exports and investments moving the other way.

The New Zealand Embassy in Washington, for example, publishes a monthly Economic Bulletin that is six pages long and distributed free to many American companies. It covers economic conditions, government regulations, and trade trends. The British Information Services in New York publishes a monthly report on the U.K. Economic Situation, covering broad economic and financial developments. Government publications such as these fluctuate considerably, and many are dropped after several years or are replaced. The Austrian Government published a weekly newsletter in New York for many years, but abandoned it as too costly a project.

Among international organizations issuing publications, the European Economic Community (EEC) and the Organization for Economic Cooperation and Development (OECD) provide extensive coverage of economic and commercial developments in Europe; OECD publications also cover Japan, Canada, Australia and New Zealand. The EEC, which maintains a large information service in Washington, D.C., publishes literally dozens of bulletins, magazines, and special reports. Aside from statistical publications, three are of broad interest: (1) Bulletin of the Economic Communities, which covers the official regulations on all subjects, sells for $22 per year; (2) The Economic Situation in the Community, a quarterly, sells for $35.50 per year; and (3) Report of the Results of the Business Surveys, which summarizes extensive interviews among heads of EEC private enterprises, and covers their plans and expectations, is published three times a year and sells for $83 per year.

For the 24 developed countries that are OECD members, the OECD publishes annual reports on the economic status and outlook for each country, and also issues several series of statistical reports on production, trade and other economic trends in these countries.

Broader coverage of foreign economic developments is provided by the regional commissions of the United Nations--e.g., ECAFE, ECLA, etc.--and the International Monetary Fund (IMF). Relevant economic data are published for most countries in the world in the various periodicals issued by these organizations. The IMF also publishes an annual yearbook describing each country's currency and exchange control regimes and changes that have occurred during the year.

F. Other Overseas Sources

Many excellent sources of information are available overseas, and can be obtained by American executives who make the effort to locate them. These circulate in the United States far less widely, however, and require more effort to discover than the average international executive will make. Sources are governments, banks, publishing and research organizations, and business associations.

One source widely used by American business is the variety of publications issued by the American chambers of commerce abroad, with 25,000 members, most of them executives with American subsidiaries and branches overseas. These are normally issued monthly, covering announcements of government regulations and broad economic conditions. At least 15 of these chambers also issue magazines with advertising, to which anyone can subscribe. Generally, however, only the larger companies which operate overseas and belong to the AmChams receive these materials.

III. Conclusions

The need for varied, timely and accurate information on foreign markets has been confirmed by all previous studies on this issue, including those conducted by outside organizations as well as in-house. Such information is essential to good decision-making. It helps to overcome continuing gaps in industry's knowledge of how and where to export. These gaps--the "imperfect knowledge" problem cited by OMB--have been identified as a major impediment to U.S. firms more fully realizing their export potentials.

Foreign marketing information is available from thousands of individual sources, including governmental and private, profit and nonprofit, and domestic and foreign. ITA is thus only one of many possible sources of such information.

As would be expected, however, wide differences exist among these sources as to the cost of the information provided; its accuracy, breadth and depth of coverage; timeliness; ease of obtaining; and similar indicators of its usefulness and accessibility to prospective recipients. Also varying widely is the extent to which a given source is providing originally developed information or represents, instead, a secondary or tertiary source dependent on the existence of the prior source to serve its clientele. A third distinguishing factor among the sources is in the type of audience they are trying to reach. This ranges from small, inexperienced firms in local communities, to large, multinational clients the world over.

Notwithstanding these differences, a great deal of the marketing information available from non-ITA sources is of excellent quality and, in the aggregate, probably exceeds in breadth and depth of coverage the information available from ITA. It is also true that most of the large, experienced firms with subsidiaries or branch sales offices abroad can draw on their own extensive contacts for needed marketing information, without having to rely on other sources--government or private--to any great extent.

These alternative sources, however, do not obviate the need for an ITA role. Not all information required by U.S. firms is available from non-ITA sources and, in any case, it cannot be obtained as conveniently and efficiently as from ITA, or at a price the great majority of small and medium-size U.S. firms are able or willing to pay. Furthermore, even large, experienced exporters need and seek outside information at times, partly to corroborate, but also to fill gaps not able to be met in-house.

In addition, many of the non-ITA sources, particularly the nonprofit organizations, are themselves dependent on ITA as the original source for their own information. As noted, such organizations as chambers of commerce and trade and industry associations mostly repackage and distribute information obtained from ITA and other inexpensive sources. Without access to ITA information, these organizations, which provide a critical information outreach at the grass roots level throughout the country, would either have to increase their reporting staffs and budgets to obtain the information on their own or from more expensive sources, or substantially reduce the existing information content in their newsletters and other media.

A. Comparative Scope of ITA and Non-ITA Sources

With few exceptions, as noted, U.S. firms can probably obtain more information from non-ITA sources in the aggregate than they can from ITA sources. The two major exceptions are in the areas of foreign government-generated information and information on developing countries. With respect to official information from abroad, ITA--through diplomatic channels of the Foreign Service--can collect and make available information which is often not accessible to private parties directly. While not classified *per se*, the information is obtained nonetheless under somewhat privileged circumstances.

This may not represent a significant advantage in the highly developed countries, where official data are published frequently and private sources abound. In developing countries, however, published data from official sources are often sparse and dated. Private information sources in those countries are not well developed. In many cases, the most current and reliable information on marketing developments in the emergent countries comes from Foreign Service reporting, which is the basis for much of ITA's information services.

B. Comparative Convenience/Efficiency of ITA as a Source

ITA represents a single, central source for a wide array of foreign marketing information. No one private organization has a comparable range of information to offer. This means that a firm can obtain material from ITA which otherwise would have to be sought from a multiplicity of private sources.

Searching around in this way is cumbersome and takes time, even when a company knows precisely what it is looking for. Many companies simply do not have time to wait or, where time means money, cannot afford the cost of inefficient, time-consuming searches. They tend to "make do" instead with what they have or can get hold of immediately, thus foregoing other, potentially more useful data.

This problem is compounded for the great majority of firms who do not even know what to look for in the first instance, because they do not know what types of information are generally available. For these firms in particular, the absence of a central source of data on what is available, and for the information itself, serves only

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to perpetuate their ignorance, and inevitably results in poorer quality decisions. Typically, such firms are the small, inexperienced companies who are most in need of information on how and where to export.

C. Comparative Affordability of ITA's Information

ITA's information can be and is provided more economically and at less cost than that available from private sources. This puts it more within the financial reach of smaller, tightly budgeted firms, who comprise the bulk of the existing and potential exporter universe.

Although ITA's information is provided at much lower prices, this has not significantly cut into the client market served by private information services. The high cost of acquiring foreign marketing information is such that profit-making sources must charge fees that necessarily price most small and medium-size companies out of the market. Their principal clients, therefore, are overwhelmingly the large companies that can afford to pay the fees which the private services have to charge to return a profit.

ITA, on the other hand, can charge lower fees because most of the information it provides has to be collected in any case for policy- and decision-making purposes. Thus, the fees set by ITA (or its Government printing agents) need only be high enough to cover "pass-on" costs, such as for printing and distribution, to break even on its information services. This puts ITA in a position to serve the needs of the small and medium-sized exporters who would otherwise be effectively cut off from information at the higher prices charged by the private sources.

Although larger firms also use ITA information--and benefit as well from the lower prices--there is no indication that they do so exclusively or in place of private sector sources. Most large exporters subscribe to several information services at the same time. Very often, ITA's is one of them, but rarely the only one.

Section 4: SOURCES OF FOREIGN MARKET RESEARCH

Foreign market research consists of in-depth analysis of the export potential abroad for a specific product or product category. Exporters seeking such research would normally like to get: an assessment of the size of the target market and its growth potential; the current and projected demand for their product; data on production, imports, exports and consumption of the product; analysis of the competition -- who the principal competitors are, their market shares relative to the client's likely share, and their competitive techniques and practices; distribution channels and practices; pricing factors, such as prevailing sales price and mark-up and discount practices; market segmentation by type of users; names, locations and capabilities of prospective users or customers; purchasing preferences and characteristics of the market; promotional media available in the market; governmental policies, laws and regulations affecting access to the market; and, in the final analysis, a recommended strategy for penetrating or expanding in the market.

Although some of this data can also be gleaned from the more broadly based marketing information discussed in Section 3 above, the treatment in market research is much more focused and specific in nature. The more general information requires exporters to fit the pieces together and draw their own conclusions about market potential and strategy, while the purpose of market research, in effect, is to tell the exporters what the potential is for their own particular product and how best to market it.

In the "exporter needs" survey, market research and foreign marketing information (Section 3 above) were combined into the one category "specific information about foreign markets." As indicated in Section 3, respondents to the survey questionnaire ranked access to this type of information as their second highest priority out of the nine categories listed.

I. ITA's Market Research Services

ITA offers two basic types of in-depth product market research abroad: multi-country research on selected industry categories (Global Market Surveys) and single-country research dealing with a special U.S. sales opportunity in a specific market. These reports are normally prepared by private research firms under contracts let by ITA. The research is obtained primarily for trade promotion planning purposes -- to help in selecting the most promising and viable products and markets for specific promotional campaigns, and to provide the data needed by ITA project officers to satisfy prospective participants that their involvement in these activities would be in their interest. In planning and designing this research, however, consideration is also given to the information needs of U.S. firms in the industries covered, and the final research reports are packaged for dissemination to such firms. Since the material is necessarily collected for internal purposes, the cost to the public can be held to a minimum -- below $10 per report in each case.

-- Global Market Surveys (GMS) cover the market for a specific product category in 20 or more individual countries. Each GMS consists of a global overview of the market, plus separate chapters for each country surveyed. GMS research specifications are designed to provide an insight into each of the country markets covered for the U.S. products concerned; a description of the buying universe; an analysis of the competition facing U.S. firms; competitive advantages of U.S. firms; short and long range market growth potential; and other marketing information. Each GMS contains parallel statistics and market facts that allow cross comparison of all the country markets surveyed, their rank order by size, growth potential, etc.

   The completed surveys are distributed free of charge to as many producers and suppliers of the products covered as can be identified. In this way, a substantial number of small and medium sized firms are made aware of the overseas sales opportunities for their products.

-- Single-country Research provides in-depth coverage of a single foreign market for a specific product theme, such as the "Market for Packaging Equipment in Taiwan." Each country study for the one product category runs 50-400 pages in length. All are prepared on site by private contractors, pursuant to detailed specifications developed by ITA. For the most part, product themes researched in Global Market Surveys are not also the subject of the single-country studies.

These single-country studies are prepared for internal planning purposes to determine whether a proposed promotional event in a specific country abroad would be justified. However copies of the original unedited reports are available to U.S. industry for $10 each. They are listed in ITA's monthly "Index to Foreign Market Reports" and can be ordered through the National Technical Information Service.

II. Non-ITA Market Research Services

Exporters can obtain in-depth market research from a number of non-ITA sources, both in the U.S. and abroad. The principal types of sources are:

-- Firms specializing in market research, such as market research consultants or management consultants.

-- Organizations offering market research services as part of their main-line business, such as advertising firms, firms specializing in international business information; publishers of international marketing periodicals; and universities with graduate international business programs.

-- International institutions such as the OECD, GATT, UNCTAD and several other specialized agencies of the United Nations.

A. Market Research Specialists

Of the hundreds of firms in the U.S. offering market research services as a specialty, relatively few do product-oriented research (as distinguished from opinion polling, consumer research and the like), and most of these conduct domestic market research only. While an exact count has not been obtainable as yet, there are probably fewer than a hundred firms in the U.S. that have a solid, product-oriented, international research capability.

Some of these firms have their own offices abroad to do the on-site research; others rely on foreign affiliates or subcontract to local researchers in the foreign markets to gather the data.

One limiting factor, even among product-oriented international research firms, is their high degree of specialization. No market research firms are strong on all product categories or all markets. In most cases, they concentrate on certain products in certain markets; e.g., health care, communications and ADP equipment in Europe. Thus, a client wanting research, say, on health care equipment in Brazil, or machine tools in Europe, might have to go to another research firm with these particular strengths to get the best result.

In addition to U.S.-based market research specialists, there are, of course, any number of foreign-based firms, particularly in the industrialized countries, who can conduct product market research. Quality varies enormously. So does facility in the English language. However, the major drawback to foreign-based research firms is that, for the average U.S. exporter, they are relatively remote and inaccessible. To ensure that the research meets the exporters' requirements, there should be constant communication between the parties -- from the initial development of research specifications to periodic review of the findings.

The cost of private research varies widely -- from as low as $200 to as high as $35,000 for multi-client or off-the-shelf studies. Customized, single-client studies run from about $20,000 to $100,000 or more. Whether in the upper or lower price range, however, the cost factor alone has dictated the clientele. For the most part, only large, experienced exporters purchase market research with any consistency. Smaller firms report generally that they cannot afford it.

In the case of customized, single-client studies, most specialty firms bill by the hour or on a project basis. The fee varies with the time spent on the project, which in turn is usually a function of the client's specifications.

If a high degree of product specificity or other detail is wanted, the project will take longer and the fee will be higher. An additional cost factor is that research done for single clients is usually proprietary; i.e., it belongs exclusively to the client and may not be sold by the research firm to other clients. In some cases, the researcher may not even use the findings of one client's study as raw material for other studies. This means purging the files and starting from scratch each time.

A considerable amount of off-the-shelf or multi-client research is also available from market research firms at much lower prices -- often in the $200 to $1,500 range. A research firm will often conduct such research either in anticipation of a broader interest in a particular study, or after pre-selling a project to several clients.

Although the cost is much lower than for single-client research, the product specificity for any one client is also much less. In these cases, the research usually deals with a specific product category, such as machine tools, or even lathes, but not in detail with a client's own, numerically controlled lathe, for example. How well the off-the-shelf research meets a given exporter's individual needs will largely depend on the degree of individuality of his product.

Research of this type is listed in a few bibliographies, sometimes available in business libraries. The market research firms also have checklists which list the studies available for ordering, and their price. A number of information-retrieval or search firms can also provide a custom listing of research reports available. In some cases, the listings may include abstracts of the research itself. The fee for this service varies, depending on the number of listings requested. The World Trade Center in New York, for example, charges $20 per hour to search its computerized files for listings of market research and other reports.

B. <u>Other Private Sources of Market Research</u>

The principal other sources are:

- The major firms specializing in international business information, such as Business International and SRI International, which have research departments and capabilities similar to those of market research specialty firms. BI, for example, will conduct confidential market research for clients at $40 per hour, plus expenses; it also does multi-client and desk studies costing anywhere from $2,000 to $20,000 per report. (See also Section 3).

- A few of the major international advertising firms, such as McCann-Erickson and Marsteller, which more or less have to conduct market research anyway in order to formulate advertising strategies for clients. The research capabilities developed for this purpose also support independent market research services. (See also Section 8).

- Certain publishers of international business periodicals, such as Economic Intelligence Unit, Ltd., publisher of the London Economist, which also have separate market research capabilities and staffs. Most research done by these organizations is published and available to anyone at prices ranging from $200 to $5,000 per report. (See also Section 3).

- A few universities with graduate international business departments, such as the American Graduate School of International Management in Arizona, which assign students to do research project for individual firms as a course requirement.

- Certain international agencies, such as GATT or UNCTAD, which prepare marketing studies or products of interest to member countries, particularly the less developed countries.

Characteristically, except for the university and the UN-type research, only large firms with substantial overseas business can afford and have availed themselves of market research from these sources. Most are existing or prospective customers of the main-line services provided by the source firm. The university research, on the other hand, is usually offered only to smaller, less experienced firms, often in conjunction with community export development programs. The now dormant TEAM (The Export Assistance Masters) program of ITA formerly worked with cooperating universities to provide graduate student market research to needy firms in the area. A similar program is operated by the Small Business Administration and Commerce's Economic Development Administration.

UN-type research is also geared for smaller, less experienced firms, but since the product selection mostly reflects the capabilities of the developing economies (e.g., for raw materials, agricultural products, semi-manufactures, etc.), little of it is of interest to U.S. firms, whether large or small.

III. Conclusions

Two factors distinguish one piece of market research from another -- the degree of product specificity and the price. The more refined and custom-tailored the research is to the client's product, the more expensive the research will be.

Custom-tailored or single-client research comes closest to meeting client needs for a bottom-line assessment of market potential for a specific product and a step-by-step strategy for exploiting it. Such research, however, costing up to $35,000 or more per study, is clearly beyond the financial reach of the great majority of U.S. exporters. Customers for this research are almost invariably the large multinational companies.

Multi-client or off-the-shelf research from private sources varies in quality, but from a content point of view appears to be just as good as comparable ITA research. In any case, there does not seem to be sufficient content distinction among them to conclude that either is clearly superior to the other. One advantage of ITA research in this respect, however, is that it is more consistent in what it contains, since each study, whatever the product or market, must conform to certain minimum specifications. Private studies, on the other hand, will vary in content from source to source, market to market, and product to product.

The major distinction between comparable ITA and non-ITA market research is, first and foremost, the price. Exporters can obtain Global Market Surveys, for example, at no cost; or in-depth product research on a single country for only $10 per study. These low prices are possible because the research is necessary for internal planning purposes -- i.e., to determine the most appropriate product themes for specific ITA promotional events abroad and for use in recruiting firms to participate in such events -- and would have to be obtained for this purpose in any case.

The second major distinction is in geographic coverage. ITA research reports are available on countries outside the normal purview of most private research firms, such as in the developing countries of Asia, the Middle East, Latin America and, to a lesser extent, Africa. Most private research is heavily focused on the industrialized countries -- Europe, Japan, Canada and Australia.

Section 5: SOURCES OF ASSISTANCE IN OBTAINING OVERSEAS REPRESENTATION

"Rep-Find" assistance consists of identifying foreign firms which might be interested in serving as a U.S. exporter's agent or distributor in a specific foreign market. The assistance could range from a simple listing of relevant firms -- who may or may not prove to be interested or adequate when ultimately contacted by the exporter -- to a match-making service which, in effect, actually finds and appoints the most appropriate representative for the exporter in the market.

As a reflection of the importance U.S. firms attach to this function, respondents to the "exporter needs"survey ranked assistance in obtaining "specific sales or representation leads for my products abroad" as their highest priority need of the nine categories of assistance covered; and "information about and lists of individual foreign buyers and/or representatives" as their third highest priority.

I. ITA's Rep-Find Services

ITA services primarily designed to assist exporters in identifying prospective overseas agents or distributors are: the Trade Lists, the Export Mailing Lists (EMLs), the Agent Distributor Service (ADS), Trade Center and Trade Fair exhibitions, and the Trade Opportunity Program (TOP). EML's and Trade Lists are produced from the Foreign Traders Index (FTI).

The Foreign Traders Index is a computer file containing information on 140,000 potential trade contacts in 130 foreign countries. From this index, lists of foreign public and private sector entities can be retrieved according to a variety of criteria, such as location, type of enterprise, and category of product or service. The complete index, as well as selected print-outs, are available to the public, for a fee, in various forms, including mailing labels. This service is provided to U.S. firms to assist them in finding prospective foreign customers and representatives. FTI lists are also utilized by U.S. Government personnel to identify target audiences for overseas trade promotion events and to solicit foreign buyer visits to the U.S.

The data in the FTI are obtained from two main sources: World Trade Data Reports (WTDRs) and Prospect Information Reports (PIRs). A WTDR is a commercial information report on a foreign firm prepared by the Foreign Service, at the direction of the Commerce Department, in response to a request from a U.S. businessman (WTDRs are sold individually to U.S. requestors at a cost of $15.00; see Section 7 for further details about WTDRs). The PIR forms are prepared by foreign visitors to Trade Fair and Trade Center shows. Prospective agents that visit these shows and submit the form have their names and interests registered on the FTI tape. Twenty-five thousand new or revised entries are made on this tape each year.

A U.S. firm can obtain a customized print-out from the FTI, called an Export Mailing List, at a cost of $10.00 plus $.06 per name printed. In addition, pre-printed FTI lists covering high volume request areas are available for $3.00. In the past year 2,494 firms purchased 2,720 lists. An average of 380 names was provided in response to each request. Fifteen percent of the requestors were repeat users. Seventy-one percent were new-to-market or new-to-export companies, and 77% were classified as small businesses.

The Agent Distributor Service is a cooperative State/Commerce program to help U.S. firms locate suitable overseas representatives. To make a request, the U.S. firm provides to ITA pertinent information on the product involved. The Foreign Service post in a specified country then contacts firms and supplies a tailored list of up to 6 potential agents or distributors which have expressed interest in further communication with the U.S. firm. During the past year 4,900 ADS requests were processed. A charge of $25.00 is made for each report. Thirty-eight percent of the users of the service are repeat users.

The Trade Opportunity Program (TOP) also serves as a means of obtaining overseas representation. (See Section 6 for details of the TOP program.) Of the trade opportunities received, approximately 25% are foreign government tenders. Forty percent of the remainder are direct sales leads combined with representation leads or representation leads only.

Exhibition Rep-Find Services are offered to U.S. firms exhibiting at Commerce Trade Centers and Trade Fairs. These services include the provision of exhibitors' product literature to potential representatives, personal calls on representatives by U.S. personnel overseas, special catalog listings for exhibitors seeking representation, and the making of appointments between exhibitors and potential representatives during the exhibition. (See also Section 9.)

II. Non-ITA Sources of Rep-Find Assistance

Assistance in locating foreign agents and distributors is also available outside the U.S. Government. Interviews with private and state organizations have disclosed that such assistance is provided by banks, chambers of commerce, state agencies, consultants, transportation companies and a mercantile reporting agency. With the exception of consultants, one state organization and one mercantile reporting organization, these services are free of charge. One state organization charges $20.00 per hour for researching directories. The mercantile agency provides a service designed to supply 5 names of potential agents in any one country and a commercial report on each name for $400.00. Information on consultants' fees for this service has not been obtained.

Banks providing assistance in finding agents/distributors do so only for depositors and are limited to those countries in which the banks have branches or correspondents. Only a small percentage of U.S. banks have international divisions able to provide any service of this kind. Banks do not attempt to expand or merchandise this service.

Chambers of commerce, if they provide this service at all, do so as an accommodation to members and are limited to data they can obtain from overseas sister organizations.

State promotional agencies normally obtain information on potential overseas contacts from state offices maintained overseas. The state agencies contacted had no more than three overseas offices and could supply information only in countries in which their representatives were located.

Transportation companies were also limited in coverage to those countries to which their carriers made regular calls, where data were obtained by their offices.

Organizations such as Dun & Bradstreet, Business International and various consultants provide a rep-find service for a fee. Some of the consultants obtain the names of possible agents and distributors from using ITA services and charge an additional fee to these clients. No data are available regarding the effectiveness of these services.

III. Conclusions

In most cases, the private or state organizations providing this service appear to be effective with respect to developed countries. However, they are not known to be effective in the emergent countries of the world.

Most of the organizations receiving inquiries for this type of assistance tend to refer the requests to the Department of Commerce. The assistance that is available from the private sector is unevaluated and is regarded as expensive when provided by mercantile agencies and consultants. The services available outside the federal area, however, could in specific instances, be superior. This could occur, for example, when banks dealing through branches or correspondents exert extra effort on behalf of a favored depositor.

Businessmen report that a personal visit to a country is the best possible means of achieving the desired objective. The costs involved, however, make this procedure difficult for many smaller firms. Even so, when firms do visit the country they usually find the visit more productive if they obtain information on prospective contacts and make appointments in advance.

While numerous supplementary sources of assistance are available outside the federal area, no data have been obtained which would indicate the extent to which these sources are used. Additionally, available information does not disclose the effectiveness of these various programs. It is clear that no single alternative to U.S. Government services exists, and that firms wishing to use other sources find it necessary to go to many different organizations to achieve their objective. It is believed that this fact alone would tend to discourage many new or small exporters.

To some degree, the value attached to assistance in this area can be judged by the volume of requests for ITA's ADS service and the number of repeat users. Clearly, a significant number of business firms have indicated a willingness to pay the reasonable charge. Furthermore, through the U.S. Government, a complete package of aids is available on a worldwide basis. No organization outside the Government has the facilities required to make a service of this kind effective and comprehensive.

Nevertheless, except for the rep-find assistance provided at ITA exhibitions abroad, U.S. firms generally have not felt that their needs in this area have been adequately met, either by ITA or non-ITA sources.

