

FEDERAL GOVERNMENT EXPORT PROMO-  
TION ACTIVITIES: OVERSIGHT OF FOREIGN  
COMMERCIAL SERVICE

---

THIRTY-SIXTH REPORT

BY THE

COMMITTEE ON GOVERNMENT  
OPERATIONS



APRIL 11, 1984.—Committed to the Committee of the Whole House on the  
State of the Union and ordered to be printed

---

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1984

## COMMITTEE ON GOVERNMENT OPERATIONS

JACK BROOKS, Texas, *Chairman*

DON FUQUA, Florida	FRANK HORTON, New York
JOHN CONYERS, Jr., Michigan	JOHN N. ERLBORN, Illinois
CARDISS COLLINS, Illinois	THOMAS N. KINDNESS, Ohio
GLENN ENGLISH, Oklahoma	ROBERT S. WALKER, Pennsylvania
ELLIOTT H. LEVITAS, Georgia	LYLE WILLIAMS, Ohio
HENRY A. WAXMAN, California	WILLIAM F. CLINGER, Jr., Pennsylvania
TED WEISS, New York	RAYMOND J. McGRATH, New York
MIKE SYNAR, Oklahoma	JUDD GREGG, New Hampshire
STEPHEN L. NEAL, North Carolina	DAN BURTON, Indiana
DOUG BARNARD, Jr., Georgia	JOHN R. McKERNAN, Jr., Maine
BARNEY FRANK, Massachusetts	TOM LEWIS, Florida
TOM LANTOS, California	ALFRED A. (AL) McCANDLESS, California
RONALD D. COLEMAN, Texas	LARRY E. CRAIG, Idaho
ROBERT E. WISE, Jr., West Virginia	DAN SCHAEFER, Colorado
BARBARA BOXER, California	
SANDER M. LEVIN, Michigan	
BUDDY MacKAY, Florida	
MEL LEVINE, California	
MAJOR R. OWENS, New York	
EDOLPHUS TOWNS, New York	
JOHN M. SPRATT, Jr., South Carolina	
JOE KOLTER, Pennsylvania	
BEN ERDREICH, Alabama	

---

WILLIAM M. JONES, *General Counsel*  
JOHN E. MOORE, *Staff Administrator*  
JOHN M. DUNCAN, *Minority Staff Director*

---

## COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE

DOUG BARNARD, Jr., Georgia, *Chairman*

RONALD D. COLEMAN, Texas	JUDD GREGG, New Hampshire
JOHN M. SPRATT, Jr., South Carolina	WILLIAM F. CLINGER, Jr., Pennsylvania
JOHN CONYERS, Jr., Michigan	TOM LEWIS, Florida
ELLIOTT H. LEVITAS, Georgia	
HENRY A. WAXMAN, California	

## EX OFFICIO

JACK BROOKS, Texas

FRANK HORTON, New York

PETER S. BARASH, *Staff Director*  
THEODORE J. JACOBS, *Chief Counsel*  
DONALD P. TUCKER, *Chief Economist*  
STEPHEN R. McSPADDEN, *Counsel*

## LETTER OF TRANSMITTAL

---

HOUSE OF REPRESENTATIVES,  
*Washington, D.C., April 11, 1984.*

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

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's thirty-sixth report to the 98th Congress. The committee's report is based on a study made by its Commerce, Consumer, and Monetary Affairs Subcommittee.

JACK BROOKS, *Chairman.*



# CONTENTS

	Page
I. Introduction.....	1
II. Background.....	3
III. Findings.....	7
IV. Recommendations .....	14
V. Discussion .....	18
A. Background: Export promotion activities before the reorganization of 1980.....	18
1. Importance of international trade .....	18
2. Government's export promotion performance was considered in- adequate.....	20
3. Appropriate role of the Government in export promotion.....	23
4. MTN agreements—A catalyst for change.....	25
B. Transfer of authority results in many difficulties .....	26
1. Transfer of budgetary resources.....	27
2. Transfer of overseas personnel.....	29
3. Transfer of headquarters personnel.....	30
4. FCS operations—A difficult beginning.....	31
a. FCS education program mismanaged .....	31
b. Recruitment and training problems caused by management deficiencies.....	32
c. Slow progress in improving overseas operations .....	34
i. Relations between the State Department's economic sec- tions and the FCS.....	35
ii. Excessive reporting requirements .....	37
d. New innovations overseas.....	38
C. Recent developments—The next two years .....	40
1. Increased staff and budget.....	40
2. Consolidation of FCS and USCS .....	41
3. Development of management systems .....	42
a. Budget management .....	42
b. Recruitment, training, and placement .....	42
c. Evaluation and monitoring of overseas post performance.....	44
D. Remaining reorganization and structural problems .....	45
1. Relations between the State Department's economic section and FCS at U.S. Embassies.....	45
2. Minister-Counselor status for FCS.....	47
3. Consuls General.....	50
4. FCS/State allocation of responsibilities .....	52
5. Redeployment of FCS personnel overseas .....	56
6. Administrative and reporting burdens.....	61
7. Internal Commerce realignments since 1980—Continuing con- cerns.....	67
a. Communications.....	67
b. Disparities between USCS and FCS systems.....	68
c. Regional management coordinators .....	69
d. Export promotion services group.....	70
8. Extension of limited noncareer appointments.....	71
List of abbreviations.....	75

# Union Calendar No. 383

98TH CONGRESS }  
2d Session }

HOUSE OF REPRESENTATIVES

{ REPORT  
98-677

## FEDERAL GOVERNMENT EXPORT PROMOTION ACTIVITIES: OVERSIGHT OF FOREIGN COMMERCIAL SERVICE

APRIL 11, 1984.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

### THIRTY-SIXTH REPORT

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

On April 10, 1984, the Committee on Government Operations approved and adopted a report entitled "Federal Government Export Promotion Activities: Oversight of Foreign Commercial Service." The chairman was directed to transmit a copy to the Speaker of the House.

#### I. INTRODUCTION

International trade has become increasingly important to the health and vitality of the U.S. economy in the last decade. Exports now account for approximately 7 percent of GNP compared to less than 4 percent in 1960. As many as one out of every eight jobs in the United States is dependent upon exports.

Until the late 1960's, the United States traditionally amassed comfortable trade surpluses, resulting in a low priority being given to government and private sector export promotion activities. Today, the United States exists in a different world, with a merchandise trade deficit expected to reach \$100 billion in 1984. America competes for world markets with skilled and effective trading nations such as Japan and the countries of Western Europe. These nations provide substantial assistance to firms engaged in export markets.<sup>1</sup> Since we must now compete with these and other coun-

<sup>1</sup> See "Export Stimulation Programs in the Major Industrial Countries: The United States and Eight Major Competitors," prepared for the House Committee on International Relations, 95th Congress, 2d session, Committee Print, Oct. 6, 1978.

tries for our own economic well-being, Government assistance to America's businesses to help meet foreign competition is necessary.

The Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations has a long-term and continuing interest in the effectiveness and efficiency of U.S. Government export promotion policies, practices and procedures. In August 1977 the Government Operations Committee approved a report prepared by the subcommittee titled, "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State" (House Report 95-576).<sup>2</sup> Again, in March 1978, the Government Operations Committee approved a follow-up report on the same subject (House Report 95-955). These reports generally were critical of the Government's efforts to promote exports. They reflected and contributed to the increasing congressional and private sector disenchantment with the Government's performance, thus leading to a major restructuring of export promotion activities which is continuing today.

On April 1, 1980, the President transferred primary responsibility for overseas commercial work from the State Department to the Commerce Department, which created the Foreign Commercial Service (FCS).<sup>3</sup> The Government Operations Committee reviewed and did not disapprove of this reorganization. With this reorganization, it was expected that U.S. exporters would have the assistance of a unified export promotion system and a motivated, well-trained, and competent overseas commercial staff to help meet the increasing competition of world markets.

In pursuit of its oversight responsibilities the Commerce, Consumer, and Monetary Affairs Subcommittee has carefully followed developments since the creation of the FCS. The subcommittee visited several FCS posts abroad in 1981 and again in 1983. In addition, a subcommittee staff member attended the 1983 annual meeting of the Senior Commercial Officers from Europe, the Middle East and Africa. The subcommittee staff also worked closely with the General Accounting Office in its reports on the Foreign Commercial Service, "Problems Hamper Foreign Commercial Service" (ID-83-10, dated October 18, 1982)<sup>4</sup> and "Efforts to Promote Exports by Small, Nonexporting Manufacturers" (ID-83-21, dated January 18, 1983). In addition, at the subcommittee's request, the GAO is presently working on a review of the U.S. Commercial Service and the export promotion activities of the Service's district offices.<sup>5</sup>

<sup>2</sup> Hereinafter, "House Report 95-576."

<sup>3</sup> The Foreign Commercial Service is the official Government representative of U.S. business overseas. Its responsibilities include: Promoting exports of U.S. goods and services; assisting American business abroad through counseling, providing market data, project development assistance and liaison with foreign government agencies; providing direct support for Commerce overseas promotional activities such as trade missions, trade fairs, and procurement conferences; and providing general commercial information to U.S. Government agencies such as Eximbank, OPIC, and USTR.

<sup>4</sup> Hereinafter, "GAO Report."

<sup>5</sup> The U.S. Commercial Service represents the Department of Commerce in export matters with the business community in the United States. It provides business with information, technical assistance and counselling on export and investment matters; assists in identifying potential U.S. exporters and participants in overseas promotional events; offers U.S. firms counselling on overseas marketing opportunities and advice on marketing strategies; and advises the business community of significant trade developments, trade policy issues and technological developments.

Finally, a hearing was held on September 27, 1983, at which testimony was received from GAO, the Director General of the US/FCS and other witnesses.<sup>6</sup> GAO and subcommittee staff conducted extensive interviews with present and former FCS employees and others familiar with FCS' operations and examined hundreds of internal documents in preparation for the subcommittee's visits to FCS posts, the hearing and subsequent to the hearing in preparing this report. FCS and the State Department provided extensive cooperation in the preparation of this report by making busy personnel available and by being accommodating and open in responding to subcommittee requests. In addition, GAO contributed its expertise and experience as well as the work of a GAO staff member detailed to the subcommittee.

This report compiles the findings of the subcommittee's oversight to date and makes recommendations, some of which might be considered in connection with the current proposal to create a new Department of International Trade and Industry. The report discusses events leading up to and including the governmental reorganization in 1980 which created the Foreign Commercial Service, the FCS's first 4 years of operation, and remaining organizational and structural problems. If a new Department of International Trade and Industry is created, presumably the Foreign Commercial Service would be an important part of it. The findings and recommendations of this report should prove useful to the Congress in considering such legislation, and in considering other legislation relating to U.S. Government export promotion activities and to the role of FCS in those programs.

## II. BACKGROUND

Because international trade has become vital to the health of the U.S. economy, a major objective of U.S. policy is to expand significantly the export of U.S. goods and services. Federal Government export promotion assistance has traditionally focused on new-to-export and new-to-market small- and medium-sized businesses on the theory that these firms represent the greatest potential for expanding exports and are in greatest need of Government assistance. In 1980, Congress found, among other things:

- (1) a strong export policy is essential to the health and well-being of the United States economy;
- (2) exports of goods and services account for one out of every six jobs in the manufacturing sector and 10 per centum of the gross national product;
- (3) every billion dollars in new exports is estimated to provide forty thousand jobs;
- (4) there is increased and fierce competition in international markets to United States goods and services;
- (5) small businesses account for no more than 10 per centum of all United States export sales;

---

<sup>6</sup> Hearings before a Subcommittee of the Committee on Government Operations, House of Representatives, 98th Congress, 1st session, "Export Promotion Programs of the Foreign Commercial Service and the Export-Import Bank," Sept. 27, 1983, referred to hereinafter as "Hearings."

(6) Federal Government programs are not sufficiently responsive to the needs of small business for export education and development of overseas marketing opportunities necessary to insure that small businesses realize their potential; and

(7) it is in the national interest to systematically and consistently promote and encourage small business participation in international markets.<sup>7</sup>

Except for a brief scurry at the beginning of the Reagan Administration, when it was reported that the Office of Management and Budget attempted to eliminate several Department of Commerce offices engaged in promoting U.S. exports, including the Foreign Commercial Service, there has been general bipartisan acceptance of the view that the Federal Government has a responsibility to provide assistance to U.S. business in increasing exports.<sup>8</sup>

Within the U.S. Government, the primary responsibility for export promotion is assigned to the International Trade Administration (ITA) of the Department of Commerce. The U.S. and Foreign Commercial Service (US/FCS) is part of ITA. ITA has altogether about 2,500 employees and a fiscal year 1984 budget of \$167.4 million.

Within ITA, three components directly responsible for export promotion are (1) Commercial Services, including the U.S. and Foreign Commercial Service; (2) International Economic Policy (IEP), headed by an Assistant Secretary; and (3) Trade Development, also headed by an Assistant Secretary. In addition, Trade Administration, also headed by an Assistant Secretary, is responsible for export and import administration.

IEP counsels U.S. firms on country-specific trade matters, advises and assists U.S. Government officials in formulating and implementing trade policies and dealing with foreign governments and firms, sets policy for FCS and guides FCS activities through its area and country desk system.

Trade Development is responsible for designing programs to strengthen the trade and payments position of the United States through promotional and informational services. The promotional services consist largely of trade shows and similar events organized by the Office of Export Development.

The FCS now has a staff of 175 Americans and 497 foreign nationals deployed in 69 countries throughout the world. Its objectives are to provide an overseas marketing arm for U.S. companies by providing commercial intelligence and assisting in interacting with foreign governments and in providing counseling and direct assistance to U.S. firms and business visitors abroad.

<sup>7</sup> Small Export Expansion Act 1980, Public Law 96-481, Oct. 21, 1980, Sec. 111(a), 15 USC 631.

<sup>8</sup> "Baldrige Angrily Assails Stockman Budget Slash," *Washington Post*, November 28, 1981, p. A6. "Shootout Over Federal Export Policy, and Money," *New York Times*, Dec. 27, 1981, p. F7. The *Washington Post* reported as follows: "In a Nov. 12 memo the OMB director said he wanted Baldrige to eliminate the Commerce Department's Office of Export Development, the Bureau of Industrial Economics and the Foreign Commercial Service. The three employ 1,190 people, including 600 in the Foreign Commercial Service who perform economic intelligence in U.S. embassies for American business." Obviously, OMB did not prevail in this encounter, nor has there been a subsequent challenge to these programs. In fact, their budgets now appear to be given high priority by the Administration and Congress.

In 1982, the U.S. Commercial Service was merged with the Foreign Commercial Service under a Director General for the U.S. and Foreign Commercial Service. The US/FCS Director General has Assistant Secretary rank. The U.S. Commercial Service operates U.S. District Offices located in 48 major cities throughout the United States, and is the domestic arm of the FCS. The US/FCS with approximately 1,300 employees and a combined fiscal year 1984 budget of \$59 million constitute over half of the staff and 35 percent of the budgetary resources of the International Trade Administration.

Until April 1980, the Commerce and State Departments shared responsibility for implementing export promotion activities. State Department Commercial Officers, attached to Embassies and Consulates overseas, implemented export promotion programs that were developed and managed by the Commerce Department in Washington, D.C. This arrangement led to congressional and private sector criticism of the U.S. Government's export promotion administration and performance.