Section 6: SOURCES OF EXPORT SALES LEADS

International sales leads are unsolicited business proposals or inquiries received by a U.S. supplier from a prospective foreign purchaser. These leads may enable the U.S. firm to make an export sale to a customer not previously known. In the final analysis, the making of additional export sales, and the profits that result, is what the exporter mostly hopes will follow from his overseas marketing efforts. Unsolicited sales leads represent potential "money in the bank" in this respect with little cost incurred to earn it. The value attached to such leads is reflected in the "exporter needs" survey. The respondents ranked access to "specific sales or representation leads for my products abroad" as their highest priority of all the nine categories of assistance listed.

I. ITA's Export Sales Lead Services

ITA offers four basic services specifically designed to supply international trade lead information.

1. The Trade Opportunity Program (TOP)
2. Strategic and Industrial Sales Program (SIPS)
3. Major Export Projects Program (MEPD)
4. Export Information Reference Room

The TOP Program is a computer-assisted dissemination system which matches the interests of U.S. firms, which subscribe to the service, with trade leads developed by approximately 200 Foreign Service posts. The subscriber specifies product interest using the Standard Industrial Classification Code and also specifies country interest. Subscribers pay a one-time set-up fee of $25.00 plus $.75 per sales lead. Approximately 54,000 leads were supplied to 6694 subscribers in the past year. The subscription renewal rate is approximately 30 percent.

As an adjunct to this service, a Trade Opportunities Bulletin is published each week containing all trade opportunities processed during the week. The Bulletin sells for $100.00 per year and presently has 1530 subscribers. Also, a computer tape containing all trade opportunities received is prepared bi-weekly. Several state development organizations purchase the entire tape for $1600.00 per year for use in their own dissemination system.

The Strategic and Industrial Product Sales (SIPS) Group works on individual international trade opportunities for capital equipment sales which have an export value of $1 million or more. SIPS services, which are free of charge, include identifying U.S. manufacturers of equipment sought by foreign buyers, among which are foreign governments; supplying these opportunities to firms which express an interest in receiving them; and offering counseling to firms requesting follow-up assistance. Approximately 1100 firms were supplied with over 800 leads during the past year.

Some SIPS leads are included in the TOP program. SIPS provides additional individual attention based on the high potential export value of these projected sales.

SIPS is also involved in the U.S. Government certification process for American companies wishing to participate in bidding on sales of strategic equipment to NATO and NATO countries. In addition, SIPS alerts U.S. suppliers to NATO sales possibilities and offers Government assistance to U.S. firms competing against suppliers from other NATO countries.

The Major Export Projects Program primarily serves the U.S. engineering and construction industry. The program provides leads on major international industrial and infrastructure projects having an export potential of $5 million or more, coordinates Government-wide assistance to U.S. competitors on projects, and assists firms in developing a strategy for winning a specific contract. Leads are obtained through the Foreign Service, the United Nations Development Program, international financial institutions, and the business community. No charge is made for sales leads or other services. Approximately 600 major project opportunities are distributed annually to over 500 U.S. firms.

The Export Information Reference Room was established to provide a service point in Government where any U.S. firms may find information on major industrial or infrastructure projects. Data in this reference room are provided by the international financial instutions, the United Nations Development programs and the U.S. Foreign Service. Personal calls by approximately 1000 businessmen are recorded annually as they attempt to locate potential sales leads. No charge is made for this service. Approximately 45% of the visitors to this facility have previously used the service.

II. Non-ITA Sources of Trade- and Major Project Leads

A. Trade Leads Sources

There are many alternatives to the trade lead services offered by ITA. Almost all manufacturing organizations with international involvement receive sales leads from their connections overseas. If the lead is of specific interest to the receiving firm, it will be followed. If it is not of interest, it may be passed on to another firm that may be interested.

Many non-manufacturing organizations with international interests also receive and disseminate sales leads, such as banks, foreign embassies, port authorities, state organizations, chambers of commerce, trade associations, export management companies, international financial institutions, mercantile agencies and commercial carriers. These organizations, for the most part, distribute the leads to their customers or associates free of charge, in the hopes of obtaining recognition which will benefit their principal commercial activity. No organization is known to exist which has, as its primary function, the development and distribution of international sales leads.

1. State Development Agencies

A 1976 survey by the National Association of State Development Agencies revealed that 24 states had representatives in 14 cities in Europe, South America, the Far East, and Canada. Of these, New York and Georgia have the most active trade lead programs. Both have foreign offices, send bulletins containing leads to their state users gratis and -- in addition to Missouri -- are subscribers to ITA's Data Tape service. New York codes its multi-issue bulletins at the 2-digit SIC level, while Georgia has a notice system coded at the 4-digit level. Georgia sends out only leads which come from TOP, while New York sends out leads from all sources; however, New York's overseas representatives concentrate on investment opportunities and depend upon TOP for many of its sales and representation opportunities.

The foreign offices of the states are located in major cities where U.S. Foreign Service posts have relatively large commercial staffs and resources. The states' representatives make extensive use of these Federal facilities to obtain TOP leads; for example, Amembassy Brussels routinely supplies all TOP leads collected in Europe to the state representatives, and posts in Tokyo and Hong Kong perform a similar service for state offices and other American interests in their areas.

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2. Banks

Banks generally include trade leads as part of the information in their periodic bulletins and newsletters to customers and affiliates; there is no special emphasis on collecting such leads, processing them, or distributing them in a timely fashion. Trade leads are consequently used in the hope of stimulating increased use of the services of the bank.

One principal international bank publishes a Foreign Business Opportunities Bulletin as a private service essentially identical to TOP. This Bulletin is free, appears once a month, and contains 30 to 40 leads per issue which have one-line descriptions and a reference number to request more detailed information. A review of a sample copy of the Bulletin indicates that roughly 70 percent of the leads were leads for American importers, 35 percent were for foreign licensing opportunities and "Special Opportunities" for American firms, and only 5 percent were opportunities for American exporters.

3. International Transportation Companies

Some commercial carriers published marketing letters with an extensive listing of worldwide marketing opportunities. Pan American Airlines formerly published the "Clipper Cargo Horizons." It was discontinued in 1976 because corporate priorities shifted and the publication was not essential to Pan Am's operations.

Northwest Orient Airlines and Trans World Airlines do not offer any trade lead information. Japan Airlines will assist American exporters by putting them in contact with appropriate officials in the Japan External Trade Organization (JETRO).

Of the six American steamship lines, the American Export Lines is a user of the TOP notice system. Additionally the Railway Express Association is a subscriber to the TOP Bulletin.

4. Other Service Organizations

Multiplier organizations such as chambers of commerce, trade associations, and port authorities regularly distribute trade leads to members or to potential users of their services. Typically, the leads are included in the organizations' periodic newsletters covering many industry interests; the newsletters are generally free. The following trade associations are subscribers to TOP:

Dairy and Food Industries Supply Associations
Farmers Union Grain Terminal Association
Food Processing Machinery and Supplies Association
National Machine Tool Builders Association

The following additional organizations are also TOP subscribers:

Chamber of Commerce of Latin America in the United States
Massachusetts Science and Technology Foundation
New Jersey State Chamber of Commerce
Port of Portland
Port of Sacramento
Tulsa Chamber of Commerce
State of Minnesota, Corrections Department

The World Trade Center Association located in New York City has trade center members in 66 countries. The Association intends to establish a program called "Market Match" early in 1978. The service will be available to firms located in all countries, and reportedly will match the interests of buyers and sellers around the world. Initial costs to users per year are expected to be the following: $240 for up to 15 products/services for sale (export) and 15 products/services it wishes to purchase (import). Additional items will cost $10 each. The identification code will be the SIC system expanded to 9-digits. It remains to be seen whether this program will remain evenly adjusted between import and export opportunities.

5. Commercial Trade Lead Services

Twice a month, Dun & Bradstreet International (D&B) issues a publication entitled the "World Market Newsletter." It costs $30 for an annual subscription. This Newsletter contains primarily economic and political information submitted by its subsidiaries and correspondents, and some trade leads; most of these leads are generated by letters sent to D&B requesting assistance in locating suppliers.

The New England Manufacturers Exchange (NEMEX), located in Massachusetts, has a commercial sales lead service for American companies in the northeastern United States. It matches buyers and sellers through a very technical and personalized system to ensure that the buyer is linked to the most appropriate suppliers.

NEMEX claims 1400 users, and charges roughly $1,000 to $2,400 for an annual subscription depending on the of the firm. It is a subscriber to TOP, and is now offering export leads on an experimental basis to its users as well.

B. Major Project Leads Sources

Information on major projects is available from several associations, banks, various publications, the international financial institutions and some commercial carriers. None of these sources has a service by which an interested firm can develop follow-up information.

1. Publications

International Construction Week has correspondents in many countries that are responsible for obtaining data on proposed projects. This publication, which has a subscription price of approximately $500 per year, contains data on 20 to 25 projects per week. About one-third is supplied by the Department of Commerce. Since the publication is available to other-than-U.S. firms, data are supplied to the publishers by Commerce, only on those construction projects which are open to international tender and on which the competitors of U.S. firms are able to obtain information from many foreign sources.

Engineering News Record obtains data from foreign correspondents on a small number of foreign projects. Material in this publication deals primarily with the domestic market.

2. Trade Associations

The National Constructors Association, the Associated General Contractors and the Consulting Engineers Council distribute early warning information, made available by Commerce, to their members. No other source of major project information is used by any of the associations.

3. Banks

The international financial institutions, such as the World Bank and the Inter-American Development Bank, publish monthly operational summaries made available only to the U.S. and foreign governments. No public distribution of this information is made. The data in these summaries include status information on ongoing projects as well as information on projects being considered for financing. While the international financial institutions make their monthly summaries available only to government, the Department of Commerce makes these data available to interested U.S. firms in Washington. Commerce District Offices throughout the country supply the same information to businessmen in their areas.

The United Nations is planning a publication in 1978 which will contain project leads obtained from the World Bank and from the United Nations Development Program. This publication will sell for $150 per year. No data are available regarding the distribution that this publication will have.

Commercial banks frequently obtain details regarding major projects from their branches or correspondents. The banks' interest is normally in the financing of the project and not in whether or not the work or equipment needed is sourced in the United States.

4. International Transportation Companies

Some shipping lines and air carriers follow major project developments -- particularly after the contracts have been let -- to obtain the cargo business. These organizations do not normally make any distribution of project information or offer any assistance other than shipping aid.

III. Conclusions

No data are available to evaluate the effectiveness of the non-governmental programs. The organizations which make leads available generally have not attempted or been able to determine what sales or ancillary benefits may have resulted.

Certain limitations in the non-ITA services appear evident, however. First, the various organizations from which sales leads may be obtained are limited in the number of markets which they cover and, for the most part, the leads received come from the developed countries of the world. ITA's sources, on the other hand, are worldwide, and leads from nearly all countries are made available. Second, the non-ITA organizations limit the distribution of leads to their customers, members, or individual businessmen in the state in which the organization is located. ITA leads are available to U.S. firms anywhere in the country. Third, the non-ITA sources do not have diplomatic status as does the U.S. Government, and cannot as readily obtain privileged access to official foreign information sources for trade and major projects leads, and cannot follow through with foreign governments in behalf of U.S. suppliers and bidders seeking overseas contracts.

Some private organizations which have, in the past, placed considerable emphasis on a trade lead program have now discontinued those programs as being too costly to maintain. These and some other private organizations still offering trade lead services regularly refer U.S. firms to ITA for details regarding specific projects and for country data which they are not in a position to supply.

In addition, several state organizations obtain the leads they distribute directly from ITA, by purchasing the trade opportunity computer tape from ITA and distribute the leads to interested businessmen in their state. One state has developed a sophisticated program through which it distributes both ITA trade opportunities and those received form its own sources. Recently, however, this organization has indicated that it will discontinue its own collection activities and distribute primarily those leads obtained from ITA.

Most sources of export sales leads supply the leads free of charge to their customers or associates. The charge, when one is made, ranges from a few dollars for a newsletter type of service to $2600 for an individualized service. Data on the type of clients served are not known: The service provided by ITA is used by both large and small firms for a comparatively small fee.

Since business executives have indicated that sales leads are one of the best possible means of assisting new or existing exporters, and none of the alternative sources has the potential for obtaining these leads from worldwide sources, or for distributing them to U.S. firms in all parts of the country, a major gap in private sector capability appears evident. This, coupled with the fact that many of the non-ITA sources are themselves dependent on ITA for the leads they distribute, suggests a continuing need for ITA activity in this area.

Section 7: SOURCES OF COMMERCIAL REFERENCE DATA ON INDIVIDUAL FOREIGN FIRMS

This category of service provides information and guidance regarding the credit worthiness, nature of business, financial status, and general reputability of individual foreign firms. Such services are designed primarily to provide business firms with assistance in evaluating the advisability of credit sales to potential foreign customers and the development of relationships with overseas agents or distributors. Some firms may always insist upon cash or letter of credit transactions, thus reducing their need for background information on their customers, but they are relatively few. Respondents to the "exporter needs" survey ranked this category of assistance third highest in priority, out of the nine categories covered.

I. ITA's Services

The World Traders Data Reports (WTDR) service is a joint effort between the Departments of State and Commerce to provide background information on foreign firms. A WTDR, in addition to providing trade and banking references, contains specific information on firm size, employment, product lines, officers, and general reputation. While a WTDR is not a credit report, it does contain evaluative comment from the Foreign Service post regarding the suitability of the firm as a trade contact for U.S. firms.

Firms request a WTDR directly from ITA-Washington or, in less than 10% of the instances, through their local Commerce District Office. If a current WTD report is not on file in Washington, a request to prepare a WTDR is sent to appropriate Foreign Service post. Only a small percentage of the WTDR's are prepared voluntarily by the Foreign Service posts. At some Foreign Service posts, the data collection for WTDR's is contracted out to Dun and Bradstreet or a local firm. Generally, however, the post does the evaluation and writes the final report. WTDR's presently cost the requestor $15 each. In FY 1976, the Foreign Service posts prepared over 18,000 new WTDR's and the Department of Commerce received over 23,000 requests for WTDR's of which approximately 10% were FCIA and U.S. Government users such as EximBank and the Office of Export Administration.

II. Non-ITA Services

Commercial reference data on individual foreign firms is available from such private sector sources as banks, state governments, nonprofit credit-sharing organizations, and commercial information firms. They provide this service for different reasons. For banks, the provision of this service is generally used as a means to obtain and satisfy international banking customers. State governments generally provide this service only on an informal basis if they happen to have had prior experience with a particular foreign firm. On the other hand, the other organizations exist primarily to provide this and other types of commercial information either for profit or for the benefit of their members.

These organizations obtain their information from a variety of sources. Banks generally use their correspondent banks overseas (e.g., Deposit Guarantee National Bank in Jackson, Mississippi), although some of the larger banks (e.g., Citibank) have their own overseas offices to obtain the information. State governments, as previously mentioned, generally use the personal experience of their staffs but may, upon request, directly research a foreign firm if it is located near one of their overseas offices (e.g., North Carolina Department of Agriculture). The nonprofit organizations, such as the Foreign Credit Interchange Bureau, generally use the shared experience of their member firms. Finally, the commercial information firms, such as Dun and Bradstreet, generally use their branch offices or subsidiaries overseas and may also use correspondent relationships established with comparable credit agencies in foreign countries. In addition to these institutionalized sources, many firms use their own overseas subsidiaries, agents, or branch offices and some may ask competitor firms for guidance.

Commercial reference reports prepared by private sector organizations consist primarily of financial and credit information. Dun and Bradstreet reports, for example, are divided into two parts: financial history and trade history. The first contains financial statements, and the second shows the firm's payment records with various suppliers. Such reports also contain information regarding firm size, product line, officers, and other general information, but the bulk of the report is devoted to financial and credit information.

For the most part, private credit reports are not available to all types of users without some sort of limitation. For example, the larger New York banks, such as Chase Manhattan or Citibank, focus their efforts on providing services to large, multinational firms. Even the smaller and medium-sized banks across the country generally provide credit reports only to their banking customers. The nonprofit organizations, such as the Foreign Credit Interchange Bureau (FCIB), only provide credit reports to their members. Even organizations such as Dun and Bradstreet often require firms to either subscribe to the service or purchase a minimum amount of service each year.

Fees charged by these organizations vary considerably. Most banks provide free credit reports to present or prospective customers. Some may charge non-customers a minimum fee of $10.00 to $15.00. FCIB charges an annual membership fee of $397.00. This permits members to obtain 100 free reports. Additional reports cost $325.00 per one hundred, or $5.00 for single reports. In 1977, Dun and Bradstreet charged a $270.00 fee for 15 report units. Although this equals $18.00 per unit, a firm may require from 1 to 3 units in order to obtain a complete report. Equifax, which provides a more custom report than Dun and Bradstreet, charges a variety of rates depending upon the country. For example, reports for Bermuda ran from $15.00 to $18.00, while South African reports cost from $70.00 to $80.00. Others, such as Thailand, start at $45.00 and have no upper limit.

III. Conclusions

It appears that WTDR's fill a gap in private sector services in four areas: (1) market reputation information, (2) adequate coverage of developing nations, (3) feasible low price and volume ranges for small- and medium-sized firms, and (4) bottom-line evaluation of a firm as a trade contact.

WTDR's appear to complement the commercial reference data services provided by private sector organizations. The private sector reports are oriented primarily toward the financial and credit status of a foreign firm and contain little or no evaluative comment. WTDR's, on the other hand, are oriented towards the general reputation of a firm, provide very little financial information, and contain a Foreign Service evaluation of the foreign firm as a trade contact for U.S. firms. This is borne out by the fact that many firms prefer to obtain at least two reports, often a WTDR and a D&B report, because they like to have two opinions on a prospective customer.

In addition, because the WTDR service can utilize the world-wide network of Foreign Service posts, it is able to provide U.S. business firms with even coverage of markets all over the world. The private sector organizations, on the other hand, are not always able to provide reports for many of the emergent nations of the world. According to the users of private sector services, even when reports are available, the quality of the service declines considerably for the emergent markets.

In terms of cost, WTDR's also complement the reports available in the private sector. Aside from banks, the private sector services are either much more expensive than the $15.00 a firm pays for a WTDR (e.g. Equifax) or they require that firms purchase a certain volume of reports (e.g. Dun and Bradstreet and the Foreign Credit Interchange Bureau). WTDR's provide small- and medium-sized firms with the opportunity to purchase low cost reports in the small volume which is appropriate for their level of business activity.

With respect to the adequacy and effectiveness of the various services, overall it appears that users consider no one source fully adequate in itself, and that the best approach is to obtain reports from at least two sources for corroboration. Although it appears that Dun and Bradstreet is more widely known and used than WTDR, the latter are generally well regarded and, in certain areas of the world--especially in emergent markets--the only acceptable source available. Many firms were suspicious of bank reports, because they felt that banks would tend not to disclose derogatory information about their clients. WTDR's were criticized to some extent regarding timeliness of the service, but the majority of the firms felt that the imprimatur of the U.S. Government was worth the wait.

Irrespective of the apparent private sector need for the WTDR service, WTDR's are needed by Federal Government users. Both FCIA and EximBank obtain WTDR's for their own credit evaluations and FCIA accepts WTDR's as one of the two credit reports required of firms. In addition, the Department of Commerce's Office of Export Administration annually requires a substantial volume of WTDR's for its use in evaluating the character of a potential customer of a U.S. firm applying for an export license, and part of the WTD information becomes the basic input for the Foreign Traders' Index and is used for generating Trade Lists and Export Mailing Lists by ITA.

Section 8: SOURCES OF ASSISTANCE IN ADVERTISING ABROAD

This category consists of services that enable firms to advertise and publicize their products abroad. Included is assistance in designing and conducting overseas publicity campaigns for firms; placing their ads in media abroad; and providing the actual news media for placing such ads.

Publicity and advertising are basic tools which all companies use at some time or other to promote sales, whether in the form of "Yellow Pages" listings; spot ads in newspapers, radio and TV; or, more elaborately, major media saturation campaigns. The purpose is to foster corporate and product identity and to whet consumer demand for the product. The premise is simple: Unless customers are first made aware of the product and then persuaded that it, above others, is the one to prefer, sales will not occur.

Respondents to the "exporter needs" survey did not rank assistance in this area among their highest priority needs, placing it fifth in importance out of the nine categories listed. This can be partly explained by the fact that exporters normally consider overseas publicity and advertising to be their agent's or distributor's responsibility, not their own. Thus, when they find and appoint such a representative--their highest priority need according to the survey (Section 5)--they generally assume that their advertising needs will also be met. The types of assistance covered in this section, therefore, would mostly be directed toward U.S.-based firms that do not have agents or distributors abroad and to the overseas representatives themselves.

I. ITA Advertising Services

The New Product Information Service (NPIS) is the only service now being offered by ITA in the advertising assistance area. Several other ITA promotional programs also generate publicity for U.S. firms and products abroad--e.g., trade exhibits and catalog shows--but these are broader in purpose and involve considerably more personalized attention and follow-through for the firm. For purposes of this study, they are covered separately in Section 9, "Sources of Assistance in Exhibiting Abroad."

The New Product Information Service provides a mechanism by which newly developed products of U.S. firms can be advertised abroad. Participating U.S. firms submit a brief write-up of their product, along with photographs and product information, for inclusion in ITA's Commercial News for the

Foreign Service (CNFS). This bimonthly bulletin is distributed to 240 Foreign Service posts abroad and reproduced in newsletters prepared by some 70 posts for distribution in approximately 90 countries. Approximately 80 percent of these newsletters are translated into the language of the host country. In some countries, additional exposure is provided through the Voice of America, which features selected new products in VoA radio programming.

The new product entries are obtained from U.S. firms by the Department of Commerce's District Offices. To qualify for the NPIS, a product must contain new technology and not have been on the market for more than two years. Further, the product must not have been exported to more than three countries, and the firm must not have previously participated in the NPIS in the last six months.

There is no charge for the NPIS. In 1977, 939 U.S. firms used the Service, of which nearly all were small or medium-size, and over half had not been exporting previously on a regular basis.

In addition to the NPIS, ITA is considering two other services to help firms advertise their products abroad. One would broaden the existing NPIS to include products of small or new-to-export companies, irrespective of whether the product itself is new. The other involves the development of an Exporter/Agent Information System (E/AIS), an altogether new service. The E/AIS would be a microfilm library containing catalog pages and other procurement information furnished by U.S. business firms. It would be installed in Foreign Service posts abroad and be available for use by foreign buyers seeking to identify potential sources of supply in the United States. As envisioned, the E/AIS would recover full operating costs through fees paid by participating U.S. firms; however, this fee has not yet been determined. The system would be available to all U.S. firms, regardless of the product or service which they produce.

II. Non-ITA Advertising Services

Assistance in advertising abroad is available from a wide variety of sources in the United States and abroad. Within the United States, state governments, chambers of commerce, trade associations, trade and business publishers, export management companies, and advertising agencies are all sources of assistance in this area. The services available from these organizations fall into three general categories: (1) providing media in which firm names, product descriptions, and promotional ads can be placed for overseas distribution; (2)

assistance in placing ads in various media overseas; and (3) designing and carrying out tailored advertising campaigns abroad for individual clients. In addition, of course, many experienced exporters, particularly those with offices or agents and distributors abroad, arrange their advertising directly through foreign-based media in the countries where promotion is to be carried out.

A. Advertising Media

Newspapers, trade journals, radio, television, and, to some extent, movie houses are available in almost every country for advertising purposes. Generally, when the media contact is in the foreign market itself, the exporter's local agent or distributor would place the advertising. This can also be done directly from the United States if desired. Names of suitable media in each market, along with rate information, can be found in various directories available in business libraries in the United States, such as Media Guide International.

Trade journals, in particular, offer very effective advertising possibilities in two ways. (See also Section 3) First, many of them regularly feature new-product developments and information. In fact, most of the 400 or so trade periodicals accredited by the American Business Press, Inc., provide such coverage, and many of them are distributed overseas. In addition, there are a few specialized publications, also distributed abroad, focusing solely on new-product information. Examples include Penton/IPC "New Equipment Digest" and "Government Product News," which cost $25 and $36, respectively, for an annual subscription.

Second, trade journals are also a direct medium for individual company ads. Because they are often industry-specific, a firm planning to advertise knows in advance, therefore, that its ads will reach the proper audience. The overseas subscription cost for these journals ranges from $9 to $320 annually, depending on the journal and its frequency. Advertising rates for these journals range from about $200 for a one-fourth standard page run 24 times up to $1,500 for a tabloid page run only once.