According to a 1977 study by the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations, the State Department devoted fewer resources to commercial matters than to other functions and failed to recruit employees with strong commercial experience to perform its commercial functions. Further, employees engaged in commercial activities suffered from lower career status and fewer promotions within the Department and were often encouraged to work on non-commercial matters. The business community agreed that the quality of export promotion services they were receiving from the State Department was inadequate. Moreover, the split in responsibility for commercial work between State and Commerce led to numerous coordination problems and "turf" conflicts.

The Multilateral Trade Negotiations legislation (Public Law 96-39), signed by the President on July 26, 1979, required the President to submit a reorganization proposal to improve Government organization of international trade functions and to elevate the importance of trade promotional activities within the U.S. Government by integrating all trade promotional activities under one agency.

In April 1980, in accordance with the President's Reorganization Plan No. 3 of 1979, primary responsibility for overseas Commercial work was transferred to the Commerce Department. A new agency—the Foreign Commercial Service—was created in Commerce to implement this responsibility. State transferred to Commerce a small number of domestic positions and an overseas organization composed of 664 positions located in 65 countries. Overseas, Commerce received 162 Commercial Officer positions, 487 Foreign Service National (FSN) employees, and 15 secretarial positions. The State Department retained primary responsibility for representing U.S. business and commercial interests in over 70 less commercially significant countries.

FCS began operations with serious resource problems that hampered its ability to improve substantially the implementation of overseas commercial work for at least 2 years. In a report dated

October 18, 1982, the General Accounting Office examined the operations of the FCS for approximately its first 2 years and found:

(a) FCS began operations with inadequate information concerning its financial resources and needs, due primarily to the prolonged negotiations with State on the budget transfer and the perceived unreliability of the State budget figures. This uncertainty caused the overseas Commercial staffs to plan minimal activities which in some instances, disrupted the implementation of programs and activities. In addition, FCS could not begin development of an adequate budget management system until fiscal year 1982.

(b) FCS did not have a headquarters staff with sufficient positions and the experience necessary to start up and operate an organization of FCS's size. Headquarters deficiencies caused initial delays and false starts in developing management systems, creating operating problems that marred FCS' first years of operations.

(c) FCS headquarters deficiencies were also a factor in the poor management of its recruitment, training and placement system, which resulted in long-term vacancies overseas; the assignment of recruits overseas before they had received all necessary preparatory training; and the placement of recruits in locations were their talents and backgrounds were not fully utilized. These deficiencies hindered overseas Commercial operations.

(d) There were problems in the relationship between the Economic and Commercial Sections at several posts. The Commercial staffs at a number of posts, lacked the necessary independence from the Embassies' Economic Sections to fully control their work assignments. At a number of posts where FCS had attained sufficient independence, there was poor coordination between the Commercial and Economic Sections, resulting in (1) an inadequate exchange of information, (2) overlapping and duplicative reporting and, in some cases, (3) a failure to report at all since each group thought the other was performing the task.

(e) FCS needed to reallocate its overseas staff, both among and within countries.

(f) Commercial staffs overseas devoted too much time to reactive programs and activities, limiting the time available for active promotion of exports. In particular, many posts devoted an inordinate amount of time to planning and other administrative and reporting work as well as to certain Commerce information programs.

Despite the many startup problems FCS faced in its first 2 years, there are several reasons to find that, in the long run, the transfer proved to be the correct decision: (i) even in the first 2 years, some new and useful ways of assisting U.S. exporters were initiated; (ii) the establishment of a service whose primary goal is the promotion of U.S. exports indicates the level of importance attached to it by the U.S. Government as well as its importance to the domestic economy; (iii) the State Department could not have matched the level of resources earmarked for the FCS now and in the future; (iv) the creation of FCS allows its specialists to concentrate fully on export promotion with a minimal amount of distraction; and (v) given the enhanced prestige of commercial work, many Commercial Officers have a greater sense of mission and a better esprit de corps since the creation of the FCS, which should be an important factor in improving the quality of service provided to U.S. export-

ers in the future. Finally, the committee is of the view that an independent FCS performs a necessary and useful function and that its efforts add substantially to U.S. exports especially by aiding businesses which are new to the export market.

### III. FINDINGS

#### CREATION OF FOREIGN COMMERCIAL SERVICE

(1) The President's Reorganization Plan No. 3 of 1979 which transferred primary responsibility for overseas commercial work from the Department of State to the Department of Commerce was conceived and implemented in great haste, without sufficient knowledge of the expected consequences or appropriate planning for such a significant shift of personnel, resources and program. As a result, implementation of overseas commercial work to expand U.S. exports was hampered for over 2 years.

#### RECENT IMPROVEMENTS IN FOREIGN COMMERCIAL SERVICE

(2) Since 1982, substantial progress has been made in the ability of FCS headquarters to manage its overseas operations. FCS has eliminated or reduced several operations, administrative and management problems resulting from the inadequately planned reorganization and the low priority previously given to commercial efforts. As a result, FCS has become a more effective export promotion agency.

(a) FCS has made substantial progress in developing and implementing a budget management system; an educational curriculum for its officers and FSN staff; a recruitment, training and placement system; and a system for planning and monitoring overseas activities.

(b) With increased budget, better organization and larger staff, headquarters operations are now running more efficiently. The creation of additional permanent headquarters positions eliminated the need to rely on short-term detailees, thereby allowing headquarters staff to build experience and maintain continuity.

(c) The 1982 merger of the U.S. Commercial Service with the Foreign Commercial Service has resulted in substantial management improvements by integration of the planning and reporting procedures of the two Services.

(d) Progress has been made in improving relations with the State Department in redeployment of personnel and in relationships within posts abroad; productivity and efficiency overseas has improved; and steps have been taken to increase support for small- to medium-sized firms which are new-to-export or new-to-market.

(e) As a result of these management, personnel and administrative improvements, there is increased faith on the part of the business community in FCS ability to help U.S. business increase exports.

#### PROBLEMS PERSIST IN SOME AREAS

(3) Unresolved problems in some areas addressed by the committee still remain, although, in most cases, they are not nearly as severe as in the past. These include: (a) relations between the State

Department's Economic Section and the FCS at overseas posts; (b) the administrative reporting burden; (c) the demand on FCS personnel for nonexport related services; and (d) the allocation of FCS staff worldwide.

#### ECONOMIC-COMMERCIAL RELATIONS IN EMBASSIES

(4) Although they are diminishing, problems relating to the status and independence of FCS persisted until very recently in some Embassies. When the transfer of commercial work from State to Commerce was implemented, a Departmental Memorandum of Understanding (MOU) was drawn up between State and Commerce which was intended to elevate the status and importance of commercial work and establish a Foreign Commercial Service independent of State's Economic Sections. In practice, however, a number of posts were not abiding by the MOU since the Economic Sections continued to exert control over commercial operations. This was particularly apparent in those countries where the Senior Economic Officer outranked the Senior Commercial Officer. To remedy these problems, the State and Commerce Departments cabled posts in March 1983 requesting full compliance with the MOU and improved post coordination between the Economic Sections and the FCS.

(a) The committee finds that current problems relating to the status and independence of FCS at posts abroad are diminishing and that remaining problems result largely from the fact that some individuals who have long been accustomed to the Economic Sections having supervisory authority for commercial activities remain in positions of authority. As these individuals retire, and as the FCS gains acceptance and respect among State Department Foreign Service Officers and Ambassadors, some of the more egregious early problems of Economic-Commercial Section coordination and authority should ameliorate further. In addition, elevating the rank of the Senior Commercial Officer to that of the Economic Minister in a few key posts would improve the relationships by making it clear that the Senior Commercial Officer is not subordinate to the Economic Minister.

#### MINISTER-COUNSELOR STATUS FOR FCS

(5) FCS officers are disadvantaged relative to Economic Officers because the highest rank that can be conferred on a Senior Commercial Officer (Counselor) is lower than the rank that can be achieved by a Senior Economic Officer (Minister-Counselor) in several major posts. As a result, in these posts the Economic Minister currently outranks the Commercial Counselor. This difference in rank has contributed to supervisory arrangements that run counter to the MOU, gives the appearance that commercial work is of lesser significance than economic, and has sometimes caused confusion in the host country's government and business community relative to who is in charge of commercial matters. In status-conscious countries abroad, the fact that the Economic Officer outranks the Commercial Officer has resulted in instances where the Commercial Section was eliminated from participation in com-

merce-related events because the host government preferred the higher ranking U.S. representative—the Economic Minister.

(a) In order to elevate the status of the commercial function and to provide higher level access to host country officials and business representatives, Commerce has requested Minister-Counselor status for its senior representatives in Tokyo, London, Paris, Rome and Bonn where State maintains Economic Minister-Counselors. The State Department has rejected this request.

(b) The committee finds that at the posts requested by Commerce, the importance of the posts in terms of trade and the degree of responsibility of the Commercial Officers warrant that the Senior Commercial Officer have Minister-Counselor status. Providing for equal rank for the Commercial and Economic Officers at these posts (i) would contribute to eliminating problems in the State-Commerce relationship; and (ii) would send a signal to the host governments and foreign business communities in these important markets that the United States assigns heightened importance to the commercial function and no longer assigns it a role subsidiary to that of the State Department representatives.

#### CONSULS GENERAL

(6) No FCS Officer now serves as a Consul General, even in cities which are primarily commercial interest posts. Before the 1980 reorganization, Commerce and State had an agreement on the exchange of personnel giving Commerce a voice in assigning Consuls General to commercially significant posts. State agreed that it would not assign an officer to these posts as Consul General who did not have significant commercial experience. This arrangement terminated when the commercial function was transferred to Commerce with the 1980 reorganization.

The State Department is now willing to consider appointing qualified career Senior Commercial Officers to Consul General posts if the Commerce Department agrees to consider appointing qualified career Foreign Service Officers (FSO's) to appropriate posts in the Commerce Department. State has been reluctant to give Consul General posts to FCS without Commerce's agreement to accept an equal number of FSO's. Similarly, Commerce has been reluctant to appoint FSO's to Commerce posts in Washington. Many of these FSO's can provide useful backgrounds and experience for some of the geographical area, trade development, and export administration slots in Commerce's International Trade Administration. Likewise, it would significantly strengthen U.S. commercial objectives abroad for career Senior Foreign Commercial Service Officers to be selected to act as Consuls General in important commercial interest posts.

#### FCS/STATE ALLOCATION OF RESPONSIBILITIES

(7) There is an absence of agreement and clarity surrounding the responsibilities of the Economic and Commercial Sections in handling the following matters at posts throughout the world: (1) Multilateral Trade Negotiation (MTN) monitoring; (2) Eximbank support; (3) Overseas Private Investment Corporation (OPIC) support; (4) support for other trade missions, such as local, State, or port au-

thority visits; (5) trade policy formulation; (6) trade administration; and (7) requests for information from agencies such as the United States Trade Representative (USTR) and the International Trade Commission (ITC). In some instances, FCS personnel are heavily involved in these matters and in others they are handled exclusively by State Department Economic Officers. Often the assignment of responsibility depends on the unrelated coincidence of what channel of communication is used to communicate with the Embassy abroad. While sufficient flexibility should remain with the Ambassador to resolve local problems in allocating responsibility for these matters, a general agreement should be worked out so that flexibility operates in a context of an agreed understanding.

#### NONEXPORT RELATED WORK

(8) There has been an increasing demand for FCS services abroad unrelated to promotion of U.S. exports. Such matters include investigative and enforcement activities in support of import and export control legislation. Demand for FCS' time in the export control area is expected to increase by as much as 50 percent in fiscal 1984. However, in some posts, particularly in Europe and the Far East, the amount of FCS staff time devoted to this and related functions is already burdensome.

(a) Given FCS's limited resources, if FCS is required to do extensive enforcement and investigative work on export and import administration matters, its primary mission of export promotion must suffer. Moreover, there is a practical and philosophic question of whether export control investigations and enforcement should be handled by the same personnel (even the same agency) who handle export promotion.

(b) The export administration laws and a large portion of the import administration laws are administered by the Department of Commerce, but it does not follow that investigative and enforcement duties relating to these laws should be the exclusive responsibility of FCS Officers in posts abroad. The State Department is also responsible for foreign trade policy, and in certain cases it may be more appropriate for State Economic Officers to handle import and export administration investigations.

(c) Where the burden is especially heavy, specialized personnel should be assigned for these purposes. In Japan, for example, ITA has established additional positions at the Embassy to deal with investigations of anti-dumping and countervailing duty laws, thus obviating the need for FCS to perform these functions. At other posts, ITA has assigned temporary duty personnel to deal with export administration functions.

#### REDEPLOYMENT OF FCS PERSONNEL OVERSEAS

(9) For some time there have been numerous indications that FCS needed to reallocate its overseas staff, both among and within countries. The majority of FCS staff tended to be concentrated in the mature and developed markets of Europe while newly rich developing countries and the Far East tended to be underrepresented. Similarly, staffs tended to be concentrated in capital cities rather than commercial centers. Working with the State Department, FCS

has made substantial progress in achieving a more efficient deployment of resources. The number of FCS countries has been expanded by 4, bringing the total to 69. The redeployment of personnel, which is about three-quarters accomplished, involved shifting 24 officer and 34 Foreign Service National positions in and among 45 countries. FCS personnel have been withdrawn entirely from eight countries. However, an FCS decision to either terminate or add positions at an Embassy is not automatic, since the concurrence of the State Department and the current Ambassador is required. If a commercial position is withdrawn, the remaining commercial work must be absorbed by a State Department Economic/Commercial Officer.

(a) The need to obtain the necessary approvals, particularly concurrence of the Ambassadors, has slowed the process. In the case of Japan, it has prevented the establishment of two additional officer positions in Tokyo.

(b) FCS has imposed a de facto reallocation in certain cases where it has simply failed to fill vacant Commercial posts in countries, such as Bolivia, Honduras, and Czechoslovakia, where it wishes to withdraw the Commercial Officer.

#### ADMINISTRATIVE AND REPORTING BURDENS

(10) In an effort to impose management control, to assess resource allocation and to plan and follow up on overseas activities, FCS has instituted detailed reporting from the posts in the form of an annual Country Marketing Plan/Post Commercial Action Plan (CMP/PCAP) as well as regular quarterly and monthly reports. The GAO report recommended that FCS reduce the level of detail required in the PCAP's in order to decrease the administrative burden placed on officers overseas. In response, the PCAP process for fiscal year 1984 was somewhat simplified.

(a) Nevertheless, the committee finds a continuing reporting and administrative burden placed on foreign posts by the nature and amount of information required by FCS headquarters on post activities. Current administrative and reporting requirements detract from the time available for posts to engage in their primary mission of increasing U.S. exports.

(b) In addition, the PCAP reporting system is largely based on the self-assessment of posts. FCS is limited in verifying the accuracy of figures reported to comparing data with previous years and with other posts.

(11) FCS estimates that each year approximately 5 percent of its overseas efforts is directed to management overhead, such as budget preparation, employee supervision, training, career development and other necessary housekeeping functions such as preparation of reports, including the monthly highlight and quarterly statistical reports.

(a) In actuality, about 10 percent of the time of overseas personnel is spent on these tasks.

(b) In addition, further time is spent in preparation of the annual Country Marketing Plan/Post Commercial Action Plan.

(c) Almost every FCS officer interviewed complained of an excessive reporting and administrative burden detracting from the time available to engage in the primary mission of promoting exports.

(d) Some FCS headquarters and IEP officers maintained they did not have time to review monthly reports. Some FCS officers believe the quarterly statistical reports have limited utility.