A number of manufacturers' directories are available which list firms and their capabilities. Some of these are standard international reference works and receive wide circulation abroad, such as the Thomas Register, Standard & Poor's Industrial Directory, the various Dun & Bradstreet directories, and directories published by chambers of commerce and state and local governments. The commercially produced directories, like the Thomas Register, have by far the widest geographic coverage, both domestically and in terms of distribution overseas. The state and local government and chamber of commerce directories are restricted to firms within the particular locality and have only limited distribution through their offices overseas. There is no charge to the firms whose products are listed in any of these directories. Subscribers, however, pay annual fees ranging from $69 to $150 for the commercially published ones. Those published by chambers of commerce and state and local governments are distributed free of charge.

The different directories vary widely in their content. Some state government and chamber of commerce directories (e.g., the Mississippi Marketing Council directory) may be as detailed as a Dun & Bradstreet directory, while others (e.g., The Tennessee Department of Economic and Community Development directory) contain very little information on particular firms. For the most part, all of these directories are designed primarily for domestic uses. Although they may eventually serve that purpose, very few are designed with overseas advertising in mind.

B. Assistance in Placing Ads

Advertising firms and export management companies (EMCs) are the principal sources of help in this area. While any exporter can place an ad directly with the publication or other medium to be used, the ad agencies and EMCs can advise clients on which media would be most appropriate, in addition to arranging for the ad to be placed.

Unlike ad agencies, EMCs do not provide advertising as a regular service, but may include it as part of an overall package of assistance for firms they represent. EMCs may utilize their own resources to provide advertising assistance or may utilize one of the other types of assistance described herein.

From time to time, state and local governments and chambers of commerce may take out major ads or "supplements" in various media in behalf of the entire locality they serve. In these cases, the exporters in those localities can work with these local organizations to arrange for coverage of their products in the overall ad.

C. Designing and Carrying Out Ad Campaigns

Advertising agencies provide the most complete direct assistance to firms wishing to advertise abroad. Firms such as Marsteller and McCann-Erickson provide a broad range of integrated communication services such as print and broadcast advertising, sales promotion, direct mail, product publicity, public relations, market research, and package design. They have either offices or subsidiaries in most major markets overseas. Marsteller, for example, has six North American offices (including Toronto), seven European offices, and four in Asia. The clients of these organizations tend to be large and often multinational producers, particularly of consumer goods. They represent large-volume advertising accounts for the ad agencies and can afford to pay the substantial fees involved.

III. Conclusions

ITA has no services which help firms place ads in commercial media abroad or which design or carry out ad campaigns for firms. Thus, there is no competition with the private sector in these respects.

ITA's New Product Information Service has no exact counterpart in the private sector. It appears to offer a means by which a firm desiring to publicize a new product abroad can do so without incurring heavy advertising expenses. This is particularly useful for small exporters and for firms that have never exported before but have a new product which they think might have export possibilities. NPIS enables them to test the market without extending themselves too far initially.

Although many trade journals also feature new products regularly, and these reach a large and interested readership abroad within the specific industry category, the decision rests with the publisher as to which products to cover in any given issue. Thus, a particular exporter wishing coverage at a given point in time may or may not get it. Furthermore, unlike the NPIS, (1) the majority of these publications are not translated into foreign languages, while those that are translated are generally limited to a few major languages (e.g., French, Japanese); (2) geographic distribution of these publications abroad is generally concentrated in certain major countries; and (3) readers must pay a subscription fee for these publications. In addition, distribution of these publications depends upon the foreign buyer having knowledge of the publication and requesting it, whereas overseas posts automatically distribute NPIS newsletters.

An overwhelming majority of the users of the NPIS report they are pleased with it. The only complaint was that it was too restrictive in application; i.e., limited to new products only and usable once within a six-month period by any given firm. The proposal described above to broaden the program is addressed to this complaint.

Section 9: SOURCES OF ASSISTANCE IN EXHIBITING PRODUCTS ABROAD

Assistance in exhibiting abroad consists of services to alert firms to the opportunity to exhibit; reserve booth space and set up the booth; provide the occasion and physical facilities--fair grounds, pavilion, booths, etc; promote the exhibit to attract visitors; and assist individual exhibitors to make contact and transact business with potential agents, distributors, and buyers.

Product exhibitions are a classic and widely used sales promotion technique. They bring buyer and seller together in a one-on-one situation where the product itself can be examined and demonstrated and its advantages explained personally and in depth. Such exhibitions also invariably attract large groups of interested visitors, thus assuring wide exposure for any one exhibitor.

In their domestic marketing efforts, U.S. firms of all sizes consider trade shows in their product field a virtual necessity. The reasons are both positive -- to expose and promote their own products to prospective buyers -- and negative -- to prevent their competitors from capturing all the attention if they themselves do not participate.

Despite the recognized effectiveness of product exhibitions as a promotional technique, and the widespread participation by U.S. firms in domestic shows, many of these same firms seem less eager to exploit overseas exhibition opportunities. Respondents to the "exporter needs" survey, for example, ranked "opportunities to exhibit my products abroad" as their sixth highest priority out of the nine categories listed.

What accounts for this difference in thinking between domestic and overseas exhibitions is not entirely clear. Presumably cost is an inhibiting factor. In addition, there may be a general reluctance among some firms, whether for business or personal reasons, to leave the country. Further research will be needed to pinpoint the reasons.

I. ITA Exhibit Support Services

ITA assists U.S. firms wishing to exhibit their products abroad in two basic ways:

-- by publishing announcements of upcoming exhibitions in promising markets, so that interested firms can arrange to participate on their own; and

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-- by providing specific opportunities to exhibit in ITA's own scheduled events abroad, either at Commerce-operated Trade Centers and other exhibit facilities in 15 major overseas markets; at ITA "solo" exhibits; or at selected international trade fairs in which ITA sponsors a USA pavilion.

In addition, ITA schedules a certain number of catalog shows abroad, including video catalog shows which feature displays of U.S. catalogs, sales brochures and other graphic sales aids of participating U.S. firms.

Opportunities to display U.S. consumer goods at cooperating major department stores abroad have also been provided under ITA's In-Store Promotions Program. This program is scheduled to be discontinued, however, in FY 1979.

A. Exhibit announcement service

Each quarter, ITA publishes an "Overseas Trade Promotions Calendar" listing all ITA overseas promotional activities scheduled to take place over the next 15 months. Included are all U.S. Trade Center shows, international trade fairs in which ITA participation is planned, "solo" exhibits, catalog and video catalog shows, in-store promotions and trade and seminar missions. The listings are cross-referenced by date, product theme, country and type of promotion. The calendar is distributed free of charge to subscribers.

In addition, once a year, usually in January, a "Worldwide Trade Fairs Schedule" is published in the Department's Commerce America magazine. This article lists all major international trade fairs scheduled to be held during the coming year, by country, product, and date.

The two listings are also distributed separately to selected industry and trade associations and to the trade press. These groups provide secondary distribution of the listings through their own media.

B. ITA-operated exhibition facilities

Through its Trade Centers Program, ITA maintains overseas facilities in 14 major foreign markets. These include full-fledged Trade Centers in 10 countries (London, Paris, Milan, Stockholm, Tokyo, Taipei, Sydney, Tehran, Mexico City and

Sao Paulo); International Marketing Centers in Cologne and Singapore; a Trade Development Center in Warsaw; and a Commercial Office in Moscow. The existing Trade Centers in Sydney, Paris and Milan are scheduled to be converted to International Marketing Centers.)

Although these facilities range in size and scope of activity, all have space for exhibits -- ranging up to 6,000 sq. ft. for the largest Trade Center -- a conference room equipped with audio-visual aids, a reception area, and office space for the resident director and support staff.

Each of the 12 Trade Centers holds from 6 to 10 major product exhibitions annually, accommodating some 20-30 U.S. exhibitors per show. The smaller International Marketing Centers will in some cases mount exhibits in the facility itself, but their main focus will be on staging "off-site" shows in the region they cover. In FY 1977, over 2,282 U.S. firms participated in a total of 67 Trade Center shows. Approximately 80% of these exhibitors were small and medium-size firms (i.e., with total annual sales under $50 million).

Each exhibition is built around a product theme selected on the basis of extensive market research. Technical presentations are sometimes featured in conjunction with exhibitions to stimulate further interest in the products and help boost sales.

Prior to the exhibition, the trade center staff conducts a market promotion campaign that includes identification of all prospective customers and agents in the marketing area, publicity in appropriate media, and individual calls on the most promising sales prospects. Each list of propsects contains from 6,000 to 15,000 names. All the prospects are invited to the show by direct mailings and/or personal calls.

The cost to participate is $900 for firms that are either new-to export or new to the market, and $2000 for old-to-market firms. Exhibitors ship their display products to the exhibition and provide a representative to staff the booth. The only other cost is a partici-pation contribution.

In order to participate, a U.S. exhibitor need only:

-- Provide products for display.

-- Supply handout technical and promotional literature.

-- Ship the products to the exhibition site.

-- Assign a representative qualified to man the booth and transact business.

-- Make the specified contribution.

In return, ITA will:

-- Identify by name and promote the attendance of qualified buyers and agents.

-- Provide exhibit space and utilities.

-- Design and construct exhibit.

-- Advise on shipment of products to the site.

-- Unpack and position display.

-- Supply housekeeping services.

-- Provide all necessary show hospitality.

-- Provide a lounge or meeting rooms for exhibitor-customer conferences.

When no regular exhibitions are scheduled, the Trade Center and all its facilities are made available for Business-Sponsored Promotions (BSPs). These promotions, usually sponsored by trade associations or by individual firms or their agents, may include sales meetings, conferences, or seminars. In addition, individual firms or their agents may stage one-company product promotions or sales seminars. About 1,000 BSPs are held annually. Fees for BSPs vary with the amount of space used, but range from $25-$175 per day for new-to-market firms and $50-$350 per day for old-to-market firms.

C. ITA-sponsored exhibits

Through its Trade Fairs Program, ITA mounts U.S. exhibitions at many well-known international trade fairs. In these cases, ITA leases space from the trade fair organizer and designs and constructs its own USA pavilion. These pavilions normally accommodate about 40 individual exhibit booths. U.S. firms wishing to exhibit in the pavilion may do so by reserving space from ITA at a fee of $2,000 for new-to-export/new-to-market companies and $3,500 for old-to-market firms. Alternatively, the U.S. firm wishing to exhibit outside the USA pavilion can purchase booth space directly from trade fair organizers at the prevailing rate per square foot.

In areas where there are no suitable trade fairs within which to operate, but where substantial market potential nonetheless exists, ITA may stage its own "solo" exhibition. This could involve leasing space in a hotel or other appropriate location, or constructing a facility, usually a "demountable"one, especially for the exhibit.

In whichever form ITA participates in such exhibitions, the decision whether to do so is based on the same advance research and planning as that involved in the selection of themes for Trade Center shows. ITA also provides the same intensive marketing promotion and individualized assistance for exhibitors at the trade fairs as for the firms participating in Trade Center shows.

In FY 1977, ITA sponsored exhibits in 17 international trade fairs and mounted 2 solo exhibits. Market coverage for these events included the U.K., France, Germany and Yugoslavia in Europe; Iran and Israel in the Middle East; Venezuela; the Soviet Union; and 6 other Eastern European countries.

D. Catalog and video catalog exhibits

Catalog Exhibits feature displays of product catalogs, sales brochures, and other graphic sales aids. They are scheduled in advance for a preselected product theme and held either at Foreign Service posts or U.S. Trade Centers abroad. Some of these shows are Video Catalog Exhibits (VCE) which feature video demonstrations of various products instead of the regular catalog.

Each Catalog Exhibit is supported by an Industry Technical Representative, an expert in the industry theme, who explains the catalogs to the attendees and writes a report on that market for the U.S. participants. Fees for participating in a regular catalog exhibit are $50 for new-to-export/new-to-market (NTE/M) exhibitors and $100 for old-to-market (OTM) firms. Fees for video catalog exhibits vary according to the degree of support provided by ITA. They vary from a low of $900 for NTE/M firms and $1,100 for OTM firms to $1,500 and $2,000, respectively. There are also IOGA VCE's, an industry-organized, Government-approved exhibit, in which a trade association produces the video tape product presentation with guidance and assistance from ITA. The association is charged a fee of $12,000 for these exhibits irrespective of the number of participating firms.

Catalog exhibits planned for FY 1978 will visit twenty-seven countries, 12 developed markets and 15 in emergent markets. In FY 1977, some 3,700 U.S. firms participated in catalog exhibits, over 85% of which were new to market -- most medium and small in size.

II. Non-ITA Exhibit Support Services

Assistance in exhibiting abroad is available from many non-ITA sources, including those which:

- produce and manage overseas exhibitions. This service is provided by official and quasi-official trade fair authorities in many foreign countries. In addition, there are a number of private U.S. and foreign firms that specialize in producing and managing international exhibitions. Among the U.S. firms in this category are Clapp & Poliak Inc., Martin C. Dwyer, Inc., Industrial Scientific Conference Management Inc., International Exposition Co. and the National Expositions Company, Inc.

  Through the combined efforts of all the exhibition producers, hundreds of individual trade fairs are held each year in more than 50 countries around the world. The frequency of these shows in any one country varies enormously, however. Certain countries, such as Canada, and several European countries, offer a large number of shows each year -- most focusing on particular industry themes. In 1977 alone, for example, Canada will have 500 separate exhibits; Germany, 183; the UK, 135; Switzerland, 76; France, 64; Sweden and the Netherlands, 44 each; Italy, 37 and Japan, 28.

  At the other extreme, many countries in Africa, Latin America and Asia will offer only one or two exhibits per year, if any; and most of these would be horizontal in nature, featuring any and all products.

  Most of the hundreds of exhibits held each year are probably not useful trade promotion vehicles for U.S. firms. Some are politically inspired for image purposes and have limited commercial value. Some also have a very localized appeal.

and do not serve a broad regional market. On the other hand, a sizable number of these shows are also recognized worldwide as the premier events in their field. They attract large numbers of exhibitors from all countries, and attendance, equally universal, often reaches 50,000 or more visitors per show.

Whatever the quality of the show, the services provided by the show producers generally are the same across the board. In addition, to planning, organizing and administering the event itself, these services include:

-- sale of exhibit space, normally on a square footage basis

-- provide booth design and construction

-- provide hospitality, translation, secretarial and other related services

-- organize technical symposia and conferences to accompany the event

-- advertise, promote and publicize the event to attract visitor attendance.

Once the exhibition gets underway, the show producers' services to individual exhibitors are limited. Very little, if any, personalized "match-making" or other direct marketing assistance is offered to exhibitors, such as to alert them to prime business prospects; steer such prospects to their booths; provide information on the prospect's reputability, and so forth. No other private organizations appear to offer such assistance either, at least to the extent provided by U.S. staff at Trade Centers and ITA-sponsored solo- and international trade fairs.

Total participation fees in non-ITA exhibitions vary for each show, but range anywhere from $1500 up to $7000. For a standard 10'x10' booth at the Clapp & Poliak- sponsored Japan Beverage Industries Exposition and Congress, to be held in Tokyo in February 1979, the fee is $1600. This covers the space itself; booth background; a sign; 2 display counters; 2 chairs; an electrical outlet; lighting; waste basket; ash tray; carpet; daily cleaning; handling exhibit material between booth and loading platform; storage of empty crates; and packing and unpacking of exhibit material.

By comparison, the private organizer handling U.S. participation at the Farnborough Air Show in the UK is charging $6500 for a 9'x15' size booth. Recent costs for privately organized fairs in the Middle East are also running in the $6500 range.

- list upcoming international trade shows -- by product, country and date -- up to 3 years in advance. Several published directories provide this information, such as Exhibits Schedule: Annual Directory of Trade and Industry Shows, published by Successful Meetings. This directory costs $37 per year.

- Advise firms on where and how to exhibit abroad. This counseling service is available from EMCs and from many of the organizations and firms that specialize in managing, designing and promoting trade shows. Specifically, they can advise on the best locations for an exhibit in a given product category; which particular shows are the most productive; how much space to reserve; where to locate within the show; what the booth should look like and contain in the way of audio visual aids; how to ship the display merchandise; how to handle language problems; and so forth.

  Among the associations active in the trade show field who can give such advice themselves, or refer the inquirer to members that can, are the Exhibit Designers and Producers Association, the Exposition Service Contractors Association, and the International Congress and Convention Association.

- design and construct exhibit booths and provide related logistical services, such as crating and shipping exhibit merchandise; setting up and dismantling the booth, and recommending and supplying appropriate audio visual, electronic and photographic aids. This service is available from professional exhibition design firms in the U.S. and abroad. Approximately 120 such U.S. firms are listed in the Exhibits Schedule directory (above) as members of the Exhibit Designers and Producers Association, located in New York City.

- Sponsor groups of U.S. exhibitors at overseas trade fairs. A number of organizations in the United States reserve blocs of space for client firms to exhibit abroad. These include EMCs, trade and industry associations, chambers of commerce, and state development agencies. In some cases, costs are shared or defrayed by the sponsoring organization to enable more firms to participate.

  One quasi-government agency in particular -- the Washington State International Trade Fair -- conducts this activity on a regular basis. It leases bloc space in three or four foreign shows per year, taking an average of 20 or so Washington-based companies to each show. Participants are charged a maximum of $750 each for the exhibit, an amount that recovers only about two-thirds of the organization's own costs.

  EMCs also regularly exhibit abroad in behalf of one or more of their clients, usually on a shared-cost basis. Quite often, they select ITA shows as the preferred vehicle -- either the Trade Center shows or in the USA pavilions at major international trade fairs. The trade and industry associations and state agencies involved in this activity have also participated in a number of ITA shows abroad.

III. Conclusions

The adequacy of non-ITA sources of overseas exhibition support must take into account a number of factors, including

- the availability of suitable non-ITA shows in the various markets abroad
- the ease of getting into these shows
- the cost to participate
- the degree of marketing support given to individual exhibitors before, during and after the event
- the extent to which the non-ITA sources would address the special needs of smaller, less experienced exhibitors; and
- the extent to which such non-ITA sources would assure that the exhibited goods were of U.S. manufacture and origin.

On balance, taking into account all these factors, it would appear that ITA shows do fill a critical gap for smaller, inexperienced firms in whatever markets such shows are held. This appears to be less true, however, for large, established exporters, except in certain less developed areas of the world where there simply are no suitable trade show vehicles unless ITA provides one. On the other hand, ITA has not been able to cover very many of these areas either, because of lack of resources or the thinness of the markets; although, increasingly, the bulk of ITA's trade fairs are being staged outside the industrialized countries.

For the most part, large experienced exporters are adequately served by private sector exhibition services. Such exporters make frequent use of overseas exhibits to promote their products and have little problem finding suitable trade fair vehicles in most of the markets served by ITA. They have little difficulty getting booth space; they can afford the fee, or are at least willing to bear it because of the benefits anticipated; and they do not need much in the way of personalized assistance at the show. In short, they know what they are doing and how to do it.

While the large, experienced firms also use -- and comment favorably on -- ITA shows in these markets, they do not do so because of some special, otherwise unobtainable benefit, but more often because that particular ITA show happens to coincide with their promotional schedule at the time.

By and large, these experienced exporters go to certain overseas shows almost automatically, whether or not ITA is involved. Even when ITA does sponsor a USA pavilion, moreover, some of the established exporters may still prefer to locate elsewhere on the fair grounds; for example, where products more nearly resembling or compatible with their own are housed. Others, however, will prefer the USA pavilion because of the identification with the United States, which still connotes product and technological superiority in many parts of the world.

The situation is quite different, however, for inexperienced firms, particularly, the smaller new to export, new to market firms. For most of them, access to an ITA exhibition would itself determine whether the firm exhibits or does not exhibit in a trade show abroad. There are four basic reasons for this.

First, booth space in a major international fair must be reserved up to 2 or 3 years in advance. Inexperienced firms do not normally think that far ahead. Thus, even if the firm decides it would like to participate, the deadline for getting in has usually expired. With ITA involvement, however, the firm can participate on only 3 months lead time.

Second, dealing with a foreign trade fair producer 3,000 or more miles away -- to ensure that all necessary arrangements are made and that no loose ends remain -- can be a hassle. Inexperienced firms often do not even know what questions to ask, let alone the tricks of the trade to get the best booth locations and all necessary logistical and technical support. To the uninitiated, the entire process is inhibiting. Although this becomes less of a problem when the show producer is a U.S. firm, such firms only account for a relative handful of the shows considered most worthwhile. With ITA participation, the exporter knows what to expect at all times, and what he needs to do. In effect, ITA removes the burden of concern and makes exhibiting a simple rather than a potentially harrowing experience.

A third reason is cost. The fee to participate in non-ITA shows varies widely from show to show and country to country. Beyond this, the fees are relatively high for small firms not experienced enough to evaluate the potential benefits. By comparison, ITA fees are standardized and are usually somewhat lower than at non-ITA shows. This is particularly the case for new to export or new to market firms, who pay less than old to market firms at ITA shows to make it possible for more of them to participate within their smaller promotional budgets.

Fourth, exhibiting at a non-ITA show is just that -- a product display. The exhibitor is mostly on his own in terms of identifying and lining up key prospects in advance; getting information about them, arranging to meet them, making certain they reach the booth, and following up after the event. At ITA shows, such personalized attention before, during and after the show is a standard service and is heavily emphasized. For the inexperienced exporter in a new market, assistance of this kind is considered extremely important.

The advantages noted above for inexperienced firms are the same for ITA Trade Center shows as for ITA participation in major international exhibitions. In terms of convenience to the firm, and degree of personalized attention and support before, during and after the event; both ITA vehicles serve needs which are largely unmet alternatively. Trade Centers, however, offer certain additional advantages for the small, inexperienced firm that the larger ITA shows do not provide. First, the Trade Center shows cost somewhat less -- only $900 for NTE/M firms, compared with $2,000 for such firms exhibiting at ITA-sponsored trade fairs. Second, more such shows can be offered, which means that the smaller firms have more opportunities to exhibit and still get the type of support they need. As indicated, each of the 11 full fledged Trade Centers can support up to 10 major shows a year, plus 60 or so BSPs. By comparison, ITA was only able to participate in 17 trade fairs in FY 1977.

Third, because they are smaller, Trade Center shows can be more finely targeted on specific product themes. In major international exhibitions -- even the vertical shows -- any one exhibitor or product within the broader industry theme could be "lost" in the crowd. This is less likely at Trade Center shows, where the firm is only one of 20 other exhibitors and where the featured product theme may itself be a subset of a broader industry category.

On the other hand, the relative "largeness" of the major trade fairs can be an advantage from the exhibitor's standpoint. While Trade Center shows may well attract a higher quality audience proportionately, many more visitors in absolute terms -- tens of thousands of people for some shows -- typically attend major international expositions. Thus, exposure is quantitatively greater at any given trade fair than at a Trade Center show. For firms seeking maximum exposure and contacts at a single exhibition, the chances of so doing may thus be greater at a large international show than at a Trade Center show.

Partly for this reason, and also because of the costs involved in maintaining fixed Trade Center facilities abroad, ITA is in the process of restructuring several of its Trade Center facilities into International Marketing Centers (IMCs). IMCs are more versatile facilities drawing upon the best of the Trade Center and trade fair programs. They provide coverage for a wider geographic marketing area than traditional Trade Centers. IMCs are designed to maximize U.S. participation in specialized international fairs while retaining sufficient exhibit space to offer many of the promotion techniques and individualized marketing services that have made Trade Centers a valuable marketing tool of U.S. firms.

In the final analysis, if ITA were to phase down or discontinue its exhibition support services abroad, it is probable that many smaller and inexperienced firms willing to exhibit under ITA auspices would not exhibit alternatively. It should also be noted that non-ITA sources of exhibit services have no particular interest in whether exhibitors are small or large, experienced or inexperienced; or, indeed whether the goods exhibited by U.S. firms would actually be produced and shipped from the United States if orders are obtained as a result of the exhibit. As profit-making enterprises, the primary consideration for these private sector services is the sale of as much income producing booth space and ancillary services as possible.

Section 10: SOURCES OF ASSISTANCE IN TRAVELING ABROAD

Business-travel assistance consists of several types of services for individual as well as group travelers, including making the transport and hotel arrangements; providing letters of introduction; scheduling appointments; and providing the premises and support services -- secretarial, translation, etc. -- for meetings and the conduct of business.

Most experienced exporters agree that on-site investigation and face-to-face contact is the only way to get a real "feel" for the foreign market. However, since such travel does involve time lost from the domestic operation and tends to be costly, the traveler normally wants to get acclimated, conclude his business, and return home as quickly as possible. Travel facilitation services are addressed to this need. They help the business traveler make the best use of his time while working in a relatively unfamiliar setting.