#### INTERNAL REALIGNMENTS AND REORGANIZATION

(12)(a) In 1982 the U.S. Commercial Service was merged with the Foreign Commercial Service under a Director General for the U.S. and Foreign Commercial Service. The U.S. Commercial Service operates U.S. District Offices located in 47 major cities throughout the United States, and is the domestic arm of the FCS. Since the realignment, integration of the planning and reporting procedures of the two services has been undertaken. Some degree of personnel exchange between domestic and foreign posts has been instituted, but this process is impeded by the existence of two separate personnel systems for domestic and overseas employees of the now merged US/FCS. Domestic employees of US/FCS District Offices continue to be subject to the Civil Service personnel system, while FCS employees at posts abroad are subject to the Foreign Service personnel system. This dual personnel system impedes complete integration of the two Services. A truly integrated Commercial Service will, in the long run, require the development of a career professional corp encompassing the staff of both the USCS and the FCS.

(b) One of the benefits of the merger of USCS and FCS is the facilitation of direct communication between district offices and overseas posts without the delays often necessitated by these messages having in the past to go through Washington headquarters. Nevertheless, it is important that there be a central clearinghouse in Washington for work assignments levied on overseas staffs above a certain minimal level. It is also important that Washington headquarters be made aware of all direct communications between district offices and overseas posts.

(c) In 1982, the Commerce Department realigned its international trade operations by creating regional offices at headquarters to serve as channels for all substantive communications between the posts and headquarters. Prior to the realignment, overseas posts faced uncoordinated, burdensome and often conflicting requests from Commerce headquarters. The realignment established under the Assistant Secretary for International Economic Policy four regional geographic offices (Western Hemisphere; Europe; East Asia/Pacific; and Africa/Near East/South Asia), each headed by a Deputy Assistant Secretary. These areas are further subdivided into regional (e.g. Europe, Africa, etc.) and, finally, into country desks. All substantive communications with the posts are expected to go through and be managed by the Deputy Assistant Secretaries, enabling them to control and coordinate the administrative workload placed on the posts from various Commerce offices and other Government agencies.

(d) However, in practice, communications to overseas posts are sometimes made by Government agencies (other than components

of the Commerce Department) without the knowledge of the country desks or the FCS' Regional Management Coordinators. For example, State Department channels for communications affecting FCS are often utilized by OPIC, Eximbank, USTR and other agencies, without Commerce being notified. In addition, States, localities and port authorities often communicate directly with posts abroad regarding trade delegations and other commercial matters, again without Commerce or FCS being notified.

(e) The 1982 realignment also created four Regional Management Coordinators (RMC's) within the FCS Office of Operations to monitor and evaluate overseas post activities. Besides having primary responsibility over the semi-annual and annual evaluation of the Senior Commercial Officers in the field, the RMC's, in effect, act as the advocate or ombudsman for all the overseas posts, representing their interest in Washington. RMC's also share responsibility with IEP Deputy Assistant Secretaries and country desks in managing overseas commercial activities. Responsibility for these functions was largely ignored prior to the creation of the RMC's.

The RMC's, therefore, play a key role in the smooth functioning of post activities and of Washington's ability to keep abreast of developments overseas. In fact, their contribution to improved FCS operations can be enhanced if certain standards are adhered to. These include minimum tours of duty and rank, previous field experience, and regular post visits.

#### NONCAREER APPOINTMENTS

(13) When FCS was created in 1980 it received 162 Foreign Service Officer positions overseas, but only approximately 39 incumbent State Department officers transferred to the Foreign Commercial Service. In order to staff up quickly to fill this gap and to bring on board experienced individuals who were able to make an immediate contribution, FCS sought and obtained an exception to the limitation on the number of noncareer Senior Officers permitted in the Foreign Commercial Service. Although FCS has by now recruited the majority of officers who form the FCS Officer corp, blending the transferees from State and other Government agencies with candidates from private sector backgrounds over two recruiting cycles, it seeks an extension of the provision of law allowing FCS up to 10 noncareer Senior Foreign Service Officers.

(a) The committee finds that the authority provided to FCS to make up to 10 noncareer appointments to the Senior Foreign Service has proved to be invaluable by allowing it to bring experienced people on board who were able to make an immediate contribution at a time when staffing quickly was essential.

(b) The committee finds that FCS continues to need the flexibility to fill positions that require special skills not readily available in the career service.

#### PRIVATIZING AND COST RECOVERY

(14) FCS plays an indispensable role which cannot be duplicated in the private sector. Although some of the services provided by FCS are available from private sources, these services are not uniformly available in all overseas markets, being generally limited to

the more developed markets. Moreover, the important representational role of FCS in dealing with other governments in trade disputes and similar matters is obviously not available except from official representatives. In addition, in encouraging new firms to trade overseas, FCS has a responsibility to serve those small- and medium-sized businesses which cannot or will not pay the higher cost services of the private sector.

The committee consequently finds that Government participation in many areas of export promotion is indispensable, particularly to the large number of small- and medium-sized firms which rely on FCS for export assistance. Since other countries devote substantial resources to export promotion, the United States must also assist its firms if it wishes to meet this competitive challenge. Finally, FCS's contribution to the economic well-being of the United States appears to far outweigh its budgetary cost.

#### OUTREACH

(15) The U.S. business community is not sufficiently aware of the positive changes which have occurred in the quality of FCS services and personnel. Although FCS allocates 50 percent of its overseas staff resources to counseling and outreach, and maintains continuing contacts with American businesses abroad, the U.S. business community, especially small- and medium-sized and new-to-export or new-to-market businesses, is insufficiently aware of the availability of FCS's services.

### IV. RECOMMENDATIONS

#### A. COMPLETING THE 1980 REORGANIZATION: IMPROVING RELATIONS BETWEEN THE ECONOMIC AND COMMERCIAL SECTIONS OF EMBASSIES

A significant goal of the 1980 reorganization was to strengthen, heighten the visibility of, and make the Commerical Service independent from other components of the State Department. More progress toward this goal is needed. Consequently, the committee recommends:

##### MINISTER-COUNSELOR STATUS FOR FCS

(1) Senior Commerical Officers should hold the rank of Minister-Counselor in those posts where the Economic Officer has the rank of Minister-Counselor and where the degree of responsibility and the level of U.S. trade warrants a higher rank.

##### CONSULS GENERAL

(2) The State Department should assign Consul General positions to qualified career members of the Foreign Commercial Service in Consulates located in cities having primarily commercial importance. The Commerce Department should appoint qualified State Department Foreign Service Officers to appropriate positions in the Commerce Department's International Trade Administration (ITA).

#### EXCHANGE OF PERSONNEL BETWEEN COMMERCE AND STATE

(3) The Commerce Department and the State Department should undertake a comprehensive review of the necessity and desirability of appointing qualified career Senior Commercial Officers to Consul General posts and qualified FSO's to appropriate posts in the Department of Commerce, with a view to reinstating the kind of agreement on the exchange of personnel which existed between them prior to the 1980 reorganization. Such a review should not be limited to Consul General posts, but should include the possibility of selecting qualified FSC Officers for Deputy Chief of Mission (DCM) and Ambassador posts as well, and the appointment of FSO's to positions of equal status and responsibility in the Department of Commerce.

#### EXTENDING LIMITED NONCAREER APPOINTMENTS

(4) Limited noncareer appointments by the Secretary of Commerce to the Senior Foreign Service provided for in the Foreign Service Act of 1980 and expiring on October 1, 1985, should be indefinitely extended under the following conditions:

(a) In order to preserve incentive for the career service and to prevent the possibility of limited appointments being used for political purposes, the law extending the limited appointment should provide that no more than half of the ten largest posts (in terms of budget and personnel) may have limited appointments at any one time. In addition, the limited appointments should be distributed among all areas of the world, avoiding concentration of such appointments in any one area.

(b) In addition, in order to preserve incentive for the career service, Commerce should consider appointing qualified career FCS officers to high-level ITA posts in headquarters.

#### REDEPLOYMENT OF FCS PERSONNEL OVERSEAS

(5) The Commerce and State Departments should continue to work together in FCS' efforts to achieve a more efficient deployment of staff overseas.

(a) The State Department should make greater efforts to encourage the appropriate current Ambassadors to accept those decisions agreed to by State and Commerce to either terminate or add commercial positions at certain Embassies. If agreement cannot be reached, FCS should avoid de facto redeployment by refusing to fill vacancies in countries where it wishes to remove a commercial slot. All vacant Commercial Officer positions should be filled as soon as possible.

#### FCS/STATE ALLOCATION OF RESPONSIBILITIES

(6) The Memorandum of Understanding (MOU) between State and Commerce setting forth the terms of the 1980 reorganization should be reviewed with a view toward clarifying several grey areas and imposing consistency in instances where different posts handle similar matters differently. The MOU should assign lead responsibility for (1) Multinational Trade Negotiation Agreements (MTN) monitoring; (2) Eximbank, USTR, ITC, OPIC, and State,

port authority and local trade delegations and inquiries; (3) trade policy formulation; and (4) trade administration. However, it should recognize the necessity for flexibility and the prerogatives of the Ambassador to assign tasks in the context of the particular needs and problems of the post at any particular time. Specifically:

(a) MTN monitoring is an FCS function and this should be made clear in the MOU and in practice;

(b) Overseas Private Investment Corporation missions are trade related, and they should be the responsibility of the FCS at the posts visited;

(c) Lead responsibility for the additional issues listed above should be the subject of negotiation between State and Commerce, but should be included in a revised MOU.

(7)(a) Where State Department channels of communication are utilized by OPIC, Eximbank, USTR, ITC, or other Federal or State Government entities, to task posts abroad on matters relating to trade missions or on inquiries dealing with commercial or trade matters, copies of such communications should be supplied to the Commerce Department's International Economic Policy (IEP) desks. Embassies should also keep post Commercial Sections informed where the method of communication circumvents FCS.

(b) IEP country desks and FCS Regional Management Coordinators (RMC) should clear all substantive or action cables originating in the Commerce Department in Washington. Efforts should be made to require non-Commerce agencies which task FCS posts abroad to clear such requests with IEP and/or the RMC's. U.S. Commercial Service District Offices should continue to communicate directly with FCS posts overseas, but limits should continue to be placed on the nature and extent of tasks which U.S. District Offices may impose on FCS posts abroad. In addition, IEP country desks should receive copies of all communications between U.S. District Offices and overseas posts.

#### NONEXPORT RELATED WORK

(8) In posts having heavy responsibilities for administration of export control laws and overseas investigative efforts under laws to protect U.S. firms from unfair trade practices, additional ITA personnel should be assigned to perform these tasks in order to allow FCS personnel to concentrate on export promotion activities. In addition, State Department personnel should absorb some responsibility for export control law investigations and enforcement.

#### B. CONTINUING THE RECENT TREND OF IMPROVED HEADQUARTERS MANAGEMENT

(9) Efforts should continue to build a cadre of Professional Commercial Officers serving in district offices, at headquarters and overseas.

(a) Efforts to rotate personnel between the United States and overseas should continue, to the extent possible. In order to maintain continuity of operations, however, tours should be set for a minimum of 3 years.

(b) The Department of Commerce and the Congress should study the desirability of establishing an integrated personnel corps in the

Commerce Department consisting of all US/FCS employees, whether they serve abroad, in headquarters, or in U.S. district offices.

(c) In the case of RMC's, in addition to minimum 3-year tours, they should have senior rank and previous overseas experience. The requirement that RMC's make annual visits to all posts for which they are responsible should be adhered to.

(d) In order to define more accurately the management and supervision of overseas FCS activities, the relationship between the FSC Regional Management Coordinators and IEP's Regional Deputy Assistant Secretaries needs to be clarified.

(10) FCS should prepare and disseminate an operations manual to set forth approved practices and procedures for FCS staff serving abroad, to be included in the State Department's Foreign Affairs Manual.

(11) Since the Inspector General of the Commerce Department has insufficient resources to conduct comprehensive and periodic audits of FCS posts abroad, FCS should establish an internal audit mechanism based on the system used by the State Department to audit posts at least once every 5 years.

(12) GAO should undertake a study to determine whether the benefits of FCS' activities have been or can be accurately measured in terms of increased U.S. exports. GAO should report its findings to the Commerce, Consumer, and Monetary Affairs Subcommittee with an assessment of what those benefits are.

(13) FCS should make greater efforts to make the U.S. business community aware of the positive changes which have occurred in the quality of FCS services and personnel. Additional headquarters resources should be allocated to this task, especially to introducing FCS's services to small- and medium-sized and new-to-export or new-to-market businesses.

(14) In connection with its goal of offering all of its services and products on a full-cost-recovery basis, and before FCS imposes any new fees for any product or service, it should prepare a comprehensive cost-benefit analysis of its proposed full-cost recovery program. Such study should include:

(i) the expected impact of such new fees on the use of such products and services, particularly by small- and medium-sized businesses;

(ii) the expected dollar return to the U.S. Treasury from imposing various levels of cost recovery;

(iii) an analysis of the method of allocating overhead costs to various products and services; and

(iv) any potential problems in achieving expanded exports which may arise from the imposition of full cost recovery.

A copy of such study should be supplied to the House Subcommittee on Commerce, Consumer, and Monetary Affairs by September 15, 1984.

#### ADMINISTRATIVE AND REPORTING BURDENS

(15) Efforts should continue to simplify and lessen administrative and reporting requirements which are unnecessary to accomplish management goals.

(a) Consideration should be given to eliminating the quarterly statistical report to lessen the already heavy reporting burden imposed on overseas posts.

(b) Efforts should be made to continue to simplify the Country Marketing Plan/Post Commercial Action Plan in order to avoid duplication and to reduce the amount of time FSC officers must spend in preparing these reports.

(i) The Regional Management Coordinator or other FCS headquarters personnel should review all PCAP's at least once each year at the post with a view to determining if they accurately reflect the actual work of the post. A uniform inspection format for this purpose should be devised.

(c) Consideration should be given to eliminating the monthly reports from posts where less frequent reports would suffice to keep headquarters informed.

(d) Reporting requirements that duplicate work done by the Economic Section can and should be dropped without adverse consequences.

(e) Opportunities for reducing time spent on activities not specifically related to export promotion should be identified.

### C. ADEQUATE PLANNING FOR MAJOR REORGANIZATIONS

(16)(a) As a result of inadequate planning for the President's Reorganization Plan No. 3 of 1979 transferring primary responsibility for overseas Commercial work from the State to the Commerce Department, the implementation of overseas Commercial work to expand U.S. exports was hampered for over 2 years. Future reorganizations of this magnitude should proceed only after thorough analysis has been completed of the expected consequences of the reorganization and a sufficient allocation of resources is provided to accomplish the goals of the reorganization.

(b) The committee recommends that in future reorganizations requiring congressional approval or action, that Congress require all agencies involved in such a reorganization to report in writing to Congress within 180 days after the reorganization becomes effective as to whether the reorganization has been fully implemented and, if not, what problems remain.

## V. DISCUSSION

### A. BACKGROUND: EXPORT PROMOTION ACTIVITIES BEFORE THE REORGANIZATION OF 1980

#### 1. IMPORTANCE OF INTERNATIONAL TRADE

International trade has become increasingly important to the health and vitality of the U.S. economy in the latter half of the 20th century. U.S. security and domestic economic objectives are now linked to the world economy far more than in the past. Currently, every \$1 billion in exports generates about \$2 billion in GNP and \$400 million in tax revenues. Moreover, the same \$1 billion in exports creates 40,000 jobs, and exports accounted for a total of 5 million jobs in the United States in 1982. Exports today

provide one out of every eight jobs in manufacturing and one out of every four in agriculture.<sup>9</sup>

These statistics demonstrate, in part, how the United States has become increasingly integrated and interdependent with the world economy. Goods, money, technology, and often workers travel across national boundaries in increasing numbers. Taken as a whole, the volume of international trade has grown more rapidly than has real worldwide output during the postwar period. Trading countries, including the United States, can no longer insulate their economies from the economic problems of other countries.

Our growing economic interdependence with other countries has not always been readily appreciated. In the past, the benefits of producing for international markets often went unrecognized and foreign markets were regularly looked at as secondary outlets for U.S. goods and technology. The U.S. market was perceived to be large enough to absorb the growth of most domestic companies. This attitude, combined with the industrial rebirth of our major competitors such as Japan and West Germany in the post-war period, led to a dramatic fall off in the U.S. share of worldwide exports—from 18 percent in 1960 to 12.8 percent in 1982. During the same period, exports as a percentage of U.S. GNP grew from less than 4 percent to almost 7 percent.<sup>10</sup>

At the same time that the U.S. export market share was declining, on the import side, the United States was becoming increasingly dependent upon imports for oil and other strategic raw materials. Both are factors in the deterioration of the overall trade position of the United States which slipped into deficit in the early 1970's after experiencing a series of annual postwar trade surpluses.<sup>11</sup> The United States went from the largest exporter of oil in the world to one of the biggest importing countries. This trend can also be seen in other raw materials. By 1983, for example, the United States will import 80 percent of its cobalt, 86 percent of its nickel, and 86 percent of its asbestos—all key industrial commodities. In 1980, the United States imported more than half of 18 minerals considered essential for U.S. industrial production.<sup>12</sup> It is therefore apparent that, aside from the need to maintain employment levels and industrial growth through exporting, the United States must maintain a healthy export sector as a counterbalance to this increasing dependency.

In the 1980's, the United States is likely to face even stiffer competition internationally. Continued high energy import costs and the need to repay outstanding dollar debts will force foreign countries to be ever more export conscious. The new emphasis of many developing countries on export-oriented industrialization strategies

<sup>9</sup> The importance of international trade is further demonstrated in the following sources: (1) Senate Committee on Governmental Affairs, "Reorganization Plan No. 3 of 1979", Report 96-402, dated Nov. 7, 1979; (2) International Economic Policy Association, "American Foreign Economic Strategy for the Eighties", dated March 1981; (3) President's Export Council, "The Export Imperative", dated December 1980; and (4) Subcommittee on International Finance of the Senate Banking Committee, "U.S. Export Policy", dated 1979.

<sup>10</sup> This compared with 26.8 percent for West Germany, 20 percent for Great Britain, and 13 percent for Japan in 1982.

<sup>11</sup> It is estimated that the U.S. merchandise trade deficit will reach \$70 billion in 1983 and \$100 billion in 1984.

<sup>12</sup> Hearings, U.S. Senate, Committee on Governmental Affairs, "Government Organization for Trade", June 4, 1981, p. 3.

will challenge the stability of the U.S. manufacturing base, particularly in consumer goods and other products where advanced technology can be absorbed by foreign competitors.

As we have seen, there are many reasons for the recent deterioration in the U.S. trade account. An additional reason which did not escape the attention of official Washington in the 1970's was the deficiencies in the Government export promotion apparatus.

## 2. GOVERNMENT'S EXPORT PROMOTION PERFORMANCE WAS CONSIDERED INADEQUATE

In the face of continuing trade deficits and increasing foreign competition in overseas markets, dissatisfaction with the Government's export promotion apparatus started to increase during the late 1970's. At the time, the State Department was primarily responsible for the overseas implementation of U.S. export promotion programs developed and managed in Washington by the Commerce Department. This arrangement resulted in two separate but related problems. First, the State Department failed to accord a high priority to export promotion activities, preferring to concentrate its resources in areas more highly esteemed within the Department such as political and economic affairs. Perhaps contributing to this lack of enthusiasm for commercial affairs was the fact that the State Department did not have total control over commercial operations but was merely the delivery arm of Commerce-generated programs. For whatever reasons, the prevailing sentiment within the State Department resulted in the less than active pursuit of trade opportunities overseas and a general lack of enthusiasm for representing U.S. business interests in foreign countries. As the Commerce, Consumer, and Monetary Affairs Subcommittee indicated in its 1977 report on export promotion, State failed to recruit employees with strong commercial experience to perform its commercial functions and those who were recruited suffered from lower career status and fewer promotions and were often encouraged to work on non-commercial matters. In addition, State devoted fewer resources to commercial matters than to other functions.<sup>13</sup>

The Commerce, Consumer, and Monetary Affairs Subcommittee's report of August 1977 found as follows:

Chronic conflicts and problems between Commerce and State seriously undermine the effectiveness of export promotion programs. Failures and delays in communications are common between the two Departments. A common mistrust exists between the two Departments which prevents an effective resolution of their problems.

\* \* \* \* \*

The State Department traditionally places less priority on and devotes fewer resources to commercial matters, than other functions. State has failed to recruit employees with strong commercial experience to perform its commercial functions; employees engaged in commercial activities

<sup>13</sup> House Report 95-576, pp. 5-6.

suffer from lower career status and fewer promotions within the Department; they are often encouraged to work on noncommercial matters; and the Department's rotation policy prevents them from operating effectively at any one post.<sup>14</sup>

The business community agreed that the quality of export promotion services they were receiving from the State Department was inadequate. The following view expressed in a letter to the Commerce, Consumer, and Monetary Affairs Subcommittee by an executive of Martin Marietta International was not unusual:

I had heard expressed, and had experienced myself, concern that the commercial services at the U.S. embassies abroad were, in many instances, ineffective in assisting businessmen to obtain new business for U.S. companies. Comparison of U.S. embassy commercial operations with the very aggressive and positive export by the embassy staffs and the ambassadors of other countries, notably the French and British, left the impression that U.S. businessmen pursuing international initiatives were at a distinct disadvantage.

As a member of the Aerospace industry for over twenty-five years with the last twelve devoted exclusively to international marketing, I had learned to compensate for this disadvantage and generally tended to avoid the Embassy commercial staff in following international initiatives. I understood that my colleagues in the industry did likewise.<sup>15</sup>

The second problem resulted directly from the split in responsibility for commercial work between State and Commerce. Both Departments entered into numerous agreements to allocate authority and resources and to clarify the role and position of Commercial Attaché in the Foreign Service. Four such agreements sought to coordinate their objectives and to prescribe minimum resources for State to devote to Commercial functions. Each agreement, however, failed to obtain its objectives amidst accusations by Commerce that State did not make a good faith effort to comply and by State that Commerce sought to go beyond the objectives of the agreement.

Other coordination problems were prevalent as well. For example, a joint evaluation by both Departments in February 1977 stated:

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

---

<sup>14</sup> *Ibid.*

<sup>15</sup> Hearings, app. 3, p. 284.

made in working level agreements on specific funding or staffing proposals.<sup>16</sup>

While it is not known whether these coordination lapses were by design or by default, it is nonetheless clear that they contributed to what was already perceived to be an uneasy alliance between two competing agencies. The resulting "turf fights" and lack of cooperation between the two agencies diminished further the efficiency and effectiveness of the U.S. Government's export promotion efforts.

The Government also failed to adequately take into account the importance of exports by small- and medium-sized firms. According to the 1977 Government Operations report on export promotion, many Department of Commerce programs were geared toward larger, experienced firms rather than to small businesses.<sup>17</sup> Such larger companies doing extensive exporting usually have their own offices abroad, and are in less need of assistance than smaller new-to-export or new-to-market companies. Moreover, the larger companies have often saturated their potential for export sales, but smaller companies which have not previously exported, often have a relatively untapped potential market outlet abroad. Also, in 1981 the U.S. Chamber of Commerce found that small- and medium-sized businesses offer particularly important sources for expanded exports because they are uniquely adapted to marketing specialty products which can be very competitive and profitable in international markets. The Chamber's report went on to say that small- and medium-sized businesses are the source of a large share of this Nation's innovations in the production of manufactured goods and the development of original services.<sup>18</sup>

The economic importance of small- and medium-sized businesses is well illustrated by a 1979 MIT study which reported that 87 percent of the net new jobs created in the private sector during the 6-year period 1969-76 were in firms employing 500 people or fewer. Only 10 percent of the new jobs were generated by firms with 500-5,000 employees and 3 percent by firms with over 5,000 employees.<sup>19</sup> Given their economic importance and the fact that it estimated that 11,000 small export-capable firms could be induced to try to export, it can be concluded that small- and medium-sized businesses offer a large untapped resource for expanding export markets.<sup>20</sup>

The importance of encouraging small business to export was further demonstrated by congressional passage of the "Small Business Expansion Act of 1980," which among other things directed the Executive Branch to encourage greater small business participation in trade fairs, shows, missions, and other domestic and overseas export development activities of the Commerce Department.

---

<sup>16</sup> Joint Evaluation Report, February 1977. Cited in House Report 95-576, op. cit., p. 42.

<sup>17</sup> House Report 95-576, op. cit. pp. 9-10.

<sup>18</sup> A National Export Policy: Recommendations for Expanding U.S. Exports, Chamber of Commerce of the United States, 1981.

<sup>19</sup> Professor David Birch, MIT, 1979.

<sup>20</sup> "Efforts to Promote Exports by Small, Non-Exporting Manufacturers." GAO staff study, January 18, 1983. The Commerce Department estimates that only 30,000 of 300,000 U.S. firms export and that 1,000 of the largest U.S. exporters account for over 70 percent of total U.S. exports. "Serving American Business", ITA publication, April 1983.

### 3. APPROPRIATE ROLE OF THE GOVERNMENT IN EXPORT PROMOTION

Not everyone believes that the Government should be involved in export promotion activities. It has been argued that since many of the Government's export promotion services are already provided in the private sector, the continued provision of these services constitutes an unnecessary governmental subsidy. In addition, this view holds that it is not cost effective for the Government to assist smaller or new-to-export firms.<sup>21</sup>

Government commercial activities can be broken down into two broad categories: (1) trade facilitation and (2) trade representation. Trade facilitation consists of the provision of those services and information which assist U.S. firms to export. Examples of these services include researching potential foreign agents and distributors and performing credit checks for U.S. firms, monitoring potential trade opportunities, and organizing trade fairs and shows. It is believed by some that this area constitutes an unnecessary overlap with the private sector.

The second broad category, trade representation, consists of those services which Commercial Officers, as representatives of the U.S. abroad and by nature of their official status, are uniquely qualified to perform. These services consist of guaranteeing that foreign markets remain open to U.S. goods, services and capital and interceding with the host government on behalf of U.S. firms in trade and investment disputes. A U.S. Government role in this area is essential.

There is no question that some of the Government trade services are also available in the private sector or are otherwise not needed by some firms. In fact, many of the larger firms with representation abroad already have well-established commercial ties and therefore do not need basic export promotion services. Reflecting this fact, a 1981 Government survey of the overseas community identified the most important service the Embassy could provide in some countries as representing, monitoring, protecting, and advocating U.S. commercial and investment interests through close relations with local business and the host government.<sup>22</sup> This view is echoed by the current U.S. Ambassador to France, Evan G. Galbraith. In a letter to Commerce Secretary Baldrige dated May 25, 1983, Ambassador Galbraith stated:

The FCS, for example, is now charged essentially with two objectives: to facilitate through the provision of information and services the efforts of American exporters; and, to monitor multilateral trade negotiation codes and governmental and quasi-governmental actions that restrict American trade.

<sup>21</sup> See "President's Private Sector Survey on Cost Control", (Grace Commission), Tax Force Report on Department of Commerce, Apr. 15, 1983. The Grace Commission maintains that "a relatively low share of FCS resources are allocated to high-return activities", (i.e., assistance to high volume exporters who are usually bigger firms) and a relatively greater resource allocation "to low-potential firms." p. 22. The Grace Commission concludes, "ITA is currently operating far below its potential and is, at best, marginally effective as the principal export promotion instrument of the United States." p. 18.

<sup>22</sup> From unpublished study, cited in GAO Report, "Problems Hamper Foreign Commercial Service's Progress", Oct. 18, 1982, p. 3.

In my view the first task is only marginally useful, while the second is indispensable to U.S. interests and should be the focus of all FCS efforts and resources. Practically without exception, the facilitative services provided by the FCS to American businessmen can be obtained from elements of the American private sector like banks, trade associations, business groups and export-import companies. Obviously American exporters are delighted to obtain free services or at less than real cost from the U.S. Government and will happily supply testimonials so as to ensure continuance of these services. The facts, remain, however, that in a free economy the size of our own, exporters, large or small, who want to sell to markets as developed as the one in France, will be able to obtain commercially any service they need.

On the other hand, our businessmen need and deserve help from the U.S. Government in keeping markets, like the ones in France, open to them and free of governmental and quasi-governmental restrictions.<sup>23</sup>

Secretary Baldrige responded in a letter to Ambassador Galbraith dated July 26, 1983, as follows:

I cannot agree with your view that the private sector can supply all of the services our FCS now provides to every country. In encouraging new firms to trade overseas, we have a responsibility to serve those small and medium-sized businesses which cannot or will not pay the higher-cost services of the private sector. Once in the international market, they are more likely to make use of the private sector's services as their international contacts broaden. Last year 4,927 new-to-export and new-to-market companies which received our assistance reported over \$1.3 billion in export sales. One hundred and twenty of these companies recorded over \$21 million in sales to France.<sup>24</sup>

The U.S. Chamber of Commerce's National Chamber Foundation has also raised the feasibility of privatizing U.S. industrial trade promotion. In a "prefeasibility analysis" dated April 1982 prepared for the National Chamber Foundation by former Assistant Secretary of Commerce, Frank A. Weil, it is concluded that "there is substantial evidence that U.S. industrial trade promotion could be improved by privatizing at least a portion of the functions now performed by the Government."<sup>25</sup> Finally, both the Commerce, Consumer, and Monetary Affairs Subcommittee in its 1977 report and the 1982 GAO report recommended that certain programs (the World Trade Data Reports, in this case) be discontinued where adequate private alternatives exist.

Despite these views, many trade facilitative services are used by those U.S. firms which lack representation abroad.<sup>26</sup> This group is

<sup>23</sup> Hearings, app. 1, p. 158.

<sup>24</sup> Ibid., app. 1, p. 161.

<sup>25</sup> Study contained in subcommittee files.

<sup>26</sup> For example, see testimony of Audrey Marsh King, Hearings, pp. 108-127.

composed mainly of small- and medium-sized firms that have not exported in the past or are new to a particular market. While there may be some overlap with the private sector in the services available to these firms, the services provided by the private sector are not uniformly in all overseas markets, being generally limited to the more developed markets.