I. ITA Business Travel Services

ITA does not offer services commonly provided by travel agencies, airlines and hotels, such as making travel and hotel arrangements. Rather, ITA's services are confined to two basic areas: assistance to selected groups traveling abroad through its trade missions program; and to individual business travelers once they have arrived at their destinations, through the Product Marketing Service offered at Trade Center locations. ITA formerly offered an overseas business travel announcement service to alert U.S. Foreign Service posts to planned visits by U.S. firms, but this was discontinued in 1975.

Aside from these special ITA services, which are limited to certain groups, or to individuals traveling only to 13 Trade Center locations, any U.S. firm traveling abroad can call on U.S. Embassies or Consulates for business assistance. Located in nearly every country of the world, most such posts have one or more economic/commercial officers stationed there who can brief the traveler on local business conditions and suggest useful appointments with foreign government officials and business firms in the area. This service is free of charge.

A. The Trade Missions Program for group travelers comprises two types of missions: ITA-organized "specialized" trade missions and IOGA missions, which are industry-organized and "approved" by ITA. In FY 1977, ITA supported 48 specialized missions and 13 IOGAs, in which approximately 440 firms participated.

-- Specialized Trade Missions are entirely organized and recruited by ITA. Each mission focuses on a specific industry which prior market research indicates would be most appropriate for the countries to be visited. Normally, each mission has 8-10 members and visits 2 or 3 countries. Mission members pay their own travel and living costs, plus an ITA fee of $300 per member per country for NTM, $600 per country for OTM, to cover operating costs of the mission. ITA, along with the Foreign Service posts in the host countries, provide briefings for mission members; confirm the travel and hotel arrangements; publicize the mission in advance; and schedule business appointments and events for the mission as a whole and for individual members.

-- Industry-Organized Government Approved (IOGA) trade missions are organized by industry associations, chambers of commerce, state government agencies or similar organizations. In most cases, they are industry-specific, but may at times be horizontal in composition, comprising members of the sponsoring organization or region irrespective of product category. These missions receive "approval" for U.S. Government support only if they meet certain criteria. The purpose must be to promote U.S. exports and there must be a reasonable likelihood, based on the appropriateness of the products for the countries visited, that export business will result. Spouses may not accompany missions members while the mission is in service.

IOGA missions receive essentially the same support from ITA and the Foreign Service as the specialized missions. Groups which do not qualify under the IOGA criteria are still offered some assistance by Foreign Service posts when they are in-country, such as briefings and help with appointments, but do not receive the more extensive support reserved for specialized or IOGA missions.

B. Product Marketing Service (PMS) -- The Product Marketing Service is designed to provide U.S. businessmen traveling abroad with "an office away from the office" at the following U.S. Trade Centers: London, Tokyo, Stockholm, Mexico City, Taipei, Sao Paulo, Seoul, and Tehran, and the International Marketing Centers in Cologne, Paris, Milan, Singapore, and Sydney.

Essentially, the Product Marketing Service provides businessmen with office space for up to five 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 also is available in obtaining secretarial and interpreter services (at the U.S. company's expense).

A visiting businessman may use the service if he provides price lists, sample products, and a visual display or audio-visual presentation; also, if the businessman is a decisionmaker in his company and the product clearly reflects a U.S. corporate identity and at least 50% of its component value is made in the United States.

The daily minimum charge for this service is $25.00. The Trade Center space may be reserved in advance through any ITA District Office.

II. Non-ITA Travel Services

The private sector, both in the U.S. and overseas, offers almost every type of service needed to facilitate business travel. Among them are services that:

- develop business itineraries prior to the trip (travel agencies, banks, EMCs, World Trade associations, bilateral chambers of commerce; and specialized international business organizations, such as Dun & Bradstreet and Business International)
- arrange travel and hotel accommodations (travel agencies, international hotel chains, and airline and shipping companies)
- provide letters of introduction (banks, World Trade associations, bilateral chambers of commerce)
- make business appointments abroad (foreign affiliates or offices of U.S. banks, trade and industry associations, World Trade Associations, bilateral chambers of commerce, state development agencies, and specialized international business organizations)
- provide premises abroad for business meetings, along with appropriate translation, secretarial or other technical support services (local hotels, business-travelers agencies and firms specializing in translations and stenographic, typing, copying and related services)

In addition, there are a number of organizations that sponsor overseas trade missions and technical symposia from time to time, with or without ITA involvement. While many of the trade missions not organized or approved by ITA are combinations pleasure/business trips, the technical symposia are strictly professional. The private sector sponsors are often highly prestigious organizations that command worldwide respect in their field, and the technical presentations themselves are of excellent quality. Moreover, the subject matter and country coverage seem appropriate and leave no obvious gaps.

III. Conclusions

ITA's travel services are limited in scope and, for the most part, do not conflict with those of the private sector. The only areas of potential overlap are in the sponsorship of trade missions and the offer of a "home away from home" through the Product Marketing Service. As was noted, many U.S.-based organizations sponsor trade missions and technical symposia abroad; while in most foreign countries, hotels and other local firms can provide visiting businessmen with office space, secretarial support, translation and other support services.

There are, however, certain differences between the ITA and non-ITA services in these areas -- some major, some not. The major distinction -- affecting trade missions and overseas office space services alike -- stems from the Government involvement itself. U.S. Government sponsorship of a mission, and office space located in U.S. Government premises (i.e., Trade Centers) abroad, convey a meaning of their own to the foreign business public which no private service can match -- viz., official sanction or support of the activity. In many countries of the world, particularly the emergent countries, the imprimatur of the U.S. Government still makes a strong, favorable impression.

Concerning trade missions in particular, there are major differences between the ITA organized- or approved missions and those organized privately. Most of the privately-organized trade missions --excluding IOGA missions, which seek and depend on ITA support -- are combination pleasure/business trips. Spouses usually accompany the mission, and the countries selected are generally those with the most tourist interest, irrespective of business potential. Moreover, even when business is a major purpose of the trip, the focus of these missions is often as much investment- and import-related as export oriented. An additional factor is that these missions reflect the usually diverse product interests of the various members, and thus may or may not represent a good product "match" for the countries visited.

By contrast, ITA's specialized trade missions, as well as the IOGA missions, are strictly business; are exclusively export oriented; and go only to countries that represent good markets for the mission members' products, including out-of-the-way countries not normally considered tourist attractions.

With respect to services that provide office space and support services abroad, ITA's Product Marketing Service (PMS), operates only in the 13 major world cities where ITA Trade Centers are located. These cities generally are the ones which also would most likely have private firms offering office space and support for visiting businessmen. At $25 per day, the cost of the PMS would appear to be somewhat lower than alternative premises, but considering that the traveler has already incurred much greater costs to reach his destination, the difference in the daily cost of private space would probably not be a deterrent in itself.

The PMS does, however, have one major advantage over alternative services in the 13 cities. That is, the business traveler can locate in the Trade Center itself, where the environment is more business-like and where immediate access to expert advice and assistance is available from the Trade Center staff. Hotels and other firms providing office space and secretarial service have no interest in or ability to help the traveler achieve his business objectives, which were the principal reasons for traveling in the first place.

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Section 11: <u>SOURCES OF ASSISTANCE IN MEETING FOREIGN BUSINESSMEN IN THE UNITED STATES</u>

This category of assistance involves sponsoring or facilitating travel to the United States by foreign businessmen on an individual or group basis. Included are such services as arranging itineraries for the visiting businessman, making appointments with U.S. firms, coordinating travel arrangements, identifying U.S. firms which supply the product, and providing forums for foreign buyers to meet with American suppliers.

Many exporting firms consider services of this type to be a significant need in export assistance, but relatively few seem aware of any particular sources of assistance, whether from ITA or the private sector. Respondents to the "exporter needs" survey ranked such assistance --i.e., "opportunities to meet directly in the United States with individual foreign buyers and/or representatives" --as their fourth highest priority of the nine categories listed.

I. <u>ITA's Services</u>

The Foreign Buyers Program (FBP) is ITA's only formal service in this area. It is a cooperative effort by the Departments of Commerce and State to encourage foreign businessmen to visit the United States in order to purchase American products. Two services are offered by the program: (1) assistance to individual foreign buyers and groups of foreign buyers; and (2) recruitment and facilitation of foreign buyer visits to U.S. domestic trade shows.

Requests for assistance to foreign buyers are generally initiated by the Foreign Service post, which notifies ITA of an impending visit to the U.S. by a local foreign buyer along with relevant data on the firm's specific product interests. ITA advertises the visit in <u>Commerce America</u>, in the Field Newsletter sent to eact District Office, and in the TOP program. Inquiries from interested American firms are forwarded to the appropriate Foreign Service post together with the name of the Commerce Project Officer assigned to the visit.

When the foreign visitor arrives in this country, the Project Officer assists him by preparing detailed business itineraries and arranging appointments, plant visits, and project inspections. Arrangements are also made for interpreters where necessary. There is no charge to the foreign buyer for these services. During fiscal year 1977, approximately 700 individual foreign buyers were assisted.

The second service offered through the Foreign Buyers Program is its most significant from a total impact standpoint. Each year, 14 or 15 major trade shows in the U.S. are chosen to be sponsored by the FBP. Criteria used to select shows for sponsorship include: the marketability of the product line abroad; willingness of the show sponsor to provide required services and tools for promotion abroad; expression of interest by a number of Foreign Service posts regarding marketability in their countries; and maintaining balanced coverage of United States industry. In order to be chosen, the show sponsor must agree to provide ITA and Foreign Service posts with certain promotional tools and services for the foreign business visitors. This includes multilingual brochures on the show for distribution to overseas posts, an International Business Center with interpreters in five languages, and a registration system for foreign attendees. ITA in return provides the staff to man the business center, and both ITA and the overseas posts provide overseas promotion.

Foreign Service posts utilize resources such as airlines, travel agents, trade associations, the USIS, and direct mailouts to actively promote the show. Information on participating companies and foreign buyers planning to attend the show is collected and developed into two lists--one of all U.S. firms, and the other of foreign buyers. Three to five months prior to the show the information on foreign buyers is sent to the exhibitors, and exhibitor information is distributed to buyers through the posts, enabling the parties to communicate directly. During the show, foreign businessmen wear a blue ribbon so as to be readily identifiable to the exhibitors.

It is estimated that provision of required services under the program costs the trade association between $10,000 and $50,000. Under the full-cost recovery program, during FY 1978, ITA will begin charging repeat sponsors $3,000 unless this fee would cause hardship to the show due to its size and the potential market for that product line.

During FY 1978, approximately 10,000 foreign businessmen attended Foreign Buyer Program-sponsored shows. No data are available as yet to determine how many such buyers came because of the FBP efforts, and how many would have come in any case. (Measurement indicators are now being developed for this purpose.) However, experience indicates that attendance of foreign buyers at these FBP-sponsored shows is 52% higher than at non-sponsored shows.

II. Non-ITA Services

Routine travel by foreign businessmen to the U.S. is facilitated by several types of organizations, including state and local development agencies, chambers of commerce, certain trade associations, domestic and foreign travel agents, and banks. In addition, some trade fair sponsors make special efforts to attract foreign buyers to their domestic trade shows. State development agencies have a total of 24 offices abroad, located in 14 major foreign centers. When the foreign office becomes aware of a foreign buyer interested in purchasing the products of a firm within the state, the agency is contacted and the buyer put in communication with the firm. Some state development agencies, such as the Washington State Department of Commerce, host VIP purchasing tours to the United States. The services of state development agencies are available without charge but are limited to promotion of the products of that particular state.

Local chambers of commerce and some cities within the United States also offer assistance to foreign buyers interested in purchasing the products of local firms. Chambers of commerce will arrange appointments for foreign buyers, as requested, and some chambers will brief incoming trade missions (e.g., New York Chamber of Commerce and Industry). The Seattle Chamber of Commerce hosts foreign buyers interested in doing business in its city, while the San Francisco Chamber of Commerce cooperates with the Department of Commerce in supporting selected foreign buyer missions. Similarly, port authorities within this country offer assistance on an informal basis to visiting businessmen. They arrange appointments on request.

The World Trade Centers, of which there are 17 in this country, offer more elaborate services, including hosting foreign buyer missions and providing meeting space. However, port authorities and World Trade Centers are concerned equally with export and import trade and do not generally make special efforts to encourage foreign buyers. As in the case of state development agencies, local chambers of commerce are limited to promotion of local firms on an informal basis. These organizations generally do not charge a fee for their services.

Assistance in meeting foreign buyers interested in certain product areas is provided to some extent by trade and industry associations in the United States. Some of these associations have "sister" or counterpart associations abroad that help in directing foreign buyers to relevant U.S. suppliers. The number of trade and industry associations which focus particularly on foreign buyers is not known, but it is apparent that only the larger associations have adequate staff and resources to do so.

Several of the most active domestic trade show organizers, including certain industry associations and professional exhibition management firms, typically seek foreign buyer attendance at their shows and undertake active overseas promotional campaigns to attract them. Sources such as sister associations and AmChams abroad, airlines, credit card companies with foreign offices, travel agencies, and foreign trade journals are utilized in these efforts. For example, the Overseas Automotive Club distributed 12,000 invitations to over 70 countries in order to publicize its 1976 trade show, which was attended by 600 foreign buyers. Some trade shows, such as one of the annual shows of the Men's, Boys' and Western Apparel Club of Denver, Colorado, focus specifically on overseas markets. This show has included, to date, representation from 11 foreign countries. Trade associations may provide services for foreign buyers, such as arranging hotel accommodations, "matchmaking" between suppliers and buyers, and providing receptions at no charge to the buyers, as in the case of the overseas Automotive Club show.

Two other sources of assistance to foreign buyers are United States banks and travel agents abroad. Banks occasionally provide assistance in arranging appointments when requested by correspondent banks abroad (e.g., the Wachovia Bank and Trust of North Carolina), or as a by-product of their reverse investment program (e.g., Commerce Union Bank of Nashville, Tennessee). However, these services tend to be reactive in nature and are performed only on an informal basis. There is no charge for them.

Occasionally, foreign travel agents with offices in the United States will arrange for tour groups of businessmen to visit specific trade shows or firms in this country. In arranging these tours, they often utilize the Foreign Service posts to identify appropriate firms. However, these tours are usually available only to businessmen in the industrialized countries, and such arrangements are by no means universal even there.

Additional alternatives for U.S. firms wanting to meet visiting foreign buyers include foreign-sponsored buying missions (e.g., Japan), and symposia sponsored by international institutions.

III. Conclusions

It appears that the FBP fills a gap in alternative services in three areas: (1) complete low-cost advertising coverage of all global markets with respect to encouragement of attendance at domestic trade shows; (2) accessibility of Foreign Service posts to all foreign businessmen; and (3) encouragement to U.S. industry, through domestic trade show sponsorship, to provide adequate facilities for international buyers and thereby encourage them to visit the United States.

Services offered through the Foreign Buyers Program do not appear to be competing with or duplicating those offered by alternative sources. State and local development agencies are limited to promotion of trade within the jurisdictions which they represent, and trade and industry associations only cover their particular product line. On the other hand, the Foreign Buyers Program can channel foreign buyer requests in any product area to all U.S. firms and regions. Further, by virtue of the large network of U.S. Foreign Service posts abroad, the U.S. business community gains access to a larger foreign market than is available through alternative sources. For example, many of the state and local development offices are located in Brussels and Tokyo, limiting the number and nationality of foreign buyers.

Trade and industry associations are limited by budget and facilities with respect to international publicity for their domestic shows, while the FBP can utilize the entire global network of Foreign Service posts to promote sponsored shows. Furthermore, non-sponsored trade shows are concerned principally with immediate sales and therefore concentrate their promotional-sponsored efforts in this country. In contrast, within the Foreign Buyers Program, focus of trade shows is concentrated on attracting foreign buyers to the United States.

In its domestic trade show program, the FBP concentrates on providing a full range of services designed to enhance the attractiveness of the show to the international buyer. Organizers of trade shows not sponsored by FBP often do not provide an international business center or staff to assist the foreign businessman, while those that do actively seek foreign buyers generally welcome the added support that comes from FBP sponsorship and work with the Program to maximize foreign buyer attendance. Many firms indicated a need for meeting foreign businessmen in the United States, but were largely unaware of any avenues to promote such contacts. None were aware of private sources, but those who had contact with the FBP were favorably impressed.

It appears that, despite the expressed need of U.S. firms for foreign buyer services, they could not be provided economically by alternative sources, which are very limited. Because most trips are made on an individual basis, the cost involved in researching these trips would be excessive for the private sector. Further, no private organization has access to the international market research and promotion facilities available to the U.S. Government and could not obtain them on an economical basis.

CHAPTER 4

PROFILE OF U.S. EXPORTER UNIVERSE: DISTRIBUTION OF ACTUAL AND POTENTIAL EXPORTERS BY SIZE OF COMPANY, INDUSTRY CATEGORY AND GEOGRAPHIC LOCATION

Introduction

In providing export services, the Industry and Trade Administration (ITA) must determine who its principal clients should be and where they are most likely to be found. Up to the present time, ITA has never had an accurate count of the number of actual and potential export firms in the United States what would logically represent a target audience for its export assistance activities. Also lacking has been reliable data on the types of firms in the target universe; their capabilities to finance and maintain a viable export operation over the long run; and the extent to which they would need and could effectively use the ITA's assistance in improving their export performance.

The purpose of this study is to attempt to get a better handle on the nature and extent of the U.S. exporter universe in these respects, so that ITA can better target its efforts on those companies which (a) are most in need of assistance to fully realize their export potential; (b) have the best chance to export competitively; (c) can make the best use of Government services; and (d) whose involvement in exporting would most benefit the U.S. economy.

Initially, the emphasis will be on quantifying and categorizing the target company universe--i.e., attempting to determine:

- how many manufacturers there are in total
- how many are already exporting
- how many have the potential to export
- how many are small, medium, and large
- where they are concentrated geographically
- in what industries they are concentrated
- combinations of the above (e.g., how many small manufacturers or exporters produce food processing equipment in Illinois)

The relevant variables to be examined include company size, geographical location, industry category, and factor intensity (e.g., labor, capital and technology).

In a later study to follow this one, the goal will be to identify, profile and list individual companies falling within the categories herein analyzed. Depending, then, on the overall company strategy ITA adopts to achieve its export assistance objectives--e.g., primary focus on small companies per se; on small companies in particular industry categories, etc.--it will be in a better position to direct its activities to the most appropriate target companies.

The data for this study came primarily from the Census Bureau's 1972 Census of Manufacturers and its Survey of the Origin of Exports of Manufacturing Establishments in 1972. More recent data from Census were not available at the time this study was prepared. However, Census conducted a new "Exporter Origin Survey" in 1977 to update the earlier one, and the findings should be available in the spring of 1978. The new study will also provide more extensive and refined data on the exporter universe than the 1972 report, pursuant to special data requests made by ITA. When this new report is received, the material in this chapter will be updated to 1976 and the conclusions reexamined.

I. Major Findings

A. Number of Total U.S. Manufacturers

As of 1972, there were some 252,000 firms in SIC 22-39, the industry categories comprising the manufacturing sector (except for food and tobacco manufactures--SIC 20 and 21--for which the Department of Agriculture has responsibility for export promotion). The 252,000 manufacturing companies included in this study operated a total of 284,000 manufacturing establishments in 1972.

B. Number of Actual U.S. Exporter-Manufacturers

Roughly 30,000 firms--nearly 12 percent of U.S. manufacturers in SIC 22-39--are believed to be involved in exporting on a more or less regular basis (see Table 1 attached). This figure is by no means certain, since there has never been an official U.S. census of actual exporters. It does, however, take into account findings of prior official and private surveys (particularly one published in 1977 by the Computer Science Corporation in its Feasibility Study for the Exporter/Agent Information System), as well as numbers contained in various listings and directories of exporters, including our own AITR (American International Traders Register). A more reliable estimate may be possible once the Census Bureau's new Exporter Origin survey (partially financed by ITA) is completed, in early 1978.

C. Number of Potential U.S. Exporter-Manufacturers

Approximately 18,000 manufacturers not now exporting are probably capable of exporting fairly regularly (see Table 2 attached). Of these "export-capable" companies, roughly 60 percent (some 10,800 firms) could probably be induced to give exporting a try if properly appealed to and assisted. The remaining 40 percent (7,200 firms), while presumably export capable, would probably resist such appeals and remain indifferent to exporting.

These are educated guestimates at best. They presume that non-exporters are capable of exporting (although not necessarily interested) if, in the first instance, they meet certain minimum criteria as to financial and supply capabilities and product competitiveness. Interest in exporting goes beyond mere capability, and is more a function of attitudes and perceptions of management than of ability to meet orders and sell competitively.

Both are nearly impossible to quantify without looking at individual firms on a company-by-company basis. (This is the subject of phase two of the study.) For purposes of the present study, the initial gross estimates of potential exporters necessarily had to rely on various presnmptive measures of export capability, such as company size, industry category, and proportion of firms already exporting by industry. The export interest factor of 60 percent of export-capable firms was based on prior surveys of exporters and non-exporters in selected communities (see Bibliography for detailed listing).

D. Number of Non-export-capable U.S. Manufacturers

Of the total of 252,000 U.S. manufacturers in SIC 22-39, roughly 80 percent are probably incapable of exporting competitively. (See Table 2.) This, too, is an arbitrary figure and should certainly be substantiated before any firms are categorically written off as unable to be helped. Basically, firms in this category are those which do not meet the minimum size, competitiveness and industry criteria noted above.

E. Size Distribution of U.S. Manufacturing Sector and Exporters

Data on manufacturers is presented in two sections: the first deals with "firms"; the second with "establishments." (A "firm" can consist of one or more "establishments.") Several factors make it necessary to consider both sets of statistics. One reason for presenting establishment data is that Census Bureau data on exports, for example, is available only on an establishment basis. An important reason for presenting statistics on firms is that most of ITA's contacts with industry are with management at a company's headquarters, rather than with production managers at the plant or establishment level.

One difficulty encountered in attempting to arrive at estimates of the number of small, medium, and large companies engaged in exporting involves the absence of a commonly accepted definition of small, medium, and large. Obviously, the absolute number of "small exporters," as well as the proportion of "small" companies engaged in exporting, is dependent upon the rather arbitrary placement of a line between "small" and "medium." These problems of defining size correspond to the problems of measuring size. Among the various measures of firm size are:

- -- Number of employees
- -- Number of production workers
- -- Value of shipments
- -- Value of shipments per employee
- -- Value of shipments per production worker
- -- Value added by manufacture
- -- Value added per employee
- -- Value added per production worker
- -- Net worth

In comparing one industry with another, all of the above variables can be used. In addition, measures such as the number of establishments or firms, number of employees per establishment, value added per company, etc., may be helpful.

Since the results of this study will be used for various purposes, most of the calculations and tabulations will utilize different measures of size. The measures used will be those judged to be the most appropriate for the requirements of the study. To date, number of employees has been the measure of size most often used.

As regards size labels, the choice of categories is sure to meet with disagreement from some quarters. However, labels are necessary, and the following tentative delineation of size categories will be used:

Very small - less than 10 employees
Small - 10 to 99 employees
Medium - 100 to 999 employees
Large - 1000 or more employees

The categories and labels are subject to change as conditions warrant.

1. Size Distribution of Manufacturing Firms

-- Less than 1 percent of all manufacturing firms in SIC 22-39 employ 1000 or more workers. These 1900-odd "large" companies account for an estimated 65 percent of the manufacturing work force (scattered throughout establishments of all size categories), and approximately 70 percent of sales of manufactured goods. (See Table 3 attached.)

-- Firms in the medium-size group (those with 100 999 workers) number approximately 16,000, more than 6 percent of all companies in SIC 22-39. These enterprises employ about 19 percent of the manufacturing work force, and account for 17 percent of total output.

-- Nearly 93,000 firms can be considered small. These companies, with 10 to 99 employees, account for about 37 percent of all manufacturing firms. They employ between 13 and 14 percent of the manufacturing work force, and contribute approximately 11 percent of sales of manufactures.

-- More than half of all U.S. manufacturing firms are in the very small category, employing less than 10 workers. These enterprises account for about 2 percent of production of manufactures, and employ less than 3 percent of the workers in manufacturing.

2. Size Distribution of Manufacturing Establishments

-- Of the total 284,000 manufacturing establishments in SIC 22-39, only some 2,000 can be considered large, i.e., with more than 1,000 employees (see Table 4 attached). These units, while representing less than 1 percent of all manufacturing plants, provide employment for about 30 percent of the manufacturing work force, account for 38 percent of the total manufacturing output, and probably account for about 60 percent of U.S. exports of manufactures.