Aware of the need to eliminate unnecessary overlap, the Commerce Department has already shifted some activities to the private sector and has indicated it will continue to do so where appropriate. For example, 28 exhibitions certified by the Commerce Department will be developed and managed by private trade fair organizers in 1983 and expanded further to 110 exhibitions over the course of the next 2 fiscal years. Also, in response to a GAO recommendation, the World Traders Data Reports service which provides background data and credit information on foreign traders will be eliminated in some 36 countries during the coming months. When this action is completed, American firms will have to go to the private sector for credit reports. In addition, FCS has announced its goal of offering all of its services and products on a full cost recovery basis.<sup>27</sup>

Despite these steps and recognizing the importance of servicing U.S. domestic based business and new exporters, it appears that the Government will continue to play a role in the trade facilitation area whether or not duplication with the private sector exists. The committee finds that Government participation in the area of export promotion should be continued for the following reasons: (1) a large number of small- and medium-sized firms rely on the FCS for export assistance; (2) since other countries devote substantial resources to export promotion, the U.S. must also assist its firms if it wishes to meet this competitive challenge; (3) FCS' contribution to the economic well-being of the United States appears to far outweigh its budgetary cost. On this last point, the former Director General of the US/FCS, in his testimony before the subcommittee, stated that the tax revenues from the newly exporting firms counseled by FCS last year alone exceeded US/FCS' budget of approximately \$60 million.<sup>28</sup>

#### 4. MTN AGREEMENTS—A CATALYST FOR CHANGE

As the inadequacy of the Government's export promotion policies and programs became more apparent in the 1970's, spokesmen in both Congress and the private sector became increasingly vocal about the need for change. The U.S. Government's activism in promoting exports was regularly compared with its major allies and almost always found deficient. The perception that some change was needed was only sharpened by the fact that the U.S. export market share worldwide continued to decline as export competition

<sup>27</sup> The Commerce Department has recently merged into one group all export promotion services formerly provided by the following offices in Commerce: the Trade Program Support Division, the Office of Trade Information Services, the Commercial Services Information Center and the Office of Event Management and Support Services. Among other things, this new Export Promotion Service Group will be attempting to achieve full cost recovery for many of the services Commerce provides. For a more extended discussion of Commerce's full cost recovery objectives, see Section D.7.d., below.

<sup>28</sup> Hearings, p. 32.

intensified between U.S. firms and their major international competitors.

In 1979, an opportunity for major changes in the Government's export promotion apparatus presented itself when the participants in the Tokyo Round of the Multilateral Trade Negotiations agreed to a series of trade liberalization measures. The Agreement, among other things, reduced further tariffs on imported goods, but with even more potentially far-reaching implications, approved measures to reduce previously untouched nontariff barriers, including opening up Government procurement markets to foreign competition.

As a precondition for approving the Agreements, the Congress required of the President a proposal to restructure the international trade functions of the executive branch, which among other things would result in an upgrading of Commercial programs and Commercial Attachés overseas.<sup>29</sup> It is also apparent from the legislative history of Reorganization Plan No. 3 of 1979 that aside from the need to elevate the prestige and importance of trade promotional activities within the U.S. Government, a fully integrated system with trade promotional activities under one agency was preferred. The arrangement then in existence clearly did not satisfy this criteria.

The President responded to the Congress with Reorganization Plan No. 3 of 1979 which entrusted to the Commerce Department primary responsibility for all export promotion activities both at home and abroad. According to the plan, placing the newly designated Foreign Commercial Service in the Commerce Department would allow Commercial Officers to concentrate on the promotion and aggressive expansion of U.S. export opportunities as their principal activity.

#### B. TRANSFER OF AUTHORITY RESULTS IN MANY DIFFICULTIES

Many difficulties were experienced in attempting to transfer the Commercial function from State to Commerce. Since Commerce already had responsibility in the United States for export promotion activities, with its 48 district offices and headquarters staff, no change was required domestically. The problems, however, arose in trying to identify what staff and budgetary resources at the State Department were used for Commercial work so that these resources could be transferred to the Commerce Department. The task was complicated by several factors and by the haste with which the President demanded that the reorganization be accomplished. First, the State Department could not precisely identify what portion of its overall budget was spent on commercially related activities, since its budget management system was on a geographic rather than a functional basis. The State Department, therefore, had a record of the total amount each Embassy spent, but could not determine how much was spent for Consular, Political, Economic, or Commercial affairs at the Embassies.

Second, identifying what overseas staff to transfer was complicated by the fact that there are overlapping areas between Economic

<sup>29</sup> Sec. 1109, Public Law 96-39, July 26, 1979.

and Commercial work. Even if a precise delineation of Economic and Commercial work could be agreed upon, many of the Embassies had fully integrated Commercial and Economic staffs who performed both functions.

Finally, concerning State Department headquarters support for its overseas operations, aside from a small contingent working directly for the Commercial Affairs Office on largely policy matters, there was no practical way of identifying what percentage of State's headquarters staff was involved in such overhead functions as personnel and budget for the overseas staff to be transferred.

The lack of reliability of data in these areas resulted in a problematic transfer of resources, which required extensive negotiations and brokering between the two agencies. The situation was exacerbated by the fact that the transfer was hastily arranged. For example, despite the deficiencies in State's budget management system, the State Department was not given sufficient time to collect the needed information. Virtually no preparation had been made prior to September 1979 when the President made public his trade reorganization proposals. The agencies were given until January 1980—a period of about 3 months—to iron out the specifics of a major transfer of financial resources. As will be demonstrated below, negotiations in the budget and personnel area and their ultimate resolution have had negative short-term effects and continued until recently to have negative long-term effects upon the ability of the United States to carry out an effective export promotion program.

#### 1. TRANSFER OF BUDGETARY RESOURCES

As shown in table 1, State agreed in January 1980 to transfer funding in eight budget categories for the last half of fiscal year 1980 and for fiscal year 1981.

TABLE 1.—FUNDS TRANSFERRED TO COMMERCE

[Fiscal year; thousands of dollars]

	1980 <sup>1</sup>	1981
Foreign Service Officer salaries.....	4,122	8,516
Foreign Service National salaries.....	4,232	9,639
Post assignment travel.....	620	853
Direct program support.....	919	2,010
Representation.....	55	111
American secretaries' salaries.....	245	478
Domestic support.....	284	367
Foreign affairs administrative support.....	1,122	2,580
Total.....	11,599	24,554

<sup>1</sup> Apr. 1 to Sept. 30, 1980.

Calculating how much to transfer in those areas related to salaries and post assignment travel presented little or no difficulty once the number of positions to be transferred was decided upon. This was not the case for the other budget categories, which, as mentioned earlier, were budgeted on an Embassy-wide rather than a functional basis. Determining an accurate total for direct program support (DPS) and making a prompt transfer of resources was especially crucial because of the importance of this category.

DPS includes funding for such essential purchases and activities as travel; contractors for various FCS reporting programs; publishing the post Commercial newsletters; other copying and printing; all communications, including telephone, telex, and mail; reference material for the Commercial libraries; and office equipment, furniture, and supplies. The State Department, not having an accurate source of information as to how much of total DPS funding the Commercial sections accounted for ultimately relied upon admittedly unreliable and subjective judgments. Adding to the confusion, negotiations between Commerce and State took place before final action on the fiscal year 1981 budgets. Consequently, State needed to make transfer commitments for fiscal year 1981 before it knew its own budget.

It was not until 4 months into fiscal year 1981 that FCS knew how much DPS funding would be transferred from State. Ultimately, despite Commerce objections, the amount transferred was \$870,000 below what was provisionally agreed to since Congress reduced State's fiscal year 1981 DPS appropriation by about \$8 million.

Further demonstrating the haste and lack of preparation which went into the transfer of budgetary resources, both State and Commerce did not provide for the transfer of funding for training and short-term lease costs. Funds for training were simply overlooked while State negotiators were not aware that the Commercial staffs occupied private space in some countries.

The budgetary issues which remained outstanding after the establishment of the FCS on April 1980 involved significant amounts of money relative to FCS' overall operating budget. This uncertainty as to how much funding the FCS could ultimately expect disrupted Commercial operations for its first full 18 months of operations. GAO's report entitled "Problems Hamper Foreign Commercial Service's Progress" concludes that "the need for subsequent negotiations and the perceived unreliability of the budget figures transferred, especially in the important area of direct program support, caused FCS to pursue a highly conservative spending policy for fiscal year 1980 and much of 1981."<sup>30</sup> Even where the minimal funding did not reduce Commercial operations, the Commercial staffs complained that their DPS funding limited them to doing no more than was done previously under the State Department. The new FCS Commercial staffs, therefore, were able to do no more than perpetuate a level of service considered to be inadequate in the first place.

In addition, in some instances posts were forced to halt publication of their Commercial newsletters and were unable to renew WTDR contracts and/or purchase up-to-date publications for their Commercial libraries. Generally, the GAO found that the uncertainties created by the transfer, the perceived unreliability of State's budget figures and the prolonged fiscal 1981 budget process in effect prevented FCS from operating effectively for its first year and one half.

---

<sup>30</sup> GAO report, p. 15.

## 2. TRANSFER OF OVERSEAS PERSONNEL

Similar difficulties arose in attempting to identify those countries and overseas staff to be transferred to Commerce. The intent of the reorganization was to transfer to Commerce the overseas staff engaged in Commercial work, but Commerce and State could not reach agreement on these transfers and no objective criteria existed to identify the personnel who were predominantly involved in commercially-related work. According to the State Department's view, the transfer was to take place only at Embassies located in countries which are major U.S. trading partners. Commerce and State, however, could not agree on what those countries should be. Commerce insisted on the transfer of posts in about 70 Embassies and State countered by offering to transfer posts in only about 20 Embassies. Unable to reach an accord, both agencies turned to OMB for a decision. OMB first attempted to base its determination on the amount of time devoted to Commercial work at each post, but found this next to impossible for two reasons. First, except at the extremes, there was no conceptual delineation between Economic and Commercial functions at the posts. Second, the Commercial and Economic sections at many posts were completely integrated. As a last resort, and in a highly arbitrary manner, OMB decided to transfer those officer positions, and the countries where they were located, which were classified as Commercial as of a given day. This amounted to 162 positions in 65 countries, but did not include such commercially important places such as South Africa, and the Peoples Republic of China. On the other hand, relatively unimportant places from the Commercial perspective such as Ghana and Czechoslovakia were transferred.

The transfer of misallocated overseas staff resulted, in part, from the use of unreliable data in implementing the transfer. In the case of the 65 "FCS countries," the selection was arbitrarily compiled from a list of nations having a Commercial Officer as of the date of the reorganization. State also transferred to Commerce 487 Foreign Service National employees who were devoting at least 70 percent of their time to Commercial work. Workload statistics found in overseas posts' annual field budget estimates were used in determining which FSN employees to transfer. Everybody concerned realized that the data bases used for the transfer were unreliable. Integration of the Commercial and Economic sections at many posts had blurred the distinction between the two functions, complicating determinations concerning job categories and allocations of time. State officials agreed that the personnel codings used to determine the transfer of officer positions were not necessarily accurate reflections of the time allocated to Commercial work by State Department officers. Similarly, the field budget estimates were not necessarily reliable estimates of the time devoted to Commercial work by FSN employees.

Eventually, there would be great difficulty in trying to determine whether the proper number of personnel were transferred. With more time a better method could have been devised, but haste was the order of the day. Putting aside the question of whether the correct number was transferred, however, there was no doubt that the then existing deployment of staff was ill-suited to the new Foreign

Commercial Service's mandate of aggressively promoting U.S. exports.

At the time of the transfer, the deployment of Commercial Officers abroad reflected the State Department's emphasis upon Economic reporting and government-to-government contacts. It also reflected State's traditional emphasis upon diplomatic and political relations with Europe. Consequently, Commercial Officers were concentrated in capital cities and European countries. For example, at the time of the transfer, Germany, with a staff of 62 officers and FSN's, accounted for 10 percent of the total FCS staff. There were almost twice as many U.S. officers assigned to Germany as there were in Japan (16 vs. 9) and more FCS officers in Germany than in the entire Middle East. Other parts of the world, particularly fast growing and potentially significant markets in the oil-rich countries were understaffed, as were many developing nation posts in Africa, Asia, and Latin America.

FCS has recognized the need to redeploy their staff to countries which offer the greatest opportunities for increased exports as well as dispersing staff from political to commercial centers. They have, nonetheless, often been met with State Department and ambassadorial resistance. Current problems arising from the initial deployment still persist. They are discussed in Section D-5, below.

### 3. TRANSFER OF HEADQUARTERS PERSONNEL

Finally, State and Commerce had difficulty in agreeing on how many headquarters administrative support positions should be transferred to FCS to support the overseas staff. The State Department was adamantly opposed to anything but a token shift in headquarters resources, arguing that Commerce's existing support infrastructure could easily accommodate for the additional overseas positions with only a small net increase in headquarters staff. Moreover, they argued that despite the shift of Commercial operations to Commerce, State would still have to maintain a small professional staff in Washington to support Commercial operations in the 70 or so countries which were not transferred. The State Department ultimately offered Commerce the equivalent of four administrative support positions and four positions available for annual training. The State Department contended that this number represented actual administrative support efforts for the overseas staff. OMB was again called upon to mediate. Initially James McIntire, the OMB Director, did not favor Commerce receiving any headquarters positions. It was his feeling that Commerce should be able to come up with an adequate FCS headquarters staff in an agency of 30,000 people. Finally, he relented a bit and ordered State to transfer six headquarters administrative positions and nine training positions to Commerce. Unfortunately the six positions never found their way to FCS, but were taken by the Office of the Secretary ostensibly to provide departmental support functions for FCS as well as other Commerce offices. As described below, a deficient headquarters staff was a primary reason for many of the problems FCS experienced in its first 2 years of operation.

#### 4. FCS OPERATIONS—A DIFFICULT BEGINNING

When FCS came into existence in April 1980, it immediately faced severe problems directly related to the lack of preparation in FCS headquarters to assume its new responsibility. In essence, a premature transfer resulted in 664 overseas positions being transferred to FCS before an adequate headquarters facility, consisting of experienced staff and allied management systems, could be established. Consequently, FCS headquarters faced the dual responsibility of supporting the overseas operations and at the same time creating and routinizing the administrative systems necessary to manage the FCS. The job was further complicated by the fact that the Commerce Department initially refused to provide the necessary headquarters staff. After absorbing the 6 administrative support positions intended for the FCS into the Office of the Secretary, Commerce gave FCS headquarters 17 positions, 14 of which were filled by staff of the former Office of International Commercial Representation. Not only was the number inadequate but members of this group did not have the type of experience necessary to effectively carry out FCS headquarters responsibilities. Before the transfer they acted as a liaison with State on matters relating to the performance of the overseas Commercial functions. They did not administer any programs and only served in an advisory capacity. With the transfer and with no additional training or preparation they suddenly found themselves responsible for a worldwide organization of over 600 persons and a budget of approximately \$28 million. FCS's headquarters was denied repeated requests for additional staff by the Commerce Department which itself was going through a period of uncertainty as a result of the new administration's policy of streamlining Government.

The headquarters staff, supplemented with inexperienced short-term detailees, were overwhelmed with their new responsibilities. The result was numerous deficiencies in all areas of headquarters management responsibility, including recruitment, training, placement, budget management, day-to-day support for overseas operations, etc. Some examples of the problems these deficiencies caused include: Lack of adequate management oversight resulting in a loss of over \$300,000 in an ill-fated attempt to establish an education program; FCS headquarters regularly failing to respond to post requests for information or assistance; failure to provide all necessary training to recruits posted overseas and to fill overseas vacancies in a timely manner.

##### *a. FCS education program mismanaged*

The goal of the education program was to design a training curriculum in substantive skill areas (i.e., Commercial and intercultural skills) for Commercial Officers and Foreign Service Nationals. The initial outline of the education curriculum was made by two education specialists provided free of charge by a major U.S. corporation. In August 1980, FCS hired these specialists to develop the various courses and brought on a staff composed primarily of graduate students on temporary appointments to assist them.

The headquarters staff responsible for managing the Education Group was overwhelmed with other responsibilities, which included

recruitment, training, and placement. As a result, it was unable to provide the management oversight necessary to insure the program's success. To a large extent, headquarters management of this Group's activities was delegated to the specialists who headed it. The Education Group was given no outline of what the education curriculum was to look like, other than the sketchy design originally developed by the specialists, and no timeframe for completing the project. Further, no provisions were made for periodic progress reviews.

As a result, the product developed was of little or no use. FCS headquarters and the Education Group actually worked at cross purposes for the entire year. While the Education Group was developing a series of modules aimed simultaneously at Junior-level Officers and FSN's, FCS, which had inherited mostly mid-career positions in the transfer of responsibility, was primarily recruiting individuals with substantial Commercial experience.

Even as a curriculum aimed at Junior Officers and FSN's, the value of the education program developed by this Group was highly questionable. In the opinion of FCS and other Commerce officials and a business community representative who reviewed the courses, many of them bordered on the simplistic. In addition, many of the courses were left unfinished, some in very preliminary stages, when the appointments of the Group members ended. The almost total failure of the Education Group to develop anything of worth at a cost of more than \$300,000 resulted in the loss of at least 18 months in the development of an education program. In the meantime, FCS was unable to provide training in substantive skill areas to its Commercial Officers and FNS's.

*b. Recruitment and training problems caused by management deficiencies*

Mismanagement and the lack of an adequate headquarters staff led to the poor implementation of FCS' first recruitment campaign and subsequent efforts to fill individual vacancies. The first campaign was aimed primarily at bringing State Department Foreign Service Officers with substantial Commercial experience in FCS. Highly ranked Foreign Service Officers were invited to join the FCS based solely on paper criteria and interviews. Of the 53 officers recruited in the first campaign, 39 came from the State Department, 11 from Commerce, and 3 from the private sector. FCS was very selective in hiring those State Department officers who were considered the most qualified, with FCS choosing only 39 from the 105 Foreign Service Officers who applied. This selectivity put additional pressure on the FCS to fill the remaining positions through large scale recruitment campaigns. Fortunately, the FCS was not forced to make these selections immediately since those State officers then filling commercial slots overseas who did not apply or were not selected by the FCS were allowed to serve out their tours of duty as Commercial Officers on detail to the FCS. Only after their tours were completed would the FCS be faced with recruiting their own officers for the positions. As it turned out FCS was expected to recruit their own officers over a 5-year period which correspond to the expiring tours of duty of incumbent State Department officers. (See chart below.)

*Positions to be filled by Commerce employees—end of fiscal year*

1980.....	62
1981.....	97
1982.....	127
1983.....	152
1984.....	162

Despite the breathing space afforded by the phase-in period, the FCS was ill-equipped to handle the first campaign. FCS management did not correctly project the amount of time and manpower required to complete the first recruitment campaign, causing substantial delays in filling overseas vacancies. The small staff devoted to operating this campaign was overwhelmed by the work of processing the approximately 1,000 applications received in response to the vacancy announcement. The staff had to first rank these applicants based on paper criteria and interviews. Non-Foreign Service Officers who ranked highly were invited to participate in an assessment center, a time-consuming, full-day process in which a panel of experts judged a small number of candidates on the basis of written examinations, interviews, and role-playing exercises. At one point, FCS headquarters had to halt virtually all other activities to concentrate on the campaign. Management also did not take into consideration other delaying factors that come into play after an applicant is selected, especially the 4 to 9 months needed for a full field security investigation.

As a result of these delays, overseas positions remained vacant for as long as 9 months to a year. Positions were vacant for over a year in Australia and Saudi Arabia and other long-term vacancies existed in Canada and Singapore.

GAO's review of the training given to officer recruits before being posted overseas showed that a substantial number of them failed to receive needed training. FCS provides training to its officer recruits through State's Foreign Service Institute, which provides language training, area studies training for all regions of the world, and orientation on overseas life and Embassy operations. Six months after FCS' creation, 38, or nearly half, of the 79 recruits FCS posted overseas were not given needed training in at least one of these categories. Many did not receive training in more than one category.<sup>31</sup>

Finally, in its rush to fill overseas vacancies, FCS placed recruits in locations where their talents and backgrounds were not best used. In one instance, FCS placed three inexperienced recruits at a Commercial post with an Embassy staff of only five officers. Since the two Senior Officers were spending a large percentage of their time on administrative and budgetary matters, they had to rely heavily on the Junior Officers to pursue trade opportunities. The Junior Officers' relative inexperience, however, hindered their taking active roles in export promotion. The problem was compounded by the formalistic and hierarchical nature of the host-country society, which hindered the officers' ability to gain access to Government and business decisionmakers. In another instance, FCS posted a recruit who had substantial business experience in Japan at a U.S. Embassy in another country. His primary responsi-

<sup>31</sup> GAO Report, pp. 30-31.

bility at the Embassy, which is not located in a commercial center, is making representations to the government—a diplomatic responsibility for which he has no training or experience. In yet another instance, FCS placed in a Latin American country a recruit who had extensive experience in West Germany and who spoke fluent German.

*c. Slow progress in improving overseas operations*

Lack of adequate headquarters support and resource uncertainties arising from the reorganization negatively affected overseas operations during FCS' first 2 years. The effectiveness of post operations was further reduced by intra-Embassy rivalries and lack of cooperation between State's Economic Sections and FCS. The cumulative effect of all these problems was to delay any appreciable improvement in overseas commercial operations during this period. With some limited exceptions, overseas commercial operations during FCS' first 2 years continued to be characterized by an excessive emphasis on reactive Commerce programs and general economic and administrative reporting. Little or no progress was made during FCS' first 2 years toward the objective of an aggressive export promotion oriented service, the primary goal of the reorganization.

Because of headquarters deficiencies, the posts often found themselves with unfilled vacancies and lack of a headquarters response to their requests for information or assistance. The following examples are taken from GAO's 1982 report:

*Mexico*—FCS Headquarters (1) took 6 months to confirm a commercial officers diplomatic status and (2) did not respond to a cable sent 6 months earlier requesting clarification of the State circular regarding the transfer of Government-owned appliances.

*Singapore*—FCS headquarters did not respond to four cables sent by the U.S. Ambassador and commercial attaché (the first sent 9 months earlier) recommending that two trade center employees included in the FCS budget be returned to the trade center.

*Australia*—FCS headquarters took (1) 6 months to respond to a cable requesting additional funds needed to continue WTDR service and (2) one full year to acknowledge a cable informing it of the scheduled departure of the senior commercial officer and provide information on a replacement.<sup>32</sup>

This inability to provide adequate day-to-day support for the Commercial staffs at the posts lessened the effectiveness of the overseas staffs, who were forced to operate without necessary information or resources and without knowing whether these would be forthcoming.

Perhaps the most damaging effect upon overseas operations during this period came from budgetary uncertainty resulting from the reorganization. As a consequence, the overseas Commercial staffs planned minimal activities and in some cases, Commercial

<sup>32</sup> GAO Report, pp. 26-27.

assistance to the American business community was either disrupted or less than that provided previously by the State Department.

*i. Relations between the State Department's economic sections and the FCS*

Problems also existed between the FCS and State Department economic sections overseas. To carry out the thrust of the reorganization by elevating the status and importance of Commercial work overseas, a Memorandum of Understanding (MOU) between State and Commerce was entered into in late 1979 providing, among other things, that the Senior Commercial Officer in-country should report directly to the Ambassador or Deputy Chief of Mission and be a member of the country team, which consists of the Embassy's management hierarchy. Shortly after this Memorandum was signed, however, State and Commerce developed a codicil which modified the original agreement by recognizing the Ambassador's authority to organize the mission to make the most effective use of available resources. The reason for this change in the reporting arrangement was that, according to the State Department, the Ambassador or Deputy Chief of Mission, particularly at the large posts, could not reasonably be expected to have the Senior Officers of all the numerous agencies assigned to the Embassy report directly to him. It was contended that such an arrangement would result in "span of control" problems. The codicil therefore provided that either the Senior Commercial Officer or Senior Economic Officer or both may coordinate functions or programs falling broadly within the Commercial and Economic areas. This coordination was not meant to include, however, the general delegation of supervisory functions or authority over commercial activities below the Deputy Chief of Mission level. In practice, this meant that in France, the United Kingdom, West Germany and Japan, the Economic Minister, the Senior Economic Officer in-country and of a higher rank than the Senior Commercial Officer, had coordinating authority over all Economic-related activities, including the Commercial, Financial, and Agricultural Sections. A similar arrangement existed in Canada, except that coordinating authority was delegated to the Economic Counselor, whose rank was equal to that of the then incumbent Commercial Counselor.

In some posts, GAO found in its 1982 report, that the distinction between coordinating authority and direct control over commercial activities had been blurred. This gave the impression that FCS had yet to achieve the enhanced status intended by the reorganization and sometimes resulted in the commercial staffs performing what were essentially Economic functions. In France, the Minister Counselor for Economic Affairs, continued to use a particularly high proportion of FCS's time for Economic reporting. The Commercial Counselor thought that the section might even be spending a greater proportion of its time on Economic reporting than prior to the reorganization. In Canada, the Senior Economic Officer, who was delegated responsibility for coordinating Economic, Commercial, Financial, and Agricultural affairs continued to assign Economic reporting duties to the Commercial Counselor. As a result, the Commercial Counselor lacked the time to fully pursue business community contacts and to support one Consulate's program to promote

American wines. In another country, the relationship between FCS and the Economic Section had not changed since the reorganization, even though FCS was represented on the country team and formally reported to the Deputy Chief of Mission. The Economic Counselor and his section still exerted authority over FCS activities and exercised the right to review FCS efforts by continuing to review and approve FCS memos, proposals, and plans, including the PCAP. This bureaucratic infighting was complicated by the fact that Commercial Officers in some cases were State Department incumbents detailed to the FCS until their tour of duty terminated. In effect these detailees had dual loyalties and the fact that they eventually would be returning to the State Department could have reduced their enthusiasm for promoting FCS' interests, especially in those cases where FCS turned down their request for employment. In some cases FCS itself was responsible for losing control over commercial operations. In Mexico, the Commercial staff at the Consulate in Guadalajara received no guidance from the Commercial Counselor at the Embassy, and therefore Commercial activities at the Consulate were directed by the Consul General, a State Department employee. Similar problems of lack of central control over Commercial operations at the Consulates existed in France, Belgium and Canada.

As recently as June 1983 problems persisted in Bonn, Germany, when a personal grievance alleging noncompliance with the MOU was settled. In Canada and in Singapore, the Senior Economic Officer has been exerting control and in some cases abrogating commercially-related responsibilities from the Senior Commercial Officer. In Rome, Italy, and London, England, confusion has been created by the Economic Ministers holding themselves out to the host country and its business community as being in charge of both Economic and Commercial work. For example, the Economic Officers have distributed calling cards indicating they were responsible for both Economic and Commercial matters. In these countries, lines of authority are further confused by the fact that the Senior Economic Officers have the role of Minister thereby outranking the Senior Commercial Officer, who has the title Counselor.

The establishment of the FCS separated the Embassies' Commercial and Economic sections and created the need for close cooperation and coordination between the two units. The Commercial staff not only shares with the Economic staff the same government and business contacts but also relies on the Economic staff for trade policy information. The close coordination required had been lacking at some posts, resulting in inadequate interchange of information. For example, at one post the Commercial Officers complained that the Economic Counselor purposely withheld information from the Commercial staff and excluded it from any trade policy areas, even if meetings with local business and government officials were involved. In another country, the lack of coordination resulted in overlapping and duplicative reporting and in some cases a failure to report at all since each group thought the other was performing the task. The subcommittee's investigation also noted several cases in other countries when cables which contained information important to the other group were not shared.

The need for cooperation and coordination becomes even more evident at smaller posts because of the small size of the staffs. For example, only one American is assigned to approximately 32 of the 68 FCS posts, and when this officer is on travel, the Economic Section represents FCS. Without close coordination between the two, a managerial problem would exist. In some cases, coordination has been excellent. For example, in Hong Kong, the Economic Section supplemented FCS by briefing bankers and others interested in the Hong Kong market, and provided other assistance to FCS/Hong Kong. FCS reciprocated by keeping the Economic Section apprised of Hong Kong commerce. In other cases, examples of lack of coordination continue, especially in the failure to keep the Commercial Officer informed of developments which affect his activities. This is particularly troublesome in the question of handling of State and local trade delegations, OPIC missions, AID and Eximbank matters, and handling of tasks assigned by the International Trade Commission. This question is discussed at greater length below, section D-4.

GAO concluded as follows:

The economic sections of some Embassies continue to control commercial staffs, contrary to the intent of the State-Commerce Memorandum of Understanding. In some cases, this has inhibited FCS' ability to fulfill its primary mandate of aggressively promoting U.S. exports.

We believe that, to perform its primary function of promoting U.S. exports, FCS must be given the enhanced status intended by the reorganization. Ultimately, however, the Ambassador has authority over all facets of Embassy operations in furtherance of the goals and objectives established by the President. If the Ambassador sanctions the economic section's influence and control over the FCS and if this results in a conflict with the primary mandate of FCS, little can be done short of bringing it to the attention of the Commerce and State Departments in Washington.

We also believe that the job of promoting U.S. exports does not require indepth expertise on the industrial and economic policies of the host country. For separate commercial and economic sections to be effective, however, both staffs must work cooperatively and maximize information sharing. Moreover, for this relationship to work, we believe it is important that it should be a relationship among equals and that neither group should be allowed to predominate.<sup>33</sup>

#### *ii. Excessive reporting requirements*

Overseas operations during FCS's first 2 years were characterized by excessive administrative reporting requirements and other reactive work assignments. Such headquarters demands delayed the overseas implementation of aggressive export promotion programs since the Commercial Attachés had less time to actively

<sup>33</sup> GAO Report, p. 42.

seek out trade opportunities through personal contacts with foreign business and government representatives.

Although the time spent on different export promotion activities varies from post to post, the preponderance of time during this period was spent on functions over which the post had little or no control. The posts in 12 countries GAO visited during its review were able to reserve an average of only 20 percent of their time in fiscal year 1982 for post initiated and managed activities. More importantly, the posts were able to devote less than 3 percent of their time for host-government and business contacts.<sup>34</sup> FCS today expects that 50 percent of its overseas employees' time will be spent on counseling services and outreach programs.

Aside from the administrative reporting burden largely made up of the post Commercial action plan (PCAP), which is a comprehensive compilation of all post activities anticipated for the following fiscal year, the overseas posts must service a diverse client group in Washington in areas often unrelated to their primary mandate of promoting U.S. exports. Included in this category are such services as investigations in support of export control regulations, and anti-dumping and countervailing duty legislation; economic policy reporting; and ad hoc requests for information from OPIC, Eximbank, and the USTR. As will be discussed more fully below, while progress has been made in reducing the posts reporting burden, some problems still persist.