-- Establishments in the medium, 100-999, employee group provide jobs for over 45 percent of the country's workers in manufacturing, and account for about 10 percent of the manufacturing plants in SIC 22-39. These establishments account for over 42 percent of all manufacturing output, and probably contribute about 30 percent of U.S. exports of manufactures.

-- Units in the small, 10-99, employee group, which constitute almost 38 percent of the country's manufacturing establishments, employ 21.4 percent of the workers in manufacturing, account for 17 percent of manufacturing production, and probably contribute about 8 percent of U.S. exports of manufactured goods.

-- The very small size establishments, those with less than 10 employees, account for more than half of the plants but less than 3 percent of the workers in manufacturing. These units account for 2.4 percent of U.S. production of manufactured goods, and probably contribute about 1 percent of U.S. exports of these products.

3. Size Distribution of Exporters

To date, there have been no scientific samplings taken of the U.S. manufacturing or exporting community to quantify U.S. exporters based on size. Hopefully, the Census Bureau's new Export Origin Survey will elicit such information. In the meantime, only guestimates are possible.

Previous studies for ITA have traditionally estimated the number of U.S. manufacturing firms which export at approximately 20,000 exporters. In light of the CSC-based total of 30,000 exporters, these prior estimates appear rather conservative.

Using the CSC-based total, as well as information from several surveys on the distribution of exporters by size in selected communities or regions, the following breakdowns appear reasonable (see Table 5 attached):

-- Although more than half of all manufacturing firms employ less than 10 people, only an estimated 14 percent of the exporters in SIC 22-39 are of this very small size.

-- Some 37 percent of all manufacturing firms are in the small category of 10-99 employees, while approximately 56 percent of the exporters are estimated to be in this group.

-- Medium-size companies with 100-999 employees, accounting for approximately 6.4 percent of all manufactures, constitute an estimated 26 percent of the exporting firms.

-- Enterprises in the largest size category, 1000 or more employees, account for less than 1 percent of all manufacturing companies, but constitute about 5 percent of exporting firms.

4. Value of Exports by Size of Firm

No data are currently available to provide a precise distribution of the value of exports by size of the firm. An estimated distribution is shown in Table 5 attached.

Firms in the largest size category (over 1,000 employees) account for 70 percent of the country's total shipments of manufactures. Since such large firms tend to export more per company than smaller size firms--e.g., $18 million average exports per large firm, compared with only $7,000 per smallest-size firm--it can be assumed that the 1,900 large firms probably account for over 80-85 percent of total U.S. exports for SIC 22-39.

Medium-size firms (100-999 employees) account for 17 percent of shipments of manufactures, but in view of the relatively smaller average exports per firm as size of firm declines, such firms probably account for about 13 percent of the total value of SIC 22-39 exports. Small and very small companies probably contribute only about 3 percent and 0.1 percent, respectively, of the value of U.S. exports in SIC 22-39.

By implication, then, about 9,100 firms with over 99 employees (less than 4 percent of total U.S. manufacturing firms) account for more than 95 percent of total U.S. exports of manufactured goods; while the remaining 96 percent of the country's manufacturers contribute less than 5 percent of the country's exports in the relevant SIC categories.

When the largest-size category is broken down into its component size groups, the concentration of exports in the largest firms is clearly evident. Companies with 10,000 or more employees (an estimated 250 exporters, out of approximately 300 companies) account for approximately 69 percent of U.S. exports of manufactured goods. Firms with 5,000 or more employees (about 450 exporters out of approximately 550 companies) contribute some 76 percent of the country's exports in SIC 22-39. Those enterprises with at least 2,500 employees (about 750 exporters, out of some 950 companies) can claim approximately 80 percent of these exports. Using the same method of estimation, it appears valid to state that the 100 largest exporters (approximately those firms with 25,000 or more employees) account for more than half the value of U.S. exports of manufactured goods.

The last two rows in Table 5 are particularly significant in terms of future targeting of export promotion programs by size of firm, and the effect upon the U.S. balance of payments. There would appear to be a dramatic difference in effect if, for example, the 3,200 medium-size firms that are potential exporters--each averaging $508,000 in exports per firm--were induced to export, rather than 3,200 small companies whose average exports per firm are only $53,000. The medium-size companies would provide revenues surpassing $1.6 billion, while the small firms could furnish only about one-tenth that amount ($170,000).

5. <u>Export Propensity by Size of Firm</u>

Previous surveys have demonstrated that, as the size of a firm increases, the tendency to export also increases. Therefore, the larger employment size categories are likely to have relatively larger proportions of exporting companies than the smaller sized companies. As shown in Table 6 attached, only about 3 percent of the firms in the smallest size category are exporters; compared with an estimated 74 percent of the companies in the largest size category; 48 percent in the medium size category; and 18 percent of the small-size firms.

A statistical test (known as Spearman's rho)1/ was applied to the data to determine if there is a relationship between firm size and both the value of an industry's exports and the proportion of firms in the industry which export. The variables selected as measures of firm size within an industry were proportion of large units, employment in large units, and value added in large units.

Table 7 attached indicates the results of this test as performed for all industries and for the major manufacturing industries, with the resource extractive industries excluded.

The results show that there is a strong relationship between the selected measures of firm size and the value of an industry's exports and the proportion of firms in an industry which export. This relationship becomes even stronger if resource extractive industries are excluded from the calculations. Thus, those industries in which a large proportion of employment and value added is concentrated in large plants are also those with the highest exports:shipments ratios. This fact is highly relevant to any discussion of "small company targeting," since it attaches great weight to the importance of firm size as a factor in exporting.

Although the available data are not conclusive, it appears that there is little difference in the proportion of production exported among firms in different size categories. In other words, although size affects whether or not a firm exports, it seems to have no bearing on the portion of production exported. A small export firm is as likely as a large one to export half of its production.

1/ Spearman's rho measures co-variance, or concordance between two variables, thus allowing tentative conclusions as to whether or not some relationship exists between the two variables. The test does not measure causality; nor does it provide a conclusion as to whether largeness causes exporting. Rho can vary from 1.0 to -1.0. The greater the absolute value, the stronger the relationship. A negative value indicates that the relationship is inverse.

F. Geographic Origin of U.S. Manufacturers and Manufactured Exports

More than two-thirds (71%) of all U.S. manufacturing establishments are located in only four regions of the country -- the Mid-Atlantic (23%), East North Central (20%), Pacific (15%) and South Atlantic (13%). (See Table 8 attached.) These include the major industrial areas of New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois, Michigan, Wisconsin, California, Florida, North Carlina and Georgia, among others. The remaining 29% of U.S. establishments are spread fairly evenly among the New England (8%), West South Central (7%), West North Central (6%) and East South Central (5%) regions, except for the Mountain states, which have only 3% of the total.

1. Location of Manufacturers, by size of Establishment

a. Large establishments (1,000 or more employees), by location

The greatest single concentration of the largest manufacturing establishments is in the East North Central region. Some 32% of all such plants are located there. Other significant concentrations are within the eastern seaboard -- the Mid-Atlantic (18%) and South Atlantic (15%) regions. These three regions account for nearly 1,300 (65%) of the 2,000 large establishments in the U.S. The remaining 740 large establishments are evenly distributed in other regions of the country, with the exception of the Mountain states, where only 2% of all large establishments are located.

The Pacific region is the only region which has fewer large establishments than would be expected. This region, which contains 15 percent of all U.S. manufacturing establishments, contains only 8 percent of the largest establishments.

b. Medium-size establishments (100-999) employees, by location

Establishments in the 100-999 employee group are also more likely to be found in the East North Central, Mid-Atlantic and South Atlantic regions. These states account for 59 percent of all plants in this size category.

The distribution of the remaining establishments is even, with the aforementioned exception of the Mountain States. Here again, the Pacific States contain fewer medium-size establishments (10%) than would be expected from the overall average of all establishments (15%).

c. Small establishments (10-99 employees), by location

The Mid-Atlantic region has nearly 26 percent of the establishments in this category, followed by the East North Central states with almost 22 percent. The Pacific and South Atlantic regions together account for another quarter of all small manufacturing plants. The smallest numbers of plants in this size category are to be found in the East South Central (4%), West South Central (Arkansas, Oklahoma, Louisiana, Texas - slightly over 6%), and Mountain (almost 3%) regions.

d. Very small establishments (under 10 employees), by location

Nearly 70 percent of all very small manufacturing establishments are located in four regions: the Mid-Atlantic (23%), East North Central (20%), Pacific (16%), and South Atlantic (14%) regions. The smallest number of very small plants are in the East South Central (5%) and Mountain (7%) states.

2. Origin of Exports of Manufactures

The majority (64%) of the $33 billion in manufactures exported in 1972 (SIC 22-39) originated in the Mid-Atlantic ($6.2 billion), East North Central ($10.6 billion) and Pacific ($4.2 billion) states. (See Table 8 attached.) The South Atlantic (9.7%) has the largest share of manufactures exported of the remaining regions. The other regions range from 4-7% of the exports, except for the sparsely populated Mountain states, which produced only 1.8 percent of the value of manufactured exports.

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3. Export Propensity, by Location

A region's export propensity can be measured by the proportion of its total production that is exported, or its exports:total shipments ratio. The regions with the largest proportion of shipments exported are the Pacific (6.5%), New England (6.1%), and East North Central (5.6%) states. (See Table 9 attached.)

Four of the remaining regions export 5 percent of their total shipments. However, the South Atlantic and East South Central states have export:shipment ratios of only 4 percent.

The regional distribution by size of firm is not an important indicator of a region's export propensity. Table 10 attached demonstrates the results of statistical tests of the relationship between a region's exports:total shipments ratio and various measures of establishment size and technological intensity. The fact that no relationship was found to exist between a region's exports:total shipments ratio and the percentage of large firms in that region is somewhat surprising, due to the strong relationship between firm size and industry exports reflected in other parts of this study.

Of all the variables tested for export propensity, the technological intensity of establishments in the region shows the highest correlation. It is inconsequential whether such establishments are large or small, only that they be in one of the industries designated technologically intensive.

4. Direct Export Employment, by Location

More than half (62%) of the estimated 740,000 direct export workers in 1972 were in the Middle Atlantic (19%), East North Central (31%), and Pacific (12%) states. (See Table 9 attached.) The remaining 38% of direct export employment is widely distributed, with the fewest export workers in the East South Central (4.3%) and Mountain (1.9%) states. The New England and South Atlantic regions each has approximately 9% of export workers, compared to the West North Central and West South Central regions, which have 6% each.

The Pacific, New England and East North Central regions are the only regions in which the proportion of direct export workers exceeds 5 percent of all manufacturing workers. The other regions' proportion is approximately 4 percent, with the exception of the South Atlantic and East South Central states, where the proportion is less than 3 percent.

G. Industry Distribution of U.S. Manufacturers and Exporters

1. Distribution of Manufacturers by Industry

The five industries having the greatest absolute numbers of companies are: Apparel (SIC 23), Lumber/Wood (SIC 24), Printing (SIC 27), Fabricated Metals (SIC 34), and Nonelectrical Machinery (SIC 35). (See Tables 1 and 11 attached.) Together, these industries account for 62 percent of all U.S. manufacturing firms and an estimated 42 percent of active U.S. manufacturer-exporters. These five industries provide employment for roughly 39 percent of all production workers; contribute 34 percent of value added by manufacture; and account for 34 percent of total U.S. exports in SIC 22-39.

Five other industries, namely Chemicals (SIC 28), Petroleum Refining (SIC 29), Primary Metals (SIC 33), Electrical Machinery (SIC 36), and Transport (SIC 37), while accounting for only 13 percent of all manufacturing firms, provide jobs for 32 percent of the country's production workers; contribute approximately 41 percent of the value added by manufacture; and supply the majority (53%) of total U.S. manufactured exports.

a. Large establishments (1,000 or more employees), by industry

The majority of the Nation's 2,000 large manufacturing establishments (67%) are concentrated in the Chemical (SIC 28), Primary Metals (SIC 33), Fabricated Metals (SIC 34), Nonelectrical Machinery (SIC 35), Electrical Machinery (SIC 36) and Transportation (SIC 37) industries. (See Table 11 attached.) According to the 1972 Census of Manufactures, the 1,350 large establishments in these six industries also account for 24 percent (3.9 million) of the total U.S. manufacturing work force, and 80 percent of all workers employed by large establishments. Census Bureau estimates state that, between 1972 and 1974, the employment within these six industries increased 7.5 percent, while employment within the other SIC industries declined more than 10 percent.

The remaining 650 large establishments are relatively well distributed among all the industries, except for Petroleum (SIC 29) and Leather (SIC 31), the two industries with the fewest establishments of any size, and the Lumber Industry (SIC 24), which is heavily comprised of very small establishments (69%).

All six of these industries with relatively heavy concentrations of large establishments are highly capital intensive, with an advanced level of mechanization and high value added per employee. With the exception of the Electrical Machinery industry, large establishments represent a relatively significant portion of the technologically intensive industries (SIC 35-37).

This is also true for the Primary Metals industry. Within the six industries, the major portion of each industry's employment and production is also accounted for by the large establishments; for example, in SIC 37 (Transportation), the 296 large establishments in that industry (3.4 percent of the industry's total establishments) account for 72 percent of its employment and 80 percent of its total value added.

b. Medium-size establishments (100-999 employees), by industry

Nearly one-half of the Nation's medium-size establishments (47 percent, or 13,350 establishments) are located in the Textile, Apparel, Fabricated Metals, Nonelectrical Machinery, and Electrical Machinery industries (SIC 22, 23, 34, 35 and 36). These 13,350 establishments employ 3.6 million people, or 23 percent of the total U.S. manufacturing work force, and 51 percent of the workers in medium-size establishments.

The remaining 15,085 establishments are evenly distributed among all industries other than the aforementioned Petroleum (SIC 29) and Leather

(SIC 31) industries and the Instruments industry (SIC 38), which also has very few establishments of any size in it.

Establishments of 100-999 employees are the primary source of employment in the Textile, Apparel, Paper and Leather industries (SIC 22, 23, 26 and 31). More than 60 percent of each of these industries' employment and value of shipments is accounted for by medium-size establishments.

c. Small establishments (10-99 employees), by industry

More than half of all small establishments (64 percent, or 68,100 establishments) are concentrated in the Apparel, Lumber, Printing, Stone, Fabricated Metals and Nonelectrical Machinery industries (SIC 23, 24, 27, 32, 34 and 35). These 68,100 establishments employ 2.3 million people, or 68 percent of all workers employed by small establishments, and 14 percent of the U.S. manufacturing work force.

The distribution of the remaining 36 percent of small establishments is for the most part evenly spread, except for the sparsely populated Petroleum (SIC 29), Leather (SIC 31), and Instruments (SIC 38) industries.

d. Very small establishments (1-9 employees), by industry

The distribution of very small establishments is concentrated in four industries--Lumber, Printing, Fabricated Metals, and Nonelectrical Machinery (SIC 24, 27, 34 and 35). More than 88,000 very small establishments, 60 percent of all the very small establishments and 30 percent of all U.S. manufacturing establishments, are within these four industries. However, these 88,000 establishments employ only 270,000 people, or less than 2 percent of the total U.S. manufacturing work force.

These four industries and one other, the Instruments industry (SIC 38), are the industries in which the majority of the producers making up the industry are very small establishments.

The distribution of the remaining very small establishments--40 percent, or 58,740--is quite varied. The largest number are in the Stone (SIC 32) and Apparel (SIC 23) industries and the Miscellaneous group (SIC 39). The Apparel industry--with 4,800 very small establishments and 31,000 employees; 6 percent of all very small establishments and 6 percent of all very small establishment employment--represents the largest industry group not covered above. The Petroleum (SIC 29) and Leather (SIC 31) industries--with 1,200 and 1,000 establishments, respectively, and with 4,100 employees each, less than 1 percent of very small establishment employment--are the smallest industries.

2. Industry Distribution of U.S. Exporters and Exports

The estimated distribution of exporters is based primarily upon a survey of manufacturers published in May 1977 by the Computer Science Corporation (see Bibliography and Table 1 attached). The industry with the largest absolute number of exporters is SIC 35, Nonelectrical Machinery, in which 7,400 companies (nearly 25 percent of the total number of exporting manufacturers) are exporting. Electrical Machinery, with 3,200 exporters, and Fabricated Metals, with some 3,100 exporters, are the next largest industries in terms of number of exporters. (The relatively high estimated number of exporters in Fabricated Metals disguises the rather low participation rate of approximately 12 percent (see a. below).

In absolute terms, Printing has the lowest number of exporters--approximately 200--followed by Petroleum (250) and Leather (400). Since, however, the latter two industries are also the smallest in number of companies, the export participation rates for these two industries is relatively high--approximately 20 and 15 percent, respectively.

a. Exporter participation rates within industries

The industry with the largest proportion of firms exporting is SIC 38, Instruments, in which it is estimated that slightly more than half of all companies are active exporters. (See Table 12 attached.) In percentage of firms exporting, this industry is followed by

SIC 36, Electrical Machinery, with an estimated 32 percent of its firms exporting, and SIC 28, Chemicals, with some 28 percent exporting.

The industries with the smallest percentage of firms exporting are Printing, with less than 1 percent actively exporting, and Lumber, with less than 3 percent. Apparel, Furniture, and Stone, Clay and Glass are the three remaining industries with export participation rates lower than 10 percent. (See attached Tables 1 and 12 for a breakdown of the estimated exporter participation rates by SIC.)

b. Distribution of exports by industry

There is a wide variation in value of exports on an industry basis. (See Table 11 attached.) The leading industries according to this measure are SIC 37, Transportation Equipment, and SIC 35, Nonelectrical Machinery, each with over $7.8 billion worth of exports in 1972 (source: 1972 Origin of Exports). These industries are followed by SIC 28, Chemicals (nearly $3.8 billion); SIC 36, Electrical Machinery ($3.3 billion); and SIC 38, Instruments ($1.5 billion).

The smallest amounts of exports in 1972 originated in SIC 25, Furniture and Fixtures ($52 million), and SIC 31, Leather ($104 million). These are two of the smallest industries in terms of total sales, so the rather low export figures are not unusual. Two additional industries with rather low export totals are SIC 23, Apparel (under $300 million), and SIC 27, Printing (under $350 million).

c. Export propensity, by industry

The leading industries in terms of proportion of shipments exported are: SIC 35, Nonelectrical Machinery (12.4%); SIC 38, Instruments (11.1%); SIC 37, Transportation (8.1%); SIC 28, Chemicals (6.5%); and SIC 36, Electrical Machinery (6.2%). (See Table 12 attached.)

The industries with the smallest proportion of exports to total shipments are: SIC 25, Furniture (0.5%); SIC 23, Apparel (1.1%); and SIC 27, Printing (1.2%).

d. Direct export employment, by industry

Census estimates for 1972 state that the greatest concentrations of direct export workers--more than three-fourths (77%) of SIC 22-38 direct export employment--are in the following leading industries: SIC 35, Nonelectrical Machinery (28%); SIC 37, Transportation (19%); SIC 36, Electrical Machinery (14%); SIC 28, Chemicals (7%); and SIC 38, Instruments (5%). (See Table 11 attached.)

Four of the remaining industries employ less than 1 percent of all direct manufacturing export workers. Three of these industries are the labor-intensive SIC 23, Apparel; SIC 25, Furniture; and SIC 31, Leather. The fourth industry is SIC 29, Petroleum, a resource extractive industry.

H. Technological Intensity, by Industry

The Census Bureau, in its 1972 Origin of Exports survey, designated one group of industries as "technologically intensive." These are the industries with the heaviest expenditures on research and development. Included in this group are: SIC 28, Chemicals; SIC 35, Nonelectrical Machinery; SIC 36, Electrical Machinery; SIC 37, Transportation; and SIC 38, Instruments.

These industries are also those for which exports constitute a higher-than-average portion of total shipments. In addition, these industries tend to have a higher proportion of exporters among total firms in the industry than do non-technologically intensive industries. Table 12 attached demonstrates both of these characteristics, as well as their interrelationship to the concentration of employment in large manufacturing units.

1. Technological Intensity, by Selected Exporting Factors

Table 13 attached demonstrates the significant differences between technology-intensive and non-intensive industries as they bear on the export sector. Although the technology-intensive industries comprise only 29 percent of the country's manufacturing establishments, they provide 42 percent of the manufacturing employment, 47 percent of shipments, and 76 percent of value of manufacturing exports.

Of the country's approximately 284,000 total establishments, approximately 72 percent of them are in technologically nonintensive industries. Regardless of how large or small such establishments are, there is prima facie evidence to suggest that the majority of them probably do not produce internationally competitive products. Conversely, there is reason to believe that technologically intensive production, regardless of the size of the producer, will probably be internationally competitive.

For example, in SIC 38, Instruments, a relatively large proportion of the manufacturers in this technologically intensive industry are small; yet this industry has one of the highest export:total shipments ratios of all. By comparison, a technologically nonintensive industry such as SIC 33, Primary Metals, while containing a high percentage of large establishments, exports proportionally much less than SIC 38.

II. Implications for Company Targeting

The two variables which appear to be most strongly related to company involvement in exporting are the size of the firm and the industry to which the firm belongs. Medium- and large-size firms, taken together (i.e., those with 100 or more employees), are estimated to be nearly 20 times more likely to export than very small firms (those with less than 10 employees). One reason for this is that smaller firms are less likely than larger firms to have some or all of the factors instrumental to exporting successfully, such as the production capacity to handle both domestic and foreign markets; the financial capability to support exports; the managerial capability to oversee the export operation; and so on.

Industry category is also an important factor affecting the export status of a firm, especially as it relates to product competitiveness. For example, only 7 percent of the firms in technologically nonintensive industries are active exporters, versus an estimated 25 percent of the firms in technologically intensive industries (SIC 28, 35-8). Additional firms in technologically intensive industries export a total of 8.5 percent of product shipments; while companies in the remaining industries export only 2.3 percent of shipments. In terms of both proportion of firms exporting and proportion of output exported, then, the technology-intensive industries are far ahead of other industries. This finding is consistent with product-cycle theories of international trade, and imply that export promotion resources would best be spent if targeted on firms—large or small—in technologically intensive industries.

One way to enhance the competitiveness of small firms, if technology is indeed the key factor, is to broaden the diffusion of technology to these companies. Local, regional, and state development authorities and other agencies of the Federal Government are the main vehicles for ensuring that technological innovations become available to aid small businesses.

It should be possible to identify industries in which a sufficient number of small firms already manufacture technologically intensive and other products presumed most likely to possess "export potential."

The volume of exports from the country's nine regions is also very strongly related to the number of technologically intensive establishments in each of those regions. However, there is no significant relationship between a region's exports and either the number of large establishments (1,000 or more employees) or the number of establishments with 100 or more employees in that region. For example, the Pacific region ranks eighth in number of establishments with 100 or more employees; however, this region ranks second in terms of proportion of establishments in technologically intensive industries, and first in proportion of shipments exported.

Within industries, the size of a firm, as measured by the number of employees and probably also by the value of shipments, is perhaps the most important factor in determining exporting/nonexporting status. There are probably more small firms exporting in a technologically intensive industry such as Instruments than there are in a technologically nonintensive industry such as Apparel.

On a geographical basis, the exporter ratio appears to be more a function of industry distribution, specifically the proportion of firms in technologically intensive industries, than of the size distribution of firms in that region.

TABLE 1

ESTIMATED DISTRIBUTION OF EXPORTERS,
AND ADJUSTMENTS TO SURVEY RESULTS, BY SIC

(A)	(B)	(C)		(D)1/	(E)	(F)	
SIC	Firms	Exptrs	%	90% Confidence Limits	AITR	Adj. Exptrs	%
22 Textiles	5,611	915	16.3	584-1,246	1242	900	16.0
23 Apparel	21,949	1,405	6.4	878-1,932	1316	1,000	4.6
24 Lumber	31,935	2,651	8.3	1,005-4,279	1177	900	2.8
25 Furniture	8,482	806	9.5	551-1,154	876	650	7.7
26 Paper	3,956	669	16.9	479-858	863	650	16.4
27 Printing	39,894	3,311	8.3	1,197-5,426	272	200	0.5
28 Chemicals	8,057	3,303	41.0	2,038-4,568	3041	2,300	28.5
29 Petrol.	1,236	256	20.7	180-332	431	250	20.2
30 Rubber	7,935	2,174	27.4	1,333-3,015	1631	1,200	15.1
31 Leather	2,699	599	22.2	273-926	507	400	14.8
32 Stone	13,043	1,513	11.6	691-2,335	1541	1,150	8.8
33 PriMetals	5,351	963	18.0	615-1,311	1373	1,000	18.7
34 FabMetals	26,373	5,960	22.6	3,297-8,650	4163	3,100	11.8
35 Nonelec.	38,085	10,778	28.3	6,817-14,777	9815	7,400	19.4
36 Elec Mach	10,031	3,912	39.0	2,448-5,387	4248	3,200	31.9
37 Transport	7,548	2,083	27.6	1,344-2,830	1762	1,300	17.2
38 Instrum.	5,269	2,930	55.6	1,913-3,946	3594	2,700	51.2
39 Miscell.	14,560	3,684	25.3	2,257-5,125	2215	1,700	11.7
TOTAL	252,014	47,911	19.0	27,900-68,098	40067	30,000	11.9

SOURCES: See following page.