#### *d. New innovations overseas*

Despite the many difficulties previously discussed, some posts were able to initiate new innovative ways of assisting U.S. exporters during FCS' first 2 years. For example:

FCS/Hong Kong, capitalizing on the status of Hong Kong as a regional corporate center for U.S. firms, started a Regional Early Alert Program in September 1981. This program alerts interested and qualified American firms in Hong Kong to trade opportunities reported by eight of the FCS posts in the region. American firms represented in Hong Kong were screened to locate regional offices which sell U.S.-originated goods and engineering-construction services throughout the area. FCS had 46 subscribers to the program and had been providing about 40 regional trade opportunities a week. The trade opportunities are normally received by subscribers 3 to 4 working days after the report is received by the post. Because of the program's initial success and requests by other qualified firms to join, FCS/Hong Kong plans to substantially expand both the program and other regional services.

FCS/London has been very innovative in providing an effective Agent/Distributor Service (ADS) while at the same time reducing the amount of resources used for the program. ADS requests are listed in the Commercial newsletter sent 10 times a year to 3,000 firms (mostly United Kingdom). The requests are listed under the "Trading Prospects" section with a 1- or 2-line description. FCS/London's staff resources does not permit effective personal solicitations on behalf of the 500 U.S. firms

<sup>34</sup> Ibid., p. 43.

that annually seek agents or distributor relationships in the United Kingdom market. The FSN specialists make personal contacts very selectively on only 15 to 20 percent of the ADS requests they receive, thereby freeing time for other activities. When the London FCS staff receives a reply to an ADS, it uses the post's word processor to provide all the detailed information to the requester quickly and cheaply.

FCS/Paris instituted a program for its five Consulates which directs voluntary interviews of manufacturers and importers in their districts each month. For each interview, a form is completed detailing, among other things, any specific export opportunities for U.S. firms. The posts concentrate on one product sector at a time. At the end of each product campaign, a 1-page market analysis is submitted to FCS/Paris ascertaining the size of the market, how needs are satisfied, how foreign brands are introduced, and so on. The information developed is then used to establish a data bank on French firms in various product sectors. Any significant business opportunities developed are reported directly to Washington.

FCS/Tokyo established a close working relationship with the local American Chamber of Commerce, thus gaining access to the resources and experiences of the Chamber and its members. For example, joint Chamber/FCS task forces were formed around specific target industries to identify market potential and problem areas and to suggest how U.S. firms can be more competitive. The Chamber also arranges visits to member firms, which included intensive briefings on the problems of each industry.

FCS/Bonn instituted a program to encourage greater U.S. participation in German trade fairs. According to FCS/Bonn, few American businessmen were aware of how much they can expand their exports through exhibiting in German and other European trade fairs. The post asserted that 20 to 45 percent of all annual German wholesale purchasing takes place at certain events. FCS/Bonn sponsored seminar programs to bring together major trade fair authorities and potential U.S. exhibitors, trade associations, and trade press and regularly establishes U.S. pavilions at German trade fairs.

Despite the many startup problems FCS experienced in its first 2 years, the above examples indicate that some positive things also occurred during this period. There are other reasons as well to believe that, in the long run, the transfer proved to be the correct decision. The establishment of a service whose primary goal is the promotion of U.S. exports indicates the level of importance attached to it by the U.S. Government as well as its importance to the domestic economy. It is also unlikely that the State Department, given its other responsibilities, could have matched the level of resources earmarked for the FCS now and in the future. Also, the creation of FCS allows its specialists to concentrate fully on export promotion with a minimal amount of distraction. Finally, given the enhanced prestige of Commercial work, many Commercial Officers appear to have a greater sense of mission and a better esprit de corps since the creation of the FCS, which should be an

important factor in improving the quality of service provided to U.S. exporters in the future.

### C. RECENT DEVELOPMENTS—THE NEXT TWO YEARS

The FCS has made significant strides toward becoming a more effective export promotion agency during its second 2 years of operations. The following factors are, in part, responsible for this improvement: (1) Increased staff and budgetary resources; (2) The consolidation of USCS and FCS; and (3) Development of several management systems.

#### 1. INCREASED STAFF AND BUDGET

The Commerce Department's initial reluctance to fully support the FCS appears to have changed. Whereas many of FCS's previous requests for money and staff were largely ignored, ITA, and its component, FCS, appear to have taken on a favored status within the Department. The result has been an increase in staff and budget while other sectors of the Government are experiencing budgetary and staffing cutbacks. For example, FCS's budget was increased from \$24.5 million in fiscal year 1981 to approximately \$38.5 million in fiscal year 1983 and, after combining with the USCS, totaled approximately \$60 million in fiscal year 1984. Similarly FCS headquarters staffing was increased to 36 permanent staff members compared to 17 permanent positions at the time FCS was established. Consolidated USCS/FCS headquarters now has 73 staff members. Former Director General McElheny testified regarding headquarters staffing:

This staff is now, I believe, adequate to meet our daily challenges and responsibilities. Our staffing level in Washington represents approximately eight percent of the total personnel resources of the US/FCS, quite a reasonable number for a headquarters operation.<sup>35</sup>

This increase in staffing to more appropriate levels has enabled FCS headquarters to develop necessary management systems and to provide more effective administrative support for the overseas offices. FCS headquarters currently consists of the Office of the Director General and the Offices of FCS Operations, Foreign Service Personnel, and Planning and Management. The Office of FCS Operations includes four new senior regional management positions and is the key management unit in headquarters responsible for monitoring and evaluating all overseas posts. This office, with a professional staff of 12, performs a management function which largely went undone when Commerce first took over responsibility for the FCS in 1980. No longer having to rely on short-term detailees because of a lack of permanent positions has allowed staff at FCS headquarters to build up expertise and provide management continuity.

---

<sup>35</sup> Hearings, p. 11.

## 2. CONSOLIDATION OF FCS AND USCS

On February 15, 1982, the Commerce Department consolidated operations of FCS and USCS, its domestic counterpart consisting of 49 district offices. The combined organization operates under the authority of the Director General for the U.S. and Foreign Commercial Services. The merger was intended to take advantage of economies of scale and efficiencies in operation which had been difficult to achieve as separate services. Other positive goals of the consolidation include better coordination and interchange of personnel and ideas between the two services. Whereas formerly the two services rarely coordinated, opportunities are now present for joint planning of workload and setting of priorities.

A readily apparent benefit of the consolidation is the improvement in the delivery of export services to the business community as a result of the direct communication links established between Commerce district offices and the overseas posts. The 1982 GAO report found that Washington had become a bottleneck to providing quick and efficient service to the U.S. business community and therefore recommended the establishment of direct communication links between the overseas posts and district offices in the United States. These links were established for the Agent Distributor Service in February 1983, thus saving anywhere from 1 to 2 months in delivery time to the U.S. business community. In addition, the Commerce Department maintains that there is now a wider and more current variety of trade facilitation and Commercial intelligence data being delivered to the U.S. business community as a result of the Washington nexus in the communications link having been removed.

It is also expected that combining the two services will result in a greater level of interchange of personnel. In the long run this should strengthen the combined services since personnel will become familiar with both the domestic and foreign aspects of export promotion. To date this interchange has been fairly minor, however. For example, during our review, only three Commercial Officers were serving at U.S. district offices.

The USFCS is also implementing an overseas career development program for district office personnel. This program will provide an opportunity for district office Trade Specialists to spend time in selected Commercial Sections overseas gathering information and learning various aspects of Commercial representation. Thus far nine Trade Specialists are slated to participate in the first year of the program.

In addition, the realignment addressed the question of the proper channels for post/headquarters communications. Prior to the realignment, the overseas Commercial posts lacked an effective contact point in Washington which could represent their interests. As a result, the overseas posts faced uncoordinated, burdensome, and often conflicting requests for information from Commerce headquarters, since any one of several different headquarters organizations within Commerce could independently task an overseas post.

The realignment has addressed this problem by establishing under the Assistant Secretary for International Economic Policy four regional offices, each headed by a Deputy Assistant Secretary.

The Deputy Assistant Secretaries are now the contact points for the FCS posts in their respective regions. All substantive communications with the posts are expected to go through and be managed by the Deputy Assistant Secretaries, enabling them to control and coordinate the administrative workload placed on the posts from various Commerce offices and other Government agencies.

Despite the progress that has been made with the realignment, there are some continuing difficulties. Outstanding problems in the areas of overseas post/Washington communications and US/FCS coordination are discussed later in this report.

### 3. DEVELOPMENT OF MANAGEMENT SYSTEMS

Since the issuance of the GAO report in October 1982, FCS has made important progress in developing the necessary management systems to run the FCS. Improvements have been made in the following areas: (a) budget management; (b) recruitment, training, and placement; and (c) evaluation and monitoring of overseas post performance.

#### *a. Budget management*

The U.S. and Foreign Commercial Service is in the process of finalizing a new Management Control System (MCS). This is a computerized system which essentially shows the type and level of domestic and overseas USFCS activities and performance and relates this data to post and district office financial plans. Based on post PCAP reports and district office call reports, the MCS will generate domestic activity and performance reports monthly and overseas reports quarterly.

The USFCS has also implemented a new process for monitoring its annual obligations. This shows the USFCS budget for 3 successive years (e.g., fiscal years 1983, 1984, and 1985), displaying various line items in summary form and broken out in specific detail showing all personnel, travel, representation, and all other direct program support costs. By line item and object class, this system will also show, for each fiscal year, the planned budget, the reduced budget after each continuing resolution period (say, December, March), expenditures against the reduced budget and the balance of funds for the remainder of the fiscal year.

With the Management Control System and this new budget tracking process, FCS expects to be able to relate cost with performance, and know the amount being spent for activities by district offices and overseas posts. This capability is expected to allow FCS to evaluate programs from a cost effectiveness point of view and conduct substantive financial analysis and planning.<sup>36</sup>

#### *b. Recruitment, training, and placement*

The FCS began its last major officer recruitment effort in July 1983. Since 1980, a total of four recruitment campaigns were held, during which time about 4,000 applicants were evaluated. During

<sup>36</sup> See Hearings, Appendix 2, pages 263-70 for "US/FCS Management Control System, FCS Quantifiable Achievements and Cost Analysis" for the first half of fiscal year 1983. As the charts indicate, the exercise is performed on a quarterly basis and attempts to manage and evaluate post resources and performance by using traditional input/output analysis.

the current campaign, 21 positions will be filled and, by the summer of 1984, the Commerce Department takeover of overseas commercial posts from the State Department will be complete. The FCS will then be staffed entirely by individuals recruited by Commerce. Not having to rely on large scale recruitment efforts in the future should measurably alleviate FCS' workload.

As noted earlier, the first recruitment campaign was marred by numerous difficulties resulting from the lack of preparation and headquarters staff. With additional time, experience, and staff, the ability of FCS headquarters to handle the last three recruitment campaigns has significantly improved. According to the former Director General of the FCS, the recruitment process has been refined each year resulting in the most demanding and rigorous recruiting effort of its kind in Government.<sup>37</sup>

The emphasis of the recruitment effort has shifted with time from hiring primarily individuals with previous Government service to hiring those with specialized private sector backgrounds. The current and final campaign is particularly interested in recruiting mid-level executives from the private sector with experience in export marketing for such technical product areas as computers, telecommunications, electronics, engineering consulting and design services, and mining and petroleum extraction equipment. After this campaign is completed, over half of the offices will have private sector backgrounds.

After an officer is selected, USFCS uses the "open assignments" system used by the State Department. In August of each year, announcements are sent to all officers listing vacancies coming up in the next calendar year. Officers whose tours are ending are invited to "bid" for assignments they are interested in. An assignment panel is convened from the various offices of the International Trade Administration. The panel which includes the Director General of the US/FCS, the Deputy Assistant Secretaries for International Economic Policy and Trade Development, and a representative of personnel management selects the most qualified candidates for the openings.

US/FCS is currently preparing a long-term career development model for all officers. Part of that model will include a developmental assignments path which will provide officers and the US/FCS guidelines for making assignments that will provide both officers and the Service with rational career planning.

Finally, in the area of training and education, US/FCS has developed a formal, systematic training program for new officers entering the Service. Almost all new officers spend a minimum of 6 weeks in training before they go to their first overseas assignment. Three weeks are spent at the Foreign Service Institute for an orientation and geographic studies program while the remaining 3 weeks are spent meeting with Government and private sector officials in Washington and two district offices. These meetings and briefings provide officers with the contacts and background they will need for the overseas work. FCS has also distributed to each officer a self-study course, developed under contract by the Univer-

---

<sup>37</sup> See also the assessment of the recruitment process contained in letter to the subcommittee from George H. Perlman, of Martin Marietta International, Hearings, Appendix, pp. 284-6.

sity of Maryland, covering such topics as analysis of business environments, business vocabulary, sources of finance, international marketing and sales, trade promotion, etc. For the FSN's an orientation to U.S. Industry program, dormant since 1980, was revived. This program brings approximately 10 professional Foreign Services Nationals (FSN's) (i.e., non-Americans employed by FCS overseas) to the United States for 1 month for discussions, briefings and field work in Washington and a number of domestic field offices.

*c. Evaluation and monitoring of overseas post performance*

After the FCS was created in April 1980 it did not have an effective means of evaluating and monitoring overseas post activities. The post Commercial action plan (PCAP), an annual projection of post Commercial activities for the upcoming fiscal year, was prepared along with semi-annual and end-of-year updates, but many Commercial Officers doubted that FCS headquarters ever referred to the information once it was submitted. Given the fact that there was little incentive for the posts to submit the information, the Commerce Inspector General found that as many as 25 percent of the posts were over a month late in submitting their proposed fiscal 1982 PCAP's and that most posts did not even bother to submit the required mid-year and end-of-year reports. FCS headquarters was therefore unable to monitor and evaluate the performance of many overseas posts.

There was some legitimacy to the overseas posts complaints that the PCAP and allied reporting requirements were not used by headquarters since the management system and staff needed to provide for a comprehensive and thorough evaluation of these planning and performance documents was not present. Also, at the time FCS headquarters had no formal role in evaluating their officers' performance overseas, basically relying on the on-site evaluation of the Ambassador or DCM.

The headquarters infrastructure to monitor and evaluate post performance was created with the realignment in February 1982 when four Regional Deputy Assistant Secretaries and their staffs in the Office of International Economic Policy were charged with supervising the day-to-day program activities of the overseas offices. This responsibility is, in fact, now shared with four Regional Management Coordinators set up within the Office of Operations to help monitor and evaluate post activities.

Both offices, with input from the Ambassador/DCM, are primarily responsible for the evaluation of all Senior Commercial Officers overseas. This evaluation is now tied in with the PCAP and therefore is expected to measure, in a concrete way, post and individual officer achievement of pre-established targets and goals.

The new performance evaluation system attempts to measure how well the post and by definition the Senior Commercial Officer fulfilled the following five "critical elements" found in the PCAP.

*Critical Element I: Planning and analysis.*—The objective is to develop and provide comprehensive Commercial reporting including the development of a Country Marketing Plan (CMP) which will highlight major opportunities for and impediments to increased U.S. market share in the host country, and to develop a Post Commercial Action Plan (PCAP) which will summarize the

programs and personnel activities and resources required at post to exploit these opportunities.

*Critical Element II: Program support for ITA and other USG agencies.*—The objective is to perform the FCS in-country activities and programs in support of the broad trade promotion and policy objectives of the U.S. Government.

*Critical Element III: Counseling services and outreach (special emphasis on small- and medium-sized businesses).*—The objective is to provide counseling services and conduct outreach activities primarily designed to increase the number of small- and medium-sized businesses exporting to or represented in the host country, and to assist American companies in general by providing a broad range of commercial information services.