1/ The ranges shown in this column are the upper and lower limits on the estimated number of exporters in each industry. There is a 90% probability that the actual number of exporters falls somewhere within these limits. The limits were calculated using the percentage results in Column C.

NOTES TO TABLE 1

The adjustments to the SIC totals in Column C were based on a comparison between the distribution of firms in the AITR (Column E), which includes both exporters and firms interested in exporting, and the CSC survey results (including both the actual results shown in Column C and the lower confidence limit in Column D). If an industry had significantly fewer AITR listings than its exporter total in Column C, the figure in Column C was adjusted downward to approximately three-fourths of the AITR total. The "corrected" totals are meant to eliminate most, if not all, of those firms whose interest in exporting is limited to a merely passive, reactive attitude toward orders from abroad.

The downward adjustments affected the SIC exporter totals for all but 4 industries. The totals for the unaffected industries have been rounded. In 8 industries, the downward adjustments were made within the limits imposed by the 90 percent confidence interval. In the 6 remaining industries, however, the adjusted number of exporters fell below the minimum at 90 percent confidence. In all but one of these cases, the adjusted figure is only marginally lower than the 90 percent confidence minimum. The lone exception is the total for the Printing industry (SIC 27), which was drastically reduced to reflect the low number of listings on the AITR. This industry is one in which firms may export primarily on a passive, noncontinuous basis.

SOURCES for Table 1: <u>1972 Census of Manufactures</u> (Column B); CSC survey results, <u>Feasibility Study for the Exporter/Agent Information System</u> (May 1977) (Column C), calculated as follows, derived from ITA's American International Traders' Register (AITR) and Dun & Bradstreet American Traders' Index (ATI):

$$\left[.4\ p_M^{AITR} + .6\ p_T^{AITR}\right] \frac{N_{AITR}}{N_{TOT}} + \left[.4\ p_M^{D\&B} + .6\ p_T^{D\&B}\right] \frac{1 - N_{AITR}}{N_{TOT}}$$

where p = percentage of respondents exporting; M = mail survey; T = telephone survey; N_{AITR} = number of firms on AITR (Col. E); and N_{TOT} = total number of firms (Col. B)

Calculations using results of Column C, based on 90 percent confidence limits (Column D); AITR records (June 1977) (Column E); and Adjustments as described above (Column F).

TABLE 2

ESTIMATED DISTRIBUTION OF EXPORTERS,
NONEXPORTERS, AND FIRMS INTERESTED IN EXPORTING

	Firms	Percent	Upper Limit	Lower Limit
Manufacturers	252,000	100.0%	252,000	252,000
Exporters	30,000	11.9	68,100	27,900
Nonexporters	222,000	88.0	224,100	183,900
Export-capable	18,000	7.1		
Capable & interested	10,800	4.2		
Capable, not interestd	7,200	2.8		
Not Export-capable	204,000	80.9		
Total not interested	211,200	83.8		

SOURCE: CSC, adjusted survey results.

TABLE 3

CHARACTERISTICS OF U.S. MANUFACTURING FIRMS
BY SIZE OF FIRM

	Number of Employees				
	1-9	10-99	100-99	over 999	Total
Firms	141,414	92,700	16,000	1,900	252,014
% of total firms	56%	37%	6%	0.7%	100%
Employment (000)	492	2,132	3,116	10,660	16,400
% of total employment	3%	13%	19%	65%	100%
Shipments ($ mill.)	12,711	69,909	108,042	444,880	635,543
% of total shipments	2%	11%	17%	70%	100%
Exports ($ mill.)	30	900	3,900	25,200	30,030
% of total exports	0.1%	3%	13%	84%	100%

SOURCE: Derived from 1972 Census of Manufactures

TABLE 4

MAIN CHARACTERISTICS OF THE U.S. MANUFACTURING SECTOR,
BY SIZE OF ESTABLISHMENT

	Number of Employees				Total
	1-9	10-99	100-999	over 999	
Establishments	146,854	106,927	28,435	1,999	284,215
% of total estabs	51.7%	37.6%	10.0%	.7%	100%
Employment (000)	470	3,519	7,442	4,969	16,400
% of total employment	2.9%	21.4%	45.4%	30.3%	100%
Value Added ($ mill)	8,210	55,889	134,898	118,466	317,463
% of total value added	2.6%	17.6%	42.5%	37.3%	100%
Shipments ($ mill)	15,378	108,810	270,826	240,529	635,543
% of total shipments	2.4%	17.1%	42.6%	37.8%	100%
Value Added Per Establishment ($000)	56	523	4,744	59,263	1,117
Value of Shipments Per Estab. ($000)	105	1,018	9,524	120,325	2,236
% of U.S. Exports	1%	8%	30%	60%	99+%

SOURCE: 1972 Census of Manufactures

TABLE 5

DISTRIBUTION OF EXPORTS AND EXPORTERS OF MANUFACTURES, 1972

(By Size of Firm)

	Number of Employees in Firm				Total
	1-9	10-99	100-999	over 999	
No. of Firms % of Total Firms	141,414 56.1%	92,700 36.8%	16,000 6.3%	1,900 0.7%	252,014 100%
No. of Exporters % of Total Exporters	4,242 14%	16,686 56%	7,680 26%	1,406 5%	30,014 100%
No. of Nonexporters % of Total Nonexptrs	137,172 62%	76,014 34%	8,320 4%	494 .2%	220,000 100%
No. of Potential Exporters (est.)	4,200	10,500	3,200	114	18,074
Value of Exports ($millions) % of Total Exports	30 .1%	900 3%	3,900 13%	25,200 84%	30,030 100%
Value of Exports per Firm ($000)	7	53	508	18,000	1,000
Value of Potential Exports, est.($mil)	30	556	1,626	2,052	4,264

SOURCES: Number of companies, estimated from 1972 Census of Manufactures establishment data, and exporter distribution estimated from National Federation of Independent Businessmen, Export Information Survey (Oct. 1974), and various other sources.

TABLE 6

EXPORT PROPENSITY, BY SIZE OF FIRM

Employment Size	Exporters	Nonexporters	Total Firms	Ratio of Exporters to Total Firms
1-9	4,242	137,172	141,414	3%
10-99	16,686	76,014	92,700	18%
100-999	7,680	8,320	16,000	48%
over 999	1,406	494	1,900	74%
TOTAL	30,014	222,000	252,014	12%

SOURCE: 1972 Census of Manufactures

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TABLE 7

CORRELATIONS BETWEEN FIRM, INDUSTRY SIZE
AND INTENSITY OF INVOLVEMENT IN EXPORTING

		Proportion of Firms Exporting		Proportion of Production Exported	
		(17)[1]	(13)[1]	(17)	(13)
Proportion of Production Exported	(17)	.632*			
	(13)		.863*		
Proportion of Large Units	(17)	.777*		.485#	
	(13)		.775*		.679#
Proportion of Employment in Large Units	(17)	.573#		.573#	
	(13)		.797*		.824*
Value Added per Employee	(17)	.680*		.507#	
	(13)		.555#		.725*
Value Added in Large Units	(17)	.698*		.596#	
	(13)		.860*		.834*

Note: 1. Due to the unavailability of separate data for SIC 39, these correlations could only be tested for SIC 22-38, inclusive. The number (17) refers to tests involving all of these industries. The number (13) refers to tests in which resource extractive industries have been eliminated. Those industries are: SIC 24, Lumber; SIC 26, Paper; SIC 29, Petroleum; and SIC 33, Primary Metals.

The test used is Spearman's rho.
* = significant at the .01 level of significance.
# = significant at the .05 level of significance.

TABLE 8

GEOGRAPHICAL DISTRIBUTION OF ESTABLISHMENTS, BY SIZE

Region	No. of Estabs. in Region	% of Total US Estabs.	Size Breakdown of Total U.S. Establishments % in Each Region 1-9	10-99	100-999	over 999
New England	21,630	8%	7%	8 %	8 %	7 %
Mid-Atlantic	64,916	23	21	26	20	18
E.North Central	57,340	20	19	21	23	32
W.North Central	17,772	6	6	6	6	5
S. Atlantic	36,810	13	14	11	16	15
E.South Central	14,536	5	5	4	8	7
W.South Central	20,684	7	8	6	7	6
Mountain	8,550	3	4	3	2	2
Pacific	41,977	15	16	15	10	8
TOTAL U.S.	284,215	100%	51%	38%	10%	.7%

SOURCE: 1972 Census of Manufactures

TABLE 9

ORIGIN OF EXPORTS AND EXPORT EMPLOYMENT BY REGION

Region	Export Value ($ Billion)	% of Total U.S. Exports	Exports to Total Shipment Ratio(%)	Export Employment (1,000)	% of Total Export Employment	Export Employment to Total Employment(%)
New England	2.2	6.7	6.1	68	9.2	5.4
Mid Atlantic	6.2	18.8	5.1	142	19.2	4.2
East North Central	10.6	32.2	5.6	231	31.2	5.3
West North Central	1.9	5.8	4.9	46	6.2	4.8
South Atlantic	3.2	9.7	4.1	71	9.6	2.9
East South Central	1.6	4.9	4.1	32	4.3	2.8
West South Central	2.4	7.3	5.0	46	6.2	4.4
Mountain	.6	1.8	5.0	14	1.9	4.5
Pacific	4.2	12.8	6.5	90	12.2	5.3
TOTAL	32.9	100.0%	5.2%	740	100.0%	4.5

SOURCE: 1972 Census Manufactures
1972 Origin of Exports

TABLE 10

CORRELATION OF EXPORTS:SHIPMENTS RATIO BY REGION

Variable	Spearman rho	
Percent Large Units	-.404	(-)
Number of Tech-intensive Establishments	.921	(.01)
% Employment in Tech-intensive Estabs.	.862	(.01)
Large Tech-intensive Establishments as % of Large Establishments	.688	(.05)
Large Tech-intensive Establishments as % of All Establishments	.379	(-)

SOURCE: Adjusted from 1972 Census of Manufactures

NOTE: The numbers in () are levels of significance of each test. The first and last variables appear to have no relationship to the exports:shipments ratio from each region.

TABLE 11

INDUSTRY DISTRIBUTION OF MANUFACTURING ESTABLISHMENTS, EXPORTS AND EXPORT EMPLOYMENT
(BY SIZE OF ESTABLISHMENT)

SIC	No. of Estabs. by Empl. size 1-9	10-99	100-999	Over 1,000	Total Estab.	Value of Exports ($ Mill.)	% of Total Exports	Value Added ($ Mill.)	% of Total V/A	Employment (000)	% of Total Employment	Export Employment (000)	% of Export Employment to Total Employment
22	1,799	3,230	2,057	117	7,203	655	2.0	11,715	3.7	953	5.8	16	2.2
23	8,499	12,444	3,448	47	24,438	292	0.9	13,488	4.3	1,370	8.3	6	0.8
24	23,283	9,036	1,611	18	33,948	766	2.3	10,310	3.3	691	4.2	18	2.4
25	4,225	3,922	1,054	31	9,232	52	0.2	6,097	1.9	462	2.8	1	0.1
26	1,381	2,903	1,687	67	6,038	988	3.0	13,064	4.1	633	3.9	17	2.3
27	28,076	12,203	1,721	102	42,102	348	1.1	20,209	6.4	1,058	6.4	7	0.9
28	5,361	4,636	1,287	141	11,425	3,757	11.3	32,413	10.3	836	5.1	54	7.3
29	990	762	242	22	2,016	401	1.2	5,793	1.8	140	0.9	2	0.3
30	3,787	4,133	1,233	84	9,237	519	1.6	11,653	3.7	618	3.8	15	2.0
31	1,191	1,288	766	6	3,201	104	.3	2,917	0.9	273	1.7	2	0.3
32	7,882	6,867	1,212	54	16,015	409	1.2	12,586	4.0	623	3.8	12	1.6
33	1,993	3,105	1,503	191	6,792	1,490	4.5	23,258	7.6	1,143	7.0	28	3.8
34	13,026	13,399	2,970	130	29,525	1,429	4.3	26,946	8.5	1,493	9.1	37	5.0
35	27,719	14,147	2,658	268	40,792	7,824	23.7	37,563	11.9	1,828	11.1	205	27.7
36	5,080	4,657	2,215	322	12,274	3,296	10.0	30,558	9.7	1,661	10.1	102	13.8
37	4,108	3,216	1,182	296	8,802	7,842	23.8	39,799	12.6	1,719	10.5	137	18.5
38	3,113	2,110	691	73	5,987	1,530	4.6	10,580	3.6	453	2.8	43	5.8
39	9,341	4,919	898	30	15,188	1,252	3.8	6,769	2.1	446	2.7	38	5.1
TOTAL	146,854	106,927	28,435	1,999	284,215	$32,954	99.8%	315,721	100.0%	16,400	100.0%	740	99.9%

SOURCE: 1972 Census of Manufactures
1972 Origin of Exports

TABLE 12

RELATIONSHIP OF INDUSTRY EXPORTS TO
EMPLOYMENT IN LARGE UNITS AND EXPORT INVOLVEMENT

(Industries ranked by exports:shipments ratio)

SIC	Industry	Ratio of Exports to Shipments	% Empl. in Lg. Estabs.	% Firms Exporting
25	Furniture	.5%	10.9%	7.7%
23	Apparel	1.1	5.7	4.6
27	Printing, Pub.	1.2	18.2	.5
29	Petroleum	1.4	30.5	20.2
31	Leather	1.8	3.4	14.8
32	Stone	2.0	13.6	8.8
22	Textiles	2.4	20.8	16.0
33	Prim. Metals	2.5	51.1	18.7
30	Rubber/Plastic	2.7	25.6	15.1
34	Fab. Metals	3.1	17.9	11.8
26	Paper	3.3	16.0	16.4
24	Lumber	4.2	3.4	2.8
36	Elec. Machy *	6.2	48.4	31.9
28	Chemicals *	6.5	35.7	28.5
37	Transportation *	8.1	72.4	17.2
38	Instrumentation *	11.1	39.9	51.2
35	Nonelec. Machy *	12.4	32.4	19.4

* Indicates technology-intensive industry.

SOURCES: 1972 Origin of Exports (Column 1)
1972 Census of Manufactures (Column 2)
CSC-based calculations (adjusted) (Column 3)

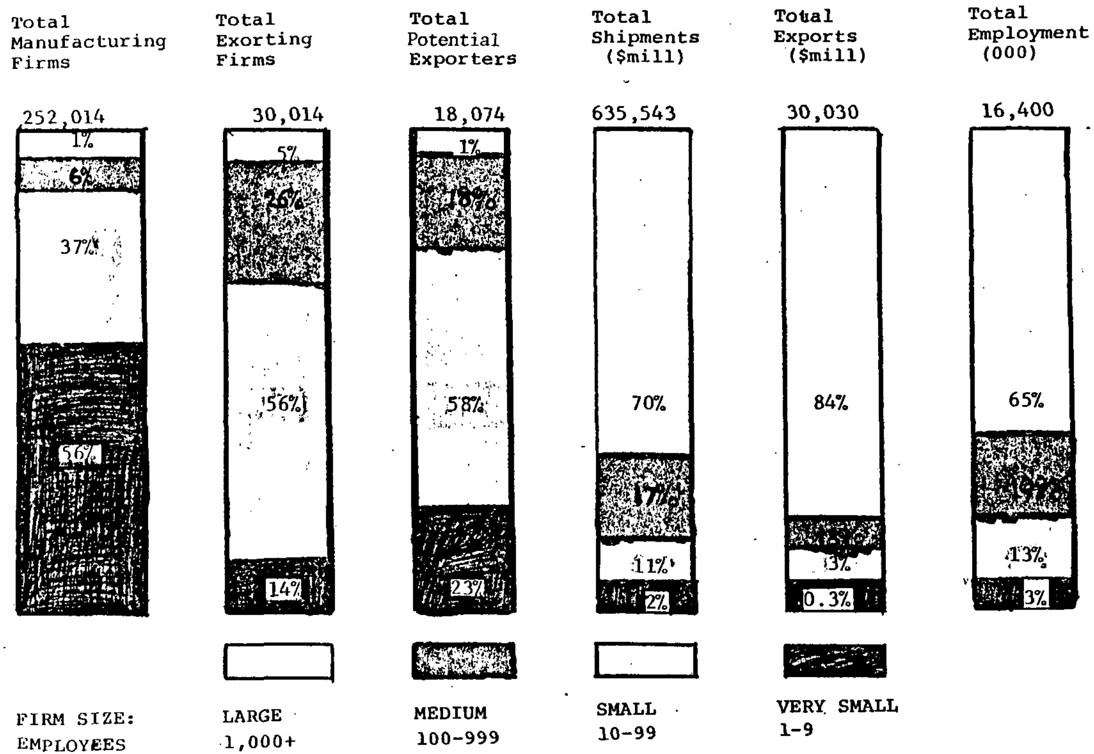
TABLE 13

RELATIONSHIP OF TECHNOLOGICAL INTENSITY
TO SOME MAJOR VARIABLES

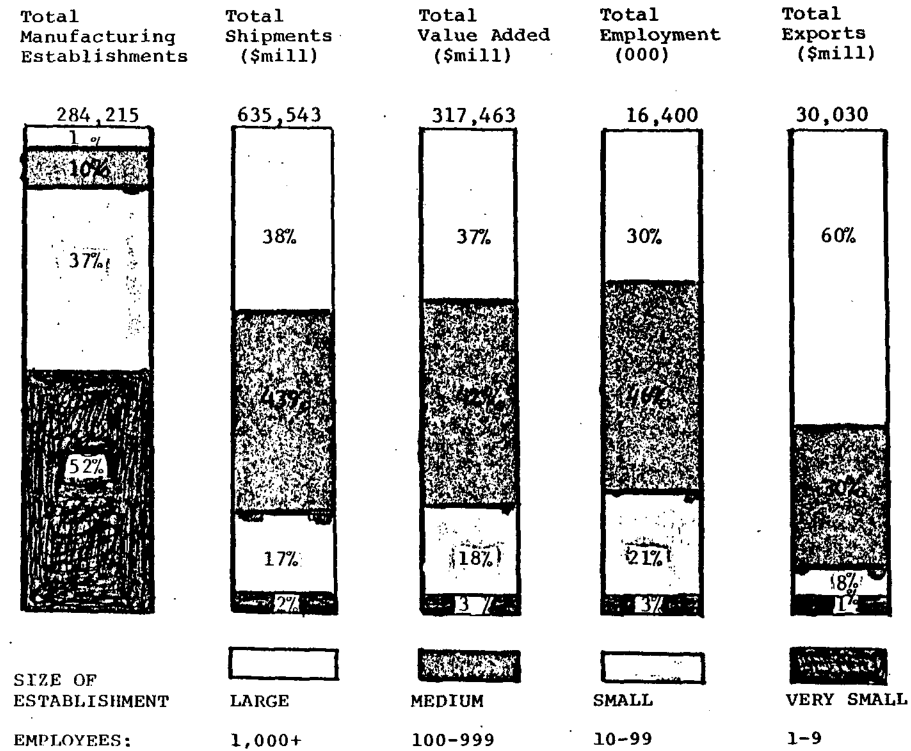
	Manufacturing Industries	
	Technology-Intensive (SIC 28, 35-8)	Technology-Nonintensive (SIC 22-7, 29-34)
Establishments (units)	79,280	204,935
% of Total Establishments	28%	72%
Large Establishments (1000 or more empl.)	1,100	899
	55%	45%
Employment (000)	6,719	9,681
% of Total Employment	41%	59%
Value of Shipments ($m)	286,796	348,699
% of Total Shipments	46	54
Value of Exports ($m)	24,249	7,453
% of Total Exports	76%	24%
Exports:Shipments (%)	8.5%	2.3%

SOURCE: 1972 Origin of Exports survey
1972 Census of Manufactures

CHARACTERISTICS OF THE U.S. MANUFACTURING SECTOR,
BY SIZE OF FIRM



CHARACTERISTICS OF THE U.S. MANUFACTURING SECTOR,
BY SIZE OF ESTABLISHMENT



Appendix A

DESCRIPTION OF ITA EXPORT SERVICES

Export Stimulation Programs

- Media Campaigns are conducted through the facilities of the Ad Council, utilizing the American business press representing some 2,300 publications, to promote the image of exporting as beneficial to participating firms as well as the Nation

- "E" and "E Star" Awards are granted to firms that have achieved outstanding export success as a means of demonstrating to others, by example, the benefits of exporting

- Domestic Publications describe services available in the Department and elsewhere to assist firms in exporting

- Multiplier Activities enlist the support and cooperation of appropriate private sector groups and firms, such as banks, trade associations and so forth, in joint efforts to stimulate interest in exporting and to counsel new exporters

Export Counseling and Information Programs

- General Business Counseling Services provide orientation-type information to companies interested in exporting and in need of advice on how to proceed

- Seminars on how and where to export are sponsored or co-hosted with private market organizations to stimulate interest in and knowledge about exporting

- Country Specialist Counseling provides detailed advice and guidance on how best to develop and take advantage of commercial opportunities in individual countries

- International Marketing Information provides extensive and in-depth published information and reports on marketing techniques, prospects, practices and conditions in almost every country in the world

- Foreign Market Research provides detailed information on export potential for specific U.S. products in key foreign markets, much of it conducted on-the-spot by market research firms under contract

Customer Identification and Contact Programs

- Export Contact Lists provide requesting U.S. firms and official users with specialized lists of foreign buyers and representatives in select countries for select product categories

- The Trade Opportunities Program provides subscribing U.S. firms with specific trade leads abroad through a computer-based notification system

- The Major Projects and Overseas Product Sales activities apprise U.S. firms of specific "big ticket" opportunities abroad--namely large scale engineering, design, and construction projects, and major product and equipment sales opportunities--and directly assist them to compete successfully for contracts and orders

- The Agent/Distributor Service provides requesting U.S. firms with the names of specific potential foreign representatives

- The New Products Information Service publishes and disseminates abroad information on U.S. firms having newly developed or manufactured products available for export

- The Exporter/Agent Information System (a proposed new program which is presently under study) identifies individual U.S. suppliers of specific products, and provides information about the firm and its product on microfilm cassettes for use at commercial libraries at Foreign Service Posts abroad

- The Foreign Buyers Program encourages groups and individual foreign buyers to come to the U.S. to purchase goods and services, assists in making contacts between potential buyers and U.S. suppliers, and supports foreign buyer attendance at domestic trade shows

Overseas Sales Promotion Programs

- Trade Centers and International Marketing Centers provide U.S. firms with continuing opportunities to demonstrate their products in 14 major markets abroad to a select audience of targeted foreign buyers and representatives

- Trade and Industrial Exhibits provide U.S. firms with scheduled opportunities to demonstrate their products under Commerce-sponsorship in major or specialized international trade fairs or "solo" exhibitions abroad

- Catalog Shows and Video Catalog Exhibitions provide U.S. firms with scheduled opportunities and facilities to display their product catalogs and sales literature and to depict the operations of their company and product in developed and emergent markets abroad

- The Overseas Information Services provide visiting U.S. firms at U.S. Trade Centers, International Marketing Centers, Embassies and Consulates abroad, with on-the-spot counseling and assistance in contacting foreign buyers and representatives

- In-Store Promotions provide U.S. suppliers of consumer goods with scheduled opportunities to expose their products to the overseas public through Commerce-sponsored events held in select foreign retail stores

- Specialized and Industry Organized-Government Approved (IOGA) Trade Missions provide groups of U.S. firms with scheduled opportunities to travel abroad under Commerce sponsorship to meet directly with potential foreign buyers and representatives

- Technical Trade Missions provide foreign buyers and representatives with scheduled opportunities to learn about the latest product/industrial technologies in the U.S. available from U.S. suppliers

Appendix B

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Appendix C

OMB No. 41-S77075, Approval Expires February 1978

FORM DIB-4071P
(3-77)

U.S. DEPARTMENT OF COMMERCE
DOMESTIC AND INTERNATIONAL BUSINESS ADMINISTRATION

QUESTIONNAIRE

EVALUATION OF INDUSTRY NEEDS IN EXPORTING

This report is authorized by law (15 U.S.C. 1512 et seq.). While you are not required to respond, your cooperation is needed to make the results of this survey comprehensive, accurate, and timely.

Your firm may have been a user of or may be interested in the export services offered by the Department of Commerce. In order to assure the most effective use of resources, we seek U.S. industry's guidance on export assistance and the extent to which these needs are met by existing services. The questions below will help us better understand your needs. Please complete the following questionnaire and return it to us in the self-addressed envelope as soon as possible. We would appreciate your returning it within one week. Time is very important! You need not identify your company in responding to this request.

Jacob D. Moose
Director
Program Evaluation Division
Office of Market Planning

Section I - ORGANIZATION DATA

A. Which of the following describes your organization?

1. ☐ Parent firm without Export Department
2. ☐ Parent firm with Export Department
3. ☐ Division, marketing abroad independently of Parent Firm
4. ☐ Subsidiary/Separate Corporate Entity
5. ☐ Other *(Please specify)* ______________________

B. What is your organization's activity?

1. ☐ Manufacturer
2. ☐ Export Management Company/Manufacturer's Representative
3. ☐ Wholesaler/Distributor
4. ☐ Financial Institution
5. ☐ Other *(Specify)* ______________

C. What is the size of your organization?

1. Number of employees

a. ☐ 1 to 50
b. ☐ 51 to 100
c. ☐ 101 to 250
d. ☐ 251 to 500
e. ☐ 501 to 1,000
f. ☐ Over 1,000

2. Current total annual sales

a. ☐ Less than $1.0 million
b. ☐ $1.0 to $4.9 million
c. ☐ $5.0 to $49.9 million
d. ☐ $50.0 to $74.9 million
e. ☐ Over $75 million

3. Percent of export sales to total sales

a. ☐ 0% b. ☐ 1 to 5% c. ☐ 6 to 15% d. ☐ 16 to 25% e. ☐ Over 25%

D. What is your experience in international trade?

1. ☐ Never exported or never actively exported (Occasional export shipments may have been made in response to orders.)
2. ☐ Not now exporting, but had actively exported previously
3. ☐ Presently actively exporting
   a. ☐ less than one year
   b. ☐ one to three years
   c. ☐ over three years

E. If you have never actively exported, we would appreciate your comments on the reasons. (Continue comments at end of form, if needed.)

IF YOU CHECKED D.1 ABOVE, PLEASE GO TO SECTION II.

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F. Do you have any professionals who specialize primarily in export sales?

1. ☐ Yes 2. ☐ No

G. Do you have any of the following arrangements? *(Give multiple responses where appropriate.)*

1. ☐ Agents or Distributors abroad
2. ☐ Licenses granted to foreign companies
3. ☐ Joint ventures with foreign companies for overseas sales
4. ☐ Foreign subsidiaries or international branches
5. ☐ None of the above

H. Are your exports made primarily through direct selling *(i.e., direct sales to users, distributors, or affiliates in foreign countries)* or through indirect selling *(i.e., sales through export management companies, export merchants, export agents, foreign government buying agencies, or American offices of foreign distributors)*?

1. ☐ Direct sales 2. ☐ Indirect sales

I. Does your company use any of the following sources to obtain information about foreign markets and trade opportunities?	Yes	No	J. If "yes", how valuable was the source to you? Extremely									Little	Not needed
1. Your own company contacts in foreign countries	☐	☐	10	9	8	7	6	5	4	3	2	1	0
2. Other domestic companies	☐	☐	10	9	8	7	6	5	4	3	2	1	0
3. Trade associations	☐	☐	10	9	8	7	6	5	4	3	2	1	0
4. Commercial banks	☐	☐	10	9	8	7	6	5	4	3	2	1	0
5. Chambers of commerce	☐	☐	10	9	8	7	6	5	4	3	2	1	0
6. Export management companies export merchants, export agents	☐	☐	10	9	8	7	6	5	4	3	2	1	0
7. Commercial airlines	☐	☐	10	9	8	7	6	5	4	3	2	1	0
8. U. S. State Department	☐	☐	10	9	8	7	6	5	4	3	2	1	0
9. U.S. Department of Commerce	☐	☐	10	9	8	7	6	5	4	3	2	1	0
10. Other federal agencies	☐	☐	10	9	8	7	6	5	4	3	2	1	0
11. State and local governments	☐	☐	10	9	8	7	6	5	4	3	2	1	0
12. Diplomatic services of foreign governments	☐	☐	10	9	8	7	6	5	4	3	2	1	0
13. International agencies (UN, Int'l Development Bank, etc.)	☐	☐	10	9	8	7	6	5	4	3	2	1	0
14. Other *(specify)* ______	☐	☐	10	9	8	7	6	5	4	3	2	1	0

Section II - OBJECTIVES RANKING AND EVALUATION

A. If you are interested in exporting or have exported, based on your exporting objectives, rank in order of importance from 1 to 9 (with "1" being the most important) the type of assistance you need to achieve your objective. You may enter "0" if not needed.

B. If you have received any Commerce help designed to meet the needs listed in A, rate from 10 to 1, the extent to which you feel your needs are met by Commerce services; or circle "0", if you are unaware of any such services. *(Please circle)*

1. RANK in order of importance	1. Excellent									Poor	Unknown
a. ___ information on the benefits of exporting	10	9	8	7	6	5	4	3	2	1	0
b. ___ general information on how and where to export	10	9	8	7	6	5	4	3	2	1	0
c. ___ specific information on market conditions, practices, and potentials in foreign countries	10	9	8	7	6	5	4	3	2	1	0
d. ___ specific sales or representation leads for my product(s) abroad	10	9	8	7	6	5	4	3	2	1	0
e. ___ assistance in making successful bids for major overseas export contracts	10	9	8	7	6	5	4	3	2	1	0
f. ___ information about and lists of individual foreign buyers and/or representatives	10	9	8	7	6	5	4	3	2	1	0
g. ___ opportunities to display or otherwise expose my product(s) abroad	10	9	8	7	6	5	4	3	2	1	0
h. ___ opportunities to meet directly in the United States with individual foreign buyers and/or representative	10	9	8	7	6	5	4	3	2	1	0
i. ___ opportunities to publicize my company product(s), and interests abroad	10	9	8	7	6	5	4	3	2	1	0

FORM D.B-4571B (10-77) USCOMM-DC

C. Have you heard about any of the following export assistance program of the U.S. Department of Commerce?	Yes	No	D. If "yes" in C, have you used them? Yes	No	E. If "yes" in D, how valuable was the service to you? Extremely Valuable ← → Little Value	Not needed
1. Global Market Surveys	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
2. World Traders Data Reports (WTDR)	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
3. The Agent/Distributor Service (ADS)	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
4. Trade Opportunities Program (TOP)	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
5. Commerce Department Trade Shows and Trade Fairs	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
6. Commerce Department Trade Missions	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
7. Business Counseling Service	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
8. Commerce Department Export Promotion Seminars	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
9. Foreign Buyers Program	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0
10. Other *(specify)* ______	☐	☐	☐	☐	10 9 8 7 6 5 4 3 2 1	0

Section III - COMMENTS (Optional)

1. Your ideas for new, expanded or reduced export promotion programs or services from the Department of Commerce.

2. Your opinions on the major impediments now facing you and other U.S. firms trying to export.

3. Your assessment and examples of your own successes as an exporter, and what you feel was most responsible for that success.

FORM [illegible] USCOMM-DC [illegible]

STATEMENT OF FRANK A. WEIL

ASSISTANT SECRETARY OF COMMERCE

for

INDUSTRY AND TRADE

for the

SUBCOMMITTEE ON INTERNATIONAL FINANCE

of the

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

April 5, 1978

Mr. Chairman, in response to your request, I am pleased to provide testimony for this Subcommittee on the adequacy and effectiveness of U.S. programs and facilities to increase exports.

The Subcommittee has raised fundamental questions about the role and value of such programs. The particular focus in this hearing is on the administration's tax stimulus policies, the Commerce Department's marketing assistance and information programs, Webb Pomerene Associations, and Edge Act Banking operations as they impact on U.S. export performance.

In recent years, there has been a good deal of debate about U.S. programs in these areas--are they really necessary; are they duplicating what the private sector could do just as well; are they targeted on the right types of companies; are they effective; are the benefits worth the costs; are they competitive with programs of other countries; should anything be done new or differently to better achieve export objectives?

While questions of this kind are always appropriate, never before have the right answers been so urgently needed. The U.S. experienced a massive $27 billion trade deficit in 1977. Another deficit of similar magnitude seems likely this year. This fact, coupled with a feeling abroad that the United States is not prepared to take vigorous remedial action, has seriously eroded the dollar's value against major foreign currencies.

The President is determined to correct this situation. Export expansion is one obvious requirement. The United States is not exporting to its full economic potential. Our exports are failing to keep up with the export growth of other nations. We are falling further and further behind. This must be changed.

To this end, the President has just created a special Task Force, to be chaired by the Secretary of Commerce, charged with developing additional measures to promote exports. The Task Force will report back to the President within 60 days. Clearly among the components to be looked at are the export programs now under review by this Subcommittee.

The statement which follows addresses the broad issue of the role and efficacy of export programs, as well as the specific questions posed by the Subcommittee.

1. Rationale and Purpose of Export Programs

o What are U.S. export programs trying to accomplish?

o Are they really necessary to accomplish the purpose?

o Can the same purposes be achieved alternatively?

A strong and effective Government export program is urgently needed to expand U.S. exports, mobilize unused export capacity and increase the numbers of exporters--particularly medium and smaller-sized firms.

Currently, our export sector is not operating to its full potential. Many U.S. firms capable of exporting are not doing so. Many others, while already exporting, are selling much less abroad than they could. As a consequence, U.S. exports are well below what they should be, our trade deficit is much higher than it should be, and important economic benefits from trade are being lost.

This situation must not continue. Underutilized export capacity translates into slower economic growth, fewer jobs, a lower standard of living, and a weaker dollar than is optimal.

It seems clear that market forces alone cannot assure an optimum U.S. export performance. There are too many impediments to exporting which flexible exchange rates and other natural workings of the market simply cannot overcome--e.g., the fears and misconceptions many firms have about exporting; doubts about competitiveness; management indifference; lack of knowledge about how and where to export and where to go for assistance; financial constraints; regulatory burdens; foreign trade barriers; special advantages enjoyed by foreign competitors, and so forth.

Where such impediments exist and cannot be overcome by the private sector alone, the Government has an obligation to assist. Export promotion measures are important means of assistance. By encouraging more firms to export and by helping new as well as experienced exporters to compete more effectively abroad, they not only provide some immediate benefit for the trade balance, but also lay a solid foundation for future export and economic growth.

2. Interaction with Private Market Services

- o Are U.S. export programs filling gaps in private services, or duplicating what the private sector can do just as well?
- o Are there areas where the Government should defer to private services to avoid competition and overlap?
- o Are there areas where closer Government-private cooperation is needed to improve overall export performance?

Export assistance is available from many private market sources in addition to the Commerce Department. The fact that both offer services in this area poses risks of some duplication and overlap.

Clearly, this would not be desirable. If comparable services are obtainable outside the Federal Government, and are fully capable of meeting the needs of firms the Government is also trying to assist, then the Government should not be involved. On the other hand, Government does have a responsibility, as a public service, to fill gaps that exist when the private services are either unavailable, inadequate or ineffective in meeting needs for assistance.

The Department recently undertook a major study of private sector export services. Its purpose was to determine not only what private services are available, but also how adequate and effective they are--or could be--relative to Commerce's, in meeting industry's needs, particularly the needs of smaller firms. (A copy of the preliminary report accompanies this statement--see Chapter 3, PP. 56-151)

The study found no significant overlap. Most of the Department's services complement and reinforce the private market services, rather than duplicate of compete with them. While many of the private services are comparable to Commerce's in purpose and quality, there are differences among them in several key respects. In particular, the private services invariably cost much more, which puts them beyond the reach of the average small firm. Also, private services tend to be concentrated in major urban and port cities, where they are less accessible to the many U.S. firms in outlying parts of the country. In addition, private services are very limited in many of the less developed and less familiar markets abroad.

For the most part, private services are not meeting needs of smaller, less experienced exporters very well. Such firms are generally ignored by profit-oriented service organizations, who much prefer the large firms as clients. Thus, for them, Commerce may well represent the most feasible and accessible source of assistance.

The needs of larger, more experienced exporters, on the other hand, are generally quite well met by private services, except in some of the more difficult markets. These firms represent potential high volume business for the private service organizations and are eagerly sought after as clients. The large firms, in turn, can usually afford the higher costs of private services, know what is available, and have staffs to search out and tap sources of assistance wherever they exist.

While there are differences in approach and clientele, there is nevertheless a clear need for greater cooperation and joint effort between Government and private export services. Gaps in service remain, and each source has unique strengths to contribute. If additional U.S. firms are to be brought into exporting and helped to do a better export job; more, not less, will need to be done by all sources of marketing assistance, Government and private.

3. Need for Specific Export Programs

o What kinds of programs are most needed?

o What specific programs are now being offered?

o Are they the most appropriate for the task?

In order to strengthen the export sector and improve its performance, a mix of incentives and assistance programs are required, together with a conducive domestic policy environment for export activity and reasonable market access abroad for U.S. products.

Experience has shown that tax incentives do stimulate efforts to penetrate new markets, hire additional sales representatives, increase advertising and sales promotion, bear added credit risks, and invest more in R&D, product adaptations and plant expansions to expand and improve export production.

Financial assistance is also essential. Exporting often entails costs and risks beyond those of purely domestic operations. These include product development costs to ensure that the product is compatible with foreign tastes, specifications and standards; promotional costs to stimulate foreign interest in the product and to develop overseas contacts and distribution points; and financing costs to enable U.S. suppliers to extend credit to their foreign customers.

Inadequate financing is one reason why many U.S. firms, especially smaller ones, have not gotten into exporting, or are not exporting as much as they could. The need to finance export development costs is not now being met, principally because the existing lending sources do not focus on small exporters per se. Some provide loans to small businesses in general, whether or not they export; some provide export financing to firms in general, whether or not they are small. What is needed is a financing program more specifically focused on enabling export-capable small and medium sized firms to get into exporting and to increase their export activity.

Marketing assistance and information is another prerequisite prerequisite. Such programs serve to increase involvement and success in exporting by raising the export consciousness of the business community; helping companies overcome inhibitions and get started in exporting; advising them on how and where best to export; and helping them get established in new markets, introduce new products, gain more exposure, and, ultimately, to increase their export contacts, sales and market shares abroad.

To meet needs adequately and effectively, however, there must be flexibility in the types of marketing assistance and information programs offered. Programs vary in their purpose; their cost and complexity; and their impact. Some are designed to meet needs at different stages of a firm's experience curve in exporting. Some are more costly to use and therefore less affordable than others. Some also, tend to produce quicker returns.

Selecting the appropriate program mix must take into account not only what firms need and want as they progress as exporters, but also their ability and willingness to use the assistance provided. On this basis, four broad kinds of export programs appear necessary if the competitive position of U.S. exporters is to be improved:

-- Export Motivation Programs: U.S. companies, particularly non-exporters, need to be made more aware of the benefits of exporting and more confident in their ability to export, so that more will export on a regular basis.

-- Export Information Programs: Once motivated, U.S. companies need to be better informed about how to export, where to go for assistance, where the best markets are for their products, who the most promising buyers and distributors are, and the laws, regulations and business practices of foreign countries.

-- Programs to Assist in Penetrating Foreign Markets: Once motivated and informed, U.S. companies need more help in getting properly established in foreign markets and in meeting competition from foreign suppliers. This means helping them devise effective marketing strategies; find and appoint good agents and distributors; contact potential customers; and advertise, exhibit and otherwise promote their products in the marketplace itself.

-- Foreign Buyer Stimulation Programs: Parallelling efforts to motivate, inform and assist U.S. companies, foreign buyers need to be made more aware of U.S. goods and services, so that they will be motivated to seek U.S. sources of supply.

The Commerce Department's Industry and Trade Administration (ITA) offers specific programs and services in each of these four broad areas. (See attachment for brief description of all such programs) They include:

-- information on the benefits of exporting; on how and where to export; on market conditions and practices in individual foreign countries; on market potentials for specific U.S. products in such countries; and on the identities and capabilities of prospective foreign buyers and representatives abroad;

-- specific sales and representation leads for U.S. products abroad;

-- assistance in making successful bids for major overseas export contracts;

-- assistance i· exhibiting, publicizing and advertising products in the foreign markets themselves;

-- opportunities for U.S. firms to meet directly with foreign buyers and representatives, either abroad or in the U.S. itself.

4. Company Targeting Strategy

o Are existing programs targeted on the right types of companies?

o Are they unfairly skewed in favor of large multinational concerns?

o How can they be made more helpful to newer and smaller business firms?

A key strategy issue concerns whose exports should be promoted or, rather, which types of companies the Government should try to help most. Smaller, less experienced firms generally need more help in exporting than large, established exporters. They are less aware of the potential of exporting, less confident about their ability to export, and less knowledgeable about how to do it and where to go for help. In addition, because their staff and resources are limited, they cannot afford to pay as much for needed assistance as larger firms.

On the other hand, the larger more experienced exporters know better how to utilize export services and can generally produce a bigger and faster export return for the assistance given. In addition, large firms often need just as much help

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as smaller firms in certain markets abroad, such as in the less developed countries where data sources are scarce and unreliable and promotional facilities few and far between.

For these reasons, the U.S. Government must maintain a reasonable balance in the types of companies it tries to assist. Nevertheless, some priorities must be established. Clearly, highest priority should be to assist small and medium sized firms. They represent the vast majority (95%) of firms already exporting. Also, the great bulk of potential exporters--those not now exporting who could be--are of this type. Thus, such firms have a high potential to increase their exports. They are also the ones that need the most encouragement and support to get them "over the hump" and into the active export base. Additionally deserving special consideration are minority businesses and firms in economically distressed communities and industries, whether small or large.

Existing export programs are not doing enough to help the smaller companies. Complex rules or procedures often discourage small and medium sized firms from taking advantage of export opportunities. If more of them are to take part, the special needs they have for ease of access and simplicity of operation will need to be taken into account.

A better job also has to be done to direct more of the Commerce Department's marketing assistance and information services to small and medium sized firms. Although 60-80% of current users of these Commerce services are, in fact, firms with less than $50 million in annual sales, the great majority of firms in this category are still largely unaware of the services and do not use them.

As indicated in my March 9 testimony, Commerce is planning a major shift in focus to put much more emphasis than before on services which would be most helpful to smaller firms and which they would be most willing and able to use.

New information has been developed by Commerce to identify the most useful services for this purpose. In a recently conducted survey, nearly 2,000 firms of all sizes and experience levels responded to a questionnaire asking each firm to rank, in order of importance, nine categories of assistance normally required by an exporting firm. The findings are described in Chapter 2 of the study on "Export Promotion Strategy and Programs" accompanying this statement.

5. Effectiveness of Export Programs

- o What are the programs accomplishing?
- o Are they effectively meeting needs?
- o Are the benefits worth the costs?
- o Can the programs be made more effective?
- o Are new and different programs needed?

Measuring the effectiveness of a given export program is hazardous. The cause-effect relationship is tenuous, especially in the case of foreign trade, where a complex of interacting factors affects not only the overall level of trade, but also which products are exported, where they are exported, and who takes part.

Tax incentives, financial assistance, and marketing assistance and information programs are only a few such factors. Others include world business cycles; price and exchange rate movements; and government fiscal, monetary, tariff and trade, industrial, regional, environmental, social, strategic and other policies. Nevertheless, continuing attempts are made to evaluate the effectiveness of export programs.

U.S. tax stimulus to exports is supplied by the DISC program. The Administration, in proposing a balanced tax reduction and reform package to the Congress, has called for the phase-out of DISC over a three-year period. This is based in part on the belief that the revenue loss due to the DISC, amounting to about $1 billion in 1977, is too large relative to estimated results.

Among alternate tax measures and approaches which have been suggested to us are:

-- Tax incentives which add to exports without providing windfalls, such as by restricting tax benefits to exports which are clearly incremental

-- Targeting incentives on companies which do not now export; e.g., tax benefits which reward start-up promotional efforts and market research by providing extra deductions for export-related marketing expenses.

-- Targeting incentives on small and medium-sized companies by providing proportionately larger benefits to such firms or by putting a dollar limit on total benefits.

The effectiveness of the Commerce Department's marketing assistance and information programs is somewhat easier to evaluate, though by no means precisely. Records are kept on the accomplishments and costs of each major activity. Also, periodic evaluations are made of individual programs, and of the overall activity, to determine the extent of user satisfaction and to recommend changes as needed to improve program performance.

The findings show that, on balance, accomplishments have been favorably high relative to costs. In FY 1977, at a cost of approximately $27 million, Commerce

-- responded to approximately 185,000 requests for export marketing advice and information from U.S. firms, either through personal visits, by phone or by letter

-- distributed 700,000 copies of publications in our International Marketing Information series to subscribers and other interested U.S. firms

-- brought over 1,000 potential new U.S. exporters into contact with Export Management Companies through Commerce-sponsored "matchmaker" conferences in 10 U.S. cities

-- assisted 9,400 U.S. firms to take part in some 760 Commerce-sponsored overseas promotional events, including trade exhibits, trade missions and catalog shows

-- provided 8,200 U.S. subscribers to the Department's Trade Opportunities Program with over 54,000 specific export leads for direct sales and representation abroad

-- provided over 3,600 Agent Distributor Reports to requesting U.S. firms giving names of potential overseas agents and distributors

-- furnished over 23,000 World Trade Data Reports providing commercial background information about indiviual foreign firms

-- provided over 8,000 U.S. firms with Export Contact Lists and Trade Lists identifying foreign producers, importers and dealers in specified industry and product categories

-- brought approximately 14,000 visiting foreign buyers into direct contact with some 5,000 U.S. suppliers in the United States through the Foreign Buyer Program

-- brought over 700 newly developed U.S. products to worldwide attention through the New Products Information Service

In all of these Commerce programs, the principal beneficiaries have been small and medium sized firms. In the overseas exhibitions alone, nearly 80% of the 5,200 total exhibitors were small and medium sized firms. Also, such firms represented 80% of all users of Commerce's Foreign Traders Index services, general Business Counseling, Domestic Seminars, and the Foreign Buyers Program, and nearly 99% of all firms whose products were featured in the new Products Information Service.

With the help of these and other Commerce services, we estimate that the U.S. firms involved were able to conclude 3,500 or so new agency/distributor agreements with foreign firms and to transact nearly $3.4 billion worth of additional export sales in FY 1977. Available estimates indicate that each additional billion dollars of exports generates about two billion in GNP and perhaps $400 million in additional Federal and State tax revenues. It has also been estimated that some 29,000 jobs are directly related to each billion dollars of manufactured exports, and another 11,000 or so indirectly related to such exports. Although some people may question the accuracy of these figures, they are indicative of the order of magnitude of the job creating effects of manufactured exports.

On the whole, these are impressive achievements. Small and medium-sized firms have benefited most; the benefits to costs are quite high; and the programs appear to be paying for themselves many times over, providing welcome stimulus to the economy and to efforts to reduce unemployment.

Nothwithstanding these achievements, there continue to be serious shortfalls in our overall program effort. We have not been nearly as effective as we must be to really get the job done:

- The ratio of U.S. exports to GNP, at 6.2%, is still the lowest among all major competitor nations;

- o The overwhelming majority of the 300,000 or so U.S. manufacturers--over 90%--still do no exporting at all;
- o The vast majority of U.S. exports--85%--are still produced by only about 1% of all U.S. manufacturers
- o Among the 25,000-30,000 existing exporters, the 95% who are small and medium sized still account for only about 15% of total exports;
- o Roughly a third of existing exporters still ship less than 5% of their total production abroad, and nearly two thirds of them export less than 15% of their total output.

Clearly, the potential exists for the United States to export much more than it now does. A similar potential exists for increasing the number of exporting firms and the proportion of their total shipments they export.

Despite past efforts, we have not made much of a dent in these areas. We need to do a much better job of reaching more firms, especially the smaller ones, and stimulating and assisting them to get more actively involved in exporting and to become more effective as exporters against stiff foreign competition.

To this end, we believe <u>a revitalized and greatly-expanded marketing assistance and information program will be needed</u>.

The present program, among the smallest of the major nations, is well below what is required to meet exporters' needs for assistance adequately and to increase their involvement and success in exporting.

In order to get the job done well and effectively,

- We must do much more to raise the export consciousness of the business community. U.S. firms must come to realize, through education and demonstration, that exports and export profits are no different in effect than domestic transactions; that exports represent an option worth considering on the same basis as a new domestic market penetration. Such an education process would have to be national in scope to have the necessary inpact. Political leaders at all levels, together with states, communities, private organizations, business and labor would need to participate with Commerce, providing firm and visible support to the effort.
- We must provide better and more specific export information and more personalized service to help firms identify and enter overseas markets and set up effective sales and distribution networks. As part of this effort, we must use more modern and efficient

information exchange systems to put foreign buyers in faster touch with U.S. suppliers.

- o We must intensify our promotional efforts in high potential markets to broaden the exposure of U.S. goods and services. Japan, the OPEC countries and certain other markets are rapidly expanding their import purchases in product areas where the U.S. is competitive. Our major competitors are zeroing in on these markets and are poised to take the lion's share of the business, potentially running well into the billions.
- o We must improve operations in our domestic field offices to identify and reach more U.S. firms in all parts of the country and to deliver needed services more quickly and thoroughly. We must also improve the role played by U.S. embassies and commerical officers abroad.
- o We must restructure and improve Governmental support to U.S. companies bidding on major foreign projects, elevating such support to a level more comparable to the activities of our competitors.
- o We must increase the amounts of financial assistance to small and medium sized firms to enable more of them to develop and adapt products for export, promote them effectively, and extend credit to customers.

Commerce is currently exploring the feasibility of action in all these areas. Steps are already being taken to improve current Commerce programs and shift their emphasis much more toward stimulating and assisting small and medium sized firms to export.

6. Webb-Pomerene Associations

- o How effective has the Webb-Pomerene Act been in stimulating the formation of export associations?
- o Are such associations an effective means of stimulating exports?
- o Are further changes in the Act needed to stimulate exports?

The Webb Pomerene Act can be an effective device for stimulating exports in certain business fields - chiefly those involving homogenous, interchangeable bulk commodities (such as raw materials and farm products) and many lines of machinery products. However, I believe the law needs updating.

Specifically, permitting the use of export associations in connection with exports of services as well as goods would enable U.S. consortia to bid jointly on foreign projects, as other countries do. Also, recommendations that we have received are that the antitrust exemption should be strengthened, enforcement should be clarified, and the Department of Commerce should be specifically authorized to actively promote the formation of export trade associations and educate potential users.

7. Edge Act

- o How effective has the Edge Act been in facilitating and stimulating U.S. exports?
- o Has the Federal Reserve Board's administration of the Edge Act been consistent with the Act's purpose of bringing smaller and regional banks into the financing of exports, thereby stimulating export opportunities throughout the country?
- o Are changes needed in the Edge Act to make it more effective, to make it more available to smaller and regional banks?

The number of Edge Act corporations has grown rapidly since 1959, when there were nine. By 1966 there were 46, and by December 1977, such corporations numbered 116.

The effectiveness of the Edge Act in facilitating and stimulating U.S. exports is difficult to quantify; pertinent data are only available from the Federal Reserve, but are not public information. Bankers questioned on the matter believe that in general the Act has facilitated U.S. exports by increasing sources of export financing and by increasing competition among banks, resulting in faster, more efficient financing services. An example is that of a regional bank whose subsidiary was the first in 1973 to offer computerized reconciliation of export receivables--now there are 8 or 10 Edge corporations offering the same export-facilitating service.

Whether Federal Reserve Board administration of the Edge Act has brought in small and regional banks into export financing operations, and therefore facilitated export opportunities throughout the country, also is uncertain. The number of Edge Act corporations has increased rapidly, and this may indicate greater participation of small and regional banks. In addition, the Act enables commercial banks--which are prohibited from establishing branches outside the state in which the head office is located--to establish subsidiaries in, say, New York or Florida, thus expanding exporting opportunities.

The act also enables banks outside New York (for example, in California) to conform to U.S. Customs confirmation requests with a New York bank. In addition the Act has geographically diversified financial centers in the United States, such as the establishment of ten Edge Act subsidiaries in Miami, which has facilitated export financing services for Latin American markets. Small and regional banks have participated in Edge Act opportunities; however, as an officer for the third largest Edge subsidiary reported, Edge Act-related exporting probably is carried on primarily by the top 20 to 25 banks.

Several bankers have cited the Act's lending limitations and would prefer that the 10%-of-capital limitation be lifted. The ceiling potentially means less profitability than that of commercial banks with higher ceiling limits. However, the $2 million capitalization requirement for Edge corporations means that Edge subsidiaries are not small in absolute terms, but may be in relative terms to the largest banks. An official of a $2 million Edge corporation reported that the limitation was not unduly restrictive, but does require excessive paper work in cases where the sales of assets to the parent bank may be required to meet a financing commitment. If transactions are to grow, those bankers questioned would like to see the limitations raised to possibly 25%.

8. Trading Companies

- o What can the U.S. do to compete more effectively with Japanese trading companies?
- o Can the U.S. combine its various diverse export incentive and facilitation programs and provisions in such a manner as to create counterpart U.S. trading companies?
- o What changes in law would be needed - particularly in tax and antitrust law?
- o How can Edge Act Corporations and export associations be used in this regard?

There is not a foreseeable role in the U.S. for Japanese style trading companies unless business attitudes change drastically to accept large doses of participation and direction from Government and the banking community. We have not been aware that business would like to see the antitrust laws changed in this regard.

Changes in the Webb-Pomerene Act, as mentioned above, would permit the associations to perform more effectively as trading companies. Also, strengthening the role of already existing export management companies - through special SBA financing and more favorable tax treatment - would enhance their value to the small and medium sized business.

Policy Impediments to Export Trade

- o Which U.S. economic and regulatory policies create the greatest impediments to U.S. exports?
- o Does the U.S. need to modify these policies in certain respects to facilitate or stimulate U.S. exports?
- o What changes in law are needed?

A number of U.S. economic and regulatory policies have had an adverse effect on the competitiveness of U.S. exports. The latest is an attempt to require environmental impact statements by the Eximbank and other agencies on certain foreign transactions.

There are many other long standing policies, which serve important national objectives; but were instituted before exporting became an important national need. In most cases the export inhibiting effects of these policies were not intended, or if intended, the inhibiting effects were not regarded as a matter of great importance. These policies include controls on exports of strategic goods and nuclear and energy-related products; anti-boycott regulations; an ocean freight rate structure that favors imports over exports; burdensome export documentation requirements and procedures, and requirements to comply with costly pollution abatement and health and safety standards. Other areas that concern the business community are limitations on the availability of export credits and guarantees; proposed withdrawal of tax incentives, such as the DISC and Section 911 earned income exclusion; and antitrust restrictions on the formation of consortia to bid on and execute major overseas projects.

In a recent Commerce-conducted survey, U.S. firms were asked what they considered the most serious impediments they face in trying to export. Nearly 1,000 firms submitted comments. Nearly half of all impediments cited (44%) were of the U.S. Government's making. (The findings of this survey are included in Chapter 2, PP. 48-52, of the Commerce report accompanying this statement.)

We believe, however, that some of these negative side effects can be minimized or avoided without undue detriment to the domestic purposes served. An example of this is our recent effort in the anti-boycott area. We believe that both the law and the regulations reflect a reasonable balance between sharply competing concerns. In other areas, similar accomplishments will require a closer review of the export implications of a given law or regulation. And although in many cases the trade implications will not always be predominant, we will have established a recognition of the importance of assessing the trade consequences of some of our actions.

Moreover, in the future, as new laws are adopted and old ones reviewed, we believe the U.S. should systematically evaluate the effect of these laws on trade. As the U.S. improves its overall evaluation process, provision should be made for assessing the trade impact of all proposed laws and policies.

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Attachment

DESCRIPTION OF ITA EXPORT SERVICES

Export Stimulation Programs

- Media Campaigns are conducted through the facilities of the Ad Council, utilizing the American business press representing some 2,300 publications, to promote the image of exporting as beneficial to participating firms as well as the Nation

- "E" and "E Star" Awards are granted to firms that have achieved outstanding export success as a means of demonstrating to others, by example, the benefits of exporting

- Domestic Publications describe services available in the Department and elsewhere to assist firms in exporting

- Multiplier Activities enlist the support and cooperation of appropriate private sector groups and firms, such as banks, trade associations and so forth, in joint efforts to stimulate interest in exporting and to counsel new exporters

Export Counseling and Information Programs

- General Business Counseling Services provide orientation-type information to companies interested in exporting and in need of advice on how to proceed

- Seminars on how and where to export are sponsored or co-hosted with private market organizations to stimulate interest in and knowledge about exporting

- Country Specialist Counseling provides detailed advice and guidance on how best to develop and take advantage of commercial opportunities in individual countries

- International Marketing Information provides extensive and in-depth published information and reports on marketing techniques, prospects, practices and conditions in almost every country in the world

- Foreign Market Research provides detailed information on export potential for specific U.S. products in key foreign markets, much of it conducted on-the-spot by market research firms under contract

Customer Identification and Contact Programs

- Export Contact Lists provide requesting U.S. firms and official users with specialized lists of foreign buyers and representatives in select countries for select product categories

- The Trade Opportunities Program provides subscribing U.S. firms with specific trade leads abroad through a computer-based notification system

- The Major Projects and Overseas Product Sales activities apprise U.S. firms of specific "big ticket" opportunities abroad--namely large scale engineering, design, and construction projects, and major product and equipment sales opportunities--and directly assist them to compete successfully for contracts and orders

- The Agent/Distributor Service provides requesting U.S. firms with the names of specific potential foreign representatives

- The New Products Information Service publishes and disseminates abroad information on U.S. firms having newly developed or manufactured products available for export

- The Exporter/Agent Information System (a proposed new program which is presently under study) identifies individual U.S. suppliers of specific products, and provides information about the firm and its product on microfilm cassettes for use at commercial libraries at Foreign Service Posts abroad

- The Foreign Buyers Program encourages groups and individual foreign buyers to come to the U.S. to purchase goods and services, assists in making contacts between potential buyers and U.S. suppliers, and supports foreign buyer attendance at domestic trade shows

Overseas Sales Promotion Programs

- Trade Centers and International Marketing Centers provide U.S. firms with continuing opportunities to demonstrate their products in 14 major markets abroad to a select audience of targeted foreign buyers and representatives

- Trade and Industrial Exhibits provide U.S. firms with scheduled opportunities to demonstrate their products under Commerce-sponsorship in major or specialized international trade fairs or "solo" exhibitions abroad

- Catalog Shows and Video Catalog Exhibitions provide U.S. firms with scheduled opportunities and facilities to display their product catalogs and sales literature and to depict the operations of their company and product in developed and emergent markets abroad

- The Overseas Information Services provide visiting U.S. firms at U.S. Trade Centers, International Marketing Centers, Embassies and Consulates abroad, with on-the-spot counseling and assistance in contacting foreign buyers and representatives

- In-Store Promotions provide U.S. suppliers of consumer goods with scheduled opportunities to expose their products to the overseas public through Commerce-sponsored events held in select foreign retail stores

- Specialized and Industry Organized-Government Approved (IOGA) Trade Missions provide groups of U.S. firms with scheduled opportunities to travel abroad under Commerce sponsorship to meet directly with potential foreign buyers and representatives

- Technical Trade Missions provide foreign buyers and representatives with scheduled opportunities to learn about the latest product/industrial technologies in the U.S. available from U.S. suppliers

BALTASAR CORRADA
RESIDENT COMMISSIONER, PUERTO RICO

JOAQUÍN A. MÁRQUEZ
ADMINISTRATIVE ASSISTANT

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May 18, 1978

Hon. Adlai E. Stevenson
Chairman
Subcommittee on International Finance
456 Russell, S.O.B.
Washington, D. C. 20510

Dear Senator Stevenson:

I am enclosing a copy of the comments of the Puerto Rico Department of Commerce on the island's export policy.

I would appreciate it if you could include the comments in the record of your subcommittee's ongoing hearings on U.S. Export Policy.

With best wishes, I remain

Cordially,

Baltasar Corrada
Member of Congress

Enclosure

GOVERNMENT POLICY:

The importance of export expansion has been long recognized as an instrument for economic development. However, the efforts devoted to the promotion of exporting activity have been minimal, when measured in terms of resources utilization. At the same time, the level of coordination for policy formulation of export programs has been almost non-existent until the last 12 months. For an export expansion program to produce palpable results, a high degree of coordination and interaction must exist between all government agencies involved. This coordination, should result in effective decision making activity on export expansion matters, at the policy advisory level to the Governor.

To accomplish the objectives stated above, it was proposed and pending of an afirmative decision, an "Export Policy Board", to coordinate all related activities of our major goal, the "International Trade Center", important step of our export expansion policy.

The success of an export expansion program depends on highly dynamic promotional efforts on the part of the Department of Commerce of Puerto Rico. To this end, it was proposed that an "International Trade Center Promotion Office" be initiated immediately under the International Trade Center Organization. This office should be staffed with top-notch marketing and distribution experts, whose main responsibility would be "selling" Puerto Rico International Trade Center to prospective tenants all over the world. Basically, it would be a unit of highly-specialized salesmen.

Part of their functions would be:

Survey all major multinational companies to determine their potential interest in the International Trade Center concept.

Identify, from this survey, the companies to be attracted, and "sell them" the idea.

Establish international promotional efforts thru mass advertising.

Establish coordination with Fomento's promotion personnel.

Establish an Information System, linked to the World Trade Centers' Association, for project promotion purposes.

Advise the Secretary of Commerce and the Export Policy Board on promotion programs.

Export Promotion: In order to establish an integrated export expansion program, all government export oriented activities should be centralized into one program. For this purpose, the creation of an "Export Promotion Institute" under the International Trade Center concept has been recommended. Some of the main functions of this Institute would be:

Take over all export marketing activities;
Establish an international "Buy Puerto Rico" image;
Organize and maintain a bi-yearly international trade fair;
Establish marketing offices in major importing countries;
Create an Export Research Center;
Organize an International Trade Training School;
Prepare and support an International Business Curriculum for undergraduate and graduate studies, in cooperation with the University of Puerto Rico.
Consider the need and feasibility of an Export Financing Bank;
Maintain an international business research library;
Establish a program of subsidized trips to Puerto Rico for potential buyers;
Prepare traveling expositions of Puerto Rican products;
Coordinate the activities of the Governor's Export Expansion Council;
Advise the proposed Export Policy Board;
Coordinate activities with Fomento's industrial promotion officers and International Trade Center's promotion unit;
Establish island wide "export conscience" activities, such as:

-an annual Governor's Export Award for manufacturers and distributors.
-an Export Week
-a "Think Exports" campaign;
-Create a computerized Data Bank of exporters and international buyers.

During 1977 we started developing most of this functions using the present budget.

Export Distribution: One of the aspects of export expansion to be considered is that of the establishment of efficient international distribution networks for Puerto Rican products. To accomplish this objective, two actions were proposed.

Desirability of attracting, thru special incentives, foreign trading companies to the International Trade Center, that would undertake to distribute local production.

Organize a locally owned, government sponsored, Trading Company.

The advantage of using a Trading Company for international distribution can be summarized as follows:

Their ability to obtain economies of scale in transportation, warehousing, and other areas related to physical distribution and marketing exports.

Their ability to pool business risk through handling a wide portfolio of products and thereby provide financing for items exchanged in international trade. Their ability to provide financing and organizational know-how for setting up major projects, such as combinats for integrated processing of raw materials and reorganization of processing-distribution final sales channels.

Development of overseas resources.

Investment in production facilities and in joint ventures.

Tax Incentives and Export Financing, (Existing Tax Legislation-Summary)

Coupled with a sound export promotion plan, the incentive structure related to International Trade Center and exports in general are presented:

The Government of Puerto Rico has adopted a broad program of incentives intended to stimulate the establishment and growth of manufacturing and other enterprises in Puerto Rico. Under this program the government, besides offering direct technical and financial aid, grants certain exemptions from major taxes. The exemptions apply to firms fulfilling prescribed conditions and to qualified shareholders or partners received distributions from exempt earnings. Also, the leasing of property for exempt operations may result in exemption. The exemptions relate to income tax, real and personal property taxes, and license fees, excices, and municipal taxes.

Exporting and Other Tax-Incentive Program

Business income derived from exports of Puerto Rican products to foreign countries (other than to the U.S. and its territories and possessions) is exempt for a ten-year period. The exemption applies only to the payment of income taxes, and it is effective from the taxable year in which the intention to take advantage of it is made known to the Secretary of the Treasury. If the tax-payer was previously engaged in exporting, the exemption related to the increase in sales during any taxable year as compared with sales during the first taxable year commencing after December 31, 1962.

Exemption for shipping activities.

Tax exemptions apply to firms engaged in the maritime transportation of goods between Puerto Rico and foreign countries. The exemptions are extended also to businesses leasing vessels used in such transportation, and the leasing of any other property used in connection with the operations of such vessels. The exemptions, limited to ten years, relate to income tax, real, personal, property taxes, and municipal taxes.

An export marketing plan is not complete without consideration to transportation services. An assessment of the existing transportation services is presented.

Existing Services between Puerto Rico, the Caribbean, and Latin America.

Maritime services between Puerto Rico and countries in the Caribbean, Central and South America are provided by a limited number of "regular service" companies, and a large number of ships of lesser capacity (less than 1,000 tons). This situation has remained the same for the last fifteen years.

All shipping operations are represented by approximately fifteen (15) local agents. Schedule reliability and security are less than what is reasonably needed for efficient operations planning.

Major service exists between Puerto Rico, the Dominican Republic, Virgin Islands, Haiti, and Venezuela. Other countries that enjoy reasonable service include: Jamaica, Colombia, Curacao, and Trinidad. Service with South American countries is practically nonexistent.

The maritime transportation problem with countries in the Caribbean and Latin American is one whose situation is difficult, due to the fact that with many countries large enough trade has not been generated to attract regular transports. Regular service ships leave Puerto Rico ports with space available and at the same time, in absence of an appropriate volume of business the rates charged are excessively high.

To promote the Puerto Rican maritime trade, a number of legislative measures have been approved. Among them, Law 126 and 130 of May 28, 1966.

Law 126 provides for tax exemption for a ten year period to any business concern whose main source of income is derived from maritime transportation between Puerto Rico and foreign countries. The exemption covers income property, excises patents, and municipal taxes.

Law 130 ammends the Tax Code providing for a reduction from 29 per cent to 15 per cent the retained tax in its origin to foreign corporations or partnerships, subject to taxes, when these corporations or partnerships are involved entirely in maritime transportation. Also, this law provides for a reduction from 29 per cent to 15 per cent on the tax on dividends which are obtained from such corporations or partnerships.

The Export Policy Board should be responsible, in conjunction with other government offices (such as the Resident Commissioners' Office) for obtaining a declaration of "Special Trade Routes" from the

Federal Maritime Commission for the Caribbean trading regions. In obtaining this declaration, it would then be possible to obtain Federal subsidies for lines engaged in maritime traffic along those routes.

Organize schooner operators into a cooperative type organization, in a manner that would regularize itineraries, conform to published freight rates, and rationalize bookings.

CONCLUSION:

Despite Puerto Rico's external trade efforts, it does not have one international marketplace where all functions related to world trading can be found in one convenient location. The concept of spatial concentration of function is lacking in the international business scene in Puerto Rico. Businessmen coming to San Juan find that the international trade community is scattered throughout the port area and the metropolitan area. Some freight forwarders and Customs House brokers are in Old San Juan, consulates are in Puerta Tierra, Miramar and Condado, potential buyers and sellers are spread throughout the city. The World Center can change this situation by providing "one-stop" convenience for face to face meetings, administrative processing, and service efforts.

The servicing functions and activities connected with the ocean-borne and airborne international trade and commerce of Puerto Rico has to be rationalized. More efficiency is needed in the facilities for the exchange, buying, selling and movement of commodities in world trade and commerce. The centralization referred to above should include functions and activities such as customs clearance, shipping negotiations, cargo routing, freight forwarding, financing, insurance arrangements, and similar transactions related to international business activities. Having all these functions scattered around the city is not conducive to successful and efficient transactions.

It is now recognized that one of the most important potential contributions of a world trade center to the economy if the greater leverage it gives to the small firm that wishes to develop its business overseas.

The success of an export expansion policy depends upon realizing the International Trade Center as a whole; it will provide the required infra-structure.

PUERTO RICO DEPARTMENT OF COMMERCE
FOREIGN TRADE PROGRAM

SUMMARY OF WORK PERFORMED DURING 1977

Background Information

The main objective of the Program, is the promotion and development of new markets for products manufactured and exported from Puerto Rico. It provides export promotion assistance through its three divisions: Market Research Division, Trade Promotion Division and the Exporter Services Division.

The Market Research Division, is in charge of preparing economic studies about different aspects related to our foreign trade. Market surveys are prepared to identify products being manufactured or distributed in Puerto Rico, that could be successfully exported. This involves the analysis of the marketing of our products in different countries.

The Trade Promotion Division, is the one that organizes the promotional activities in foreign markets through trade missions, exhibitions and fairs. It should be noted that our trade missions received IOGA (Industry Organized Government Approved) recognition, by the Department of Commerce of the United States of America.

The Exporter Services Division, assists the exporters in acquiring the skills needed to participate in foreign trade. This is done through Seminars and other educational activities.

Work Performed - (January - December 1977)

1. Market Surveys

The results of these studies are used to determine the convenience of organizing promotional activities in the country or countries selected.

During 1977, studies from Trinidad-Tobago, Guyana, Venezuela, Surinam, Ecuador, Bahamas and Colombia were made and started with those of Canada and Haiti.

2. Statistical Reports

These are the services more frequently requested in our Program. During the year were prepared 233 statistical reports, requested by the exporters, importers and manufacturers.

3. Trade Missions

These activities have been the most successful in relation to trade promotion in foreign countries. During 1977, Trade Missions were organized to visit Dominican Republic, Surinam, Bahamas, Ecuador and Colombia.

4. Seminaries and Conferences

Six (6) educational activities were organized during the year to advice manufacturers and exporters in the foreign trade techniques.

5. Technical Assistance

Approximately 2,045 persons used our services.

6. Promotional Material and Publications

a. "Puerto Rico Exporta"- This is our informative and technical monthly publication. It is distributed among the commercial community of Puerto Rico, U.S.A. Embassies abroad, Foreign Countries and to the United States of America.

Its distribution goes to 2300 suscribers.

b. Manual del Exportador.- This is the first publication made in Puerto Rico to serve as reference in technical matter related to Foreign Trade.

c. Export Products Directory

d. Publication and Forms: All the publications and new forms in use have been revised.

e. Folder kit

7. Transportation Schedule

An itinerary was incorporated in our Monthly Publication showing the cargo transportation schedule & services available in Puerto Rico, the dates of arrivals, departures and destination.

8. During 1977 and for the first time, we selected the most Distinguished Exporter of the Year. This is a recognition to the firms that highlighted in export trade business.

9. Special Projects

These are special commissions related to legislatives projects (GATT) surveys and reports. During the year we worked in 33 of those projects.

III. Most Significant Achievements

1. Trade Missions - The direct sales during the missions amounted to $921,231.00 with an estimated additional sales of $18,714,000 for the coming 12 months period.

2. "Puerto Rico Exporta" and "Manual del Exportador" - We consider these publications major achievements of the year, since both have been very helpful in our trade promotion events and the creation of the exports image wanted.

3. Foreign Trade Center - During the year a Trade Center in the Dominican Republic was opened. It has a very adequate location for the sale promotion activities that we organize.

4. Another very important achievement of the year has been the integration of the industrial private sector not only as member of our promotional activities, but also as part of a team work.

This has been a brief report of what we have done during 1977, in an effort to promote our exports.

As Mr. Frank A. Weil, Assistant Secretary of Commerce for Industry and Trade of the U.S. Department of Commerce, says for Business Week Magazine; "We need a National Export Policy that assesses continually the impact on trade of whatever we do". We are convinced that Puerto Rico should establish a clear and a dynamic government export policy, too. It is needed to increase the number of firms that exports, specially the medium and small size firms. As a small island, we need to promote industries not only for import substitution but also thinking in the benefits of export business due to our strategic geographic location.

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