*Critical Element IV: Major multipliers.*—The objective is to develop the range of contacts with private and Government entities which is required to provide overall support to the U.S. export expansion effort, and to assist the U.S. business community in dealing with the host country market.

*Critical Element V: Management, supervision and administration.*—The objective is to increase the effectiveness of FCS in-country by focusing management attention on the annual budget cycle, personnel operations and office administration, training needs and programs, personnel program evaluation and the planning, analysis and reporting required to produce the CMP/PCAP monthly progress reports and the annual event schedule.

This new system is a major improvement over FCS' previous systems, which did not provide the needed criteria and standards to adequately judge the quality and performance of the Commercial staff.

#### D. REMAINING REORGANIZATION AND STRUCTURAL PROBLEMS

##### 1. RELATIONS BETWEEN THE STATE DEPARTMENT'S ECONOMIC SECTION AND FCS AT U.S. EMBASSIES

Although they are diminishing, problems persisted until very recently in relations between State's Economic Section and the FCS at some Embassies.<sup>38</sup> The primary purpose of the 1980 reorganization was to elevate the status and importance of Commercial work by removing Commercial activity from the direct control of the State Department. This was to be accomplished by the creation of a Foreign Commercial Service under the control of the Commerce Department. However, for at least the first 2 years after the reorganization, the Commercial staffs at several posts lacked the independence from the Embassies' Economic sections necessary to fully control their work assignments. In addition, at a number of posts where FCS had attained sufficient independence, poor coordination between the FCS and State's Economic sections persisted, resulting in an inadequate exchange of information, overlapping and duplicative reporting and, in some cases, a failure to report at all since each group thought the other was performing the task.

<sup>38</sup> See extended discussion of this issue above at section B.4.c.

In response to the subcommittee's letter of July 27, 1983, asking among other things, for the current status of relations between the Economic and Commercial sections, FCS replied as follows:

In respect to our relationship with State, while there had been initially difficulties in achieving full adherence to the Memorandum of Understanding in such important areas as the attendance of the Senior Commercial Officer at the Ambassador's Country Team meeting, virtually all of the major problems have been eliminated and good co-operative working relationships established at the majority of Foreign Commercial Service posts overseas. As a result of the GAO findings which correctly identified the lack of USFCS independence from Embassy Economic Sections in some locations, a number of meetings between State and Commerce officials were held which culminated in the March 30, 1983 cable from Under Secretaries Van Gorkom and Olmer (copy attached) regarding the State/Commerce relationship. That message stated, "Any supervisory review of Senior Commercial Officer activities at any post should not be delegated below the DCM." USFCS management is satisfied that this reaffirmation is sufficient to insure the effective performance of our personnel at the majority of posts overseas.<sup>39</sup>

In its testimony before the subcommittee on September 27, 1983, the State Department representative testified as follows regarding the State/Commerce relationship:

While I would characterize relations between the Departments of Commerce and State as very good, a few issues remain to be sorted out. One which is a cause for concern in the Department of Commerce has been the independence within embassies of commercial sections. We have reminded posts that economic section chiefs may have coordinating—but not a supervising role—with respect to their FCS colleagues. This kind of coordination is traditional at certain of our larger posts where programs of diverse overseas agencies with economic functions—such as Treasury, Agriculture, Energy and Transportation, as well as Commerce—are carried on. I am happy to say that, at the majority of our overseas posts today, FCS has good, mutually supporting relationship with the other components of the mission.<sup>40</sup>

The committee agrees that current problems relating to the relationship between Economic and Commercial staff at posts abroad are diminishing and that remaining problems result largely from the fact that some individuals who have long been accustomed to the Economic sections having supervisory authority for Commercial activities remain in positions of authority. As these individuals retire, and as the FCS gains acceptance and respect among State Department Foreign Service Officers and Ambassadors, some of the

---

<sup>39</sup> Hearings, app. 1, p. 194.

<sup>40</sup> *Ibid.*, p. 18

more egregious early problems of Economic-Commercial section coordination and authority should disappear. In addition, elevating the status of the Commercial Officer to that of the Economic Minister in a few key posts would improve the relationship by making it clear that the Senior Commercial Officer is not subordinate to the Economic Minister. The continuing problems in the State/Commerce relationship deal largely with the allocation of tasks between State and Commerce (Section D-4 below) and the redeployment of personnel (Section D-5 below).

## 2. MINISTER-COUNSELOR STATUS FOR FCS

The State Department maintains Economic Officers with the diplomatic rank of Minister-Counselor at seven posts—London; Paris; Tokyo; Bonn; Rome; Riyadh, Saudia Arabia; and Cairo, Egypt.<sup>41</sup> No U.S. Commercial Officer has a diplomatic rank above Counselor. Host governments are obviously sensitive to diplomatic rank, and tend to view the Economic Minister as having greater authority and status than the Commercial Counselor. This is especially true since until relatively recently the Economic Officer did in fact have responsibility for Commercial work. Where the Commercial Officer has a rank inferior to the Economic Officer this perception is reinforced, often to the detriment of effective export activity. In addition, within those larger and busier Embassies where the Economic Officer outranks the Commercial Officer, there is a tendency for the Ambassador or DCM to assume that the Economic Minister will provide leadership to the FCS, thereby often eliminating the FCS from inclusion in important Commercial decisions and negotiations.

In its July 27, 1983, reply to the subcommittee's letter Commerce stated:

There remains, however, one area of difficulty which stems from the fact that at some posts overseas the Chiefs of Mission have continued to look to their Economic Minister to provide leadership to the Commercial Section which, in our view, tends to run contrary to the intent of Trade Reorganization Plan No. 3 of 1979.<sup>42</sup>

In order to elevate the status of the commercial function and to provide higher level access to host country officials and business representatives, Commerce has requested Minister-Counselor status for its senior representatives in Tokyo, London, Paris, Rome, and Bonn where State maintains Economic Ministers. At one time Commerce had also requested such rank for the Senior Commercial Officer in Mexico City and Ottawa, but it has withdrawn this request.

FCS believes, and the committee agrees, that the designation of Commercial Ministers in a limited number of major Embassies would help achieve increased visibility for FCS and would be a clear signal that the U.S. Government is committed to upgrading the importance of its Commercial effort overseas. Moreover, elevat-

<sup>41</sup> The diplomatic ranks below Ambassador are as follows: Deputy Chief of Mission, Minister-Counselor, Counselor, Attaché.

<sup>42</sup> Hearings, app. 1, p. 195.

ing the Senior Commercial Officer to the same rank as the Economic Minister would insure equality and eliminate problems of status at least in the few Embassies affected.

The Association of American Chambers of Commerce of Latin America (AACCLA) and the Asia-Pacific Council of American Chambers of Commerce (APCAC) have called upon the Department of Commerce to provide increasing visibility of USFCS officers both within the Embassy and in the local diplomatic community. APCAC recently adopted the following resolution:

The influence of USFCS Officers on local problem solving and the support they provide for U.S. initiatives demand adequate ranking for them at least comparable to our competitors for foreign markets.<sup>43</sup>

This view also seems to be shared by former Ambassador to the Federal Republic of Germany, Stoessel, who cabled the State Department in November 1980 regarding changes in the Economic-Commercial titles. Ambassador Stoessel objected that since the highest ranking Commercial Officer will carry the rank of Counselor, "this will suggest to the German and American business community as well as to the German Government, that we now attach less importance to Commercial work than we did before the trade reorganization."<sup>44</sup> Clearly Ambassador Stoessel recognizes that the host government as well as the American and host country business community attach significance to the rank assigned an Embassy official. If Commercial work is to achieve heightened significance, it should receive status equal to the Economic in markets where U.S. exports markets are large, growing and critical to our economic well-being.

A recent event in Japan points to the importance of assigning the Economic and Commercial Officers with at least equal rank in certain posts. In this instance, at the opening of a trade fair sponsored by several Japanese quasi-governmental organizations on November 1, 1983, the Japanese Minister of the Ministry of Trade and Industry (MITI) was scheduled to attend, and the Japanese Government requested that the U.S. Embassy furnish a U.S. representative of at least equal rank. Since the Senior Commercial Officer, who should have represented the United States in this commercial event, does not hold Minister rank, the United States was represented by the Economic Minister-Counselor. The FCS was not represented, thereby diminishing its status in the view of the Japanese Government and the quasi-governmental organizations sponsoring the event, Japanese External Trade Organization (JETRO) and Manufactured Imports Promotion Organization (MIPRO).

The State Department has rejected Commerce's request to appoint the Senior Commercial Officer to Minister rank in the five Embassies because it is concerned that other agencies represented at posts abroad, such as the Department of Agriculture, will also request equality of title. In addition, the State Department sought the views of the five Ambassadors in countries where the Minister-Counselor title was requested. In its testimony, State reported:

<sup>43</sup> APCAC resolution referred to in cable contained in subcommittee files.

<sup>44</sup> See app. 3, item A. p. 283, for a copy of Ambassador Stoessel's cable.

They unanimously rejected the proposal. None considered that Minister-Counselor titles would provide enhanced access to host government officials and businessmen. Style, energy and competence were considered far more important. All five also pointed out that Minister-Counselor titles are rarely used by the commercial representatives of competitor nations. Finally, they expressed real concern that designation of FCS officers as minister-counselors would lead either to morale problems among other agencies at post not receiving this title or to pressure on their part for similar treatment.<sup>45</sup>

There appears to be a difference of opinion between State and Commerce regarding which nations maintain Commercial Ministers. See Hearings, Appendix 3, pp. 280-83, for State Department letter and Commerce Department memo on this issue. According to the Commerce Department memo, "[A]ll our major trading partners have a Commercial Minister in London." The State Department finds, with respect to London: "Commonwealth countries (e.g. Australia, Canada and New Zealand) do have Commercial Ministers but other major developed or developing countries do not." There are several other differences between State and Commerce interpretations in Bonn and Tokyo. Nevertheless, the committee believes the argument as to whether other nations have Economic Ministers to be largely irrelevant. It is the intent and desire of the United States to elevate, to strengthen and to make more visible the Commercial function abroad to increase U.S. exports. One way to do this is to increase the status of the Commercial Officer and to make it clear to the host government and the host country business community that the Commercial function is not subordinate to the Economic.

The subcommittee's investigation on this issue included interviews with the Ambassadors in London, Paris and Rome, and with either or both the Economic and Commercial Officers in London, Paris, Bonn and Rome as well as several other former and present Senior Commercial Officers and private businessmen residing abroad. This investigation revealed no evidence that any other component of the Embassy has requested or would find it necessary to request higher status for its staff if Minister-Counselor rank were given to the Commercial Officer. Moreover, even if the higher rank should be requested, there is little basis for granting such a request. It should be noted that the Commercial Officer supervises relatively large staffs in the posts where Minister-Counselor rank is requested.<sup>46</sup> The Agriculture and Treasury Officers have much

<sup>45</sup> Hearing p. 19.

<sup>46</sup> The number of United States and FSN personnel in the posts where Minister-Counselor status is requested follow. In addition, the Senior Foreign Commercial Officer supervises the Economic Development Office (EDO) in the host country. EDO personnel is also listed. The figures are the number-on-board as of August 1983.

	United States	(EDO)	FSN	Total staff
Germany .....	13	(4)	44	61
United Kingdom .....	4		18	22
France .....	6	(2)	25	33
Italy .....	7	(3)	23	33
Tokyo .....	9	(2)	32	43

smaller staffs, often no more than one or two people, thus any request by them for higher status is less likely to be considered seriously. Furthermore, the evidence is compelling, in the subcommittee's view, that providing for equal rank for the Commercial and Economic Officers in these major posts would eliminate potential problems in the State-Commerce relationship. This is especially important because of the numerous areas in which commercial and economic work overlap. Unless there is equality in rank between the Economic and Commercial Sections there will always be a tendency for the senior official, currently the Economic Minister, who will also be the coordinating official, to decide allocations of responsibility. This is inconsistent with the terms of the Memorandum of Understanding. If the relationship between the Economic Section and the FCS is to work, it is important that it be a relationship among equals and that neither group be allowed to predominate.<sup>47</sup> It also would send a signal to the host governments and to the foreign business communities in these important markets that the United States assigns heightened importance to the commercial function and no longer assigns it a role subsidiary to that of the State Department representative. Finally, in the posts requested the importance of the posts and the degree of responsibility warrant that the Senior Commercial Officer have Minister-Counselor status. The committee therefore recommends that Minister-Counselor status be given to the Senior Commercial Officer in the five posts requested.

### 3. CONSULS GENERAL

The U.S. diplomatic presence abroad consists primarily of 136 Embassies plus about 98 Consulates and Consulates General.<sup>48</sup> At the larger posts, usually the Embassy in the capital city, Commercial Officers represent U.S. commercial interests within their country of assignment.<sup>49</sup> However, in many countries, Commercial Officers are also stationed in Consular offices outside of the capital as well, usually in important commercial cities. Consular offices extend to U.S. citizens and their property abroad the protection of the U.S. Government, but they also serve virtually as "branch offices" of the Embassies in some countries, often with a full complement of political, economic, commercial, administrative and agricultural officers, among others. There are several Consulates and Consulates General throughout the world located in cities which are primarily commercial centers (for example, Dusseldorf, Germany; Kobe, Japan; Sao Paulo, Brazil; Rotterdam, Netherlands; Antwerp, Belgium; Lyon, France; Sydney, Australia; Toronto, Canada, among many others). In some of these posts, Commercial

<sup>47</sup> GAO Report, p. 42.

<sup>48</sup> A Consulate General is a Consulate headed by a Consul General who is the chief diplomatic officer at the post. Other Consulates have various officers such as political, consular, economic, commercial, etc., but not a Consul General.

<sup>49</sup> At posts where Commercial work is less significant, the State Department still handles Commercial affairs and State Economic/Commercial Officers handle these tasks.

work is among the most significant aspects of the post's activities. Nevertheless, the top official in the Consulate, the Consul General, is almost invariably a State Department employee.

The committee is of the view that in appropriate cases, FCS career officers should be considered for appointment as Consuls General in regions and cities where commercial activity is significant. When the State Department handled commercial work before the 1980 reorganization, it recognized the significance of commercial activities for certain cities by maintaining a list of "Commercial interest posts" to which Foreign Service Officers who specialized in commercial work would be appointed as Consuls General. In addition, State and Commerce had an agreement on the exchange of personnel so that appropriate Commerce employees could be sent to these "Commercial interest posts." In effect, Commerce had a voice in assigning Consuls General to the posts on the "Commercial interest posts" list, and State agreed that it would not assign an officer to these posts as Consul General who did not have significant Commercial experience. This arrangement terminated when the Commercial function abroad was transferred to Commerce with the 1980 reorganization. The State Department has current exchange agreements with other agencies such as AID and USIA for the appointment of appropriate officers from these agencies to Consul General posts in exchange for appointments of FSO's to posts in USIA or AID.

In the past, the State Department has been reluctant to appoint a non-State Department employee as a Consul General on the theory that the CG is the Secretary of State's representative and must be responsible to the State Department, not another Executive agency. The subcommittee is not persuaded by this argument. It should be sufficient that the Ambassador in the country reports to the President and to the Secretary of State, and the CG, whether a Commerce, State, USIA or AID employee, is responsible in-country to the Ambassador. In the exceptional emergency situation, all U.S. Government employees should be relied upon to represent U.S. interests, especially with today's instant communications capabilities. In ordinary, non-emergency situations it makes good sense to have a Commercial Officer (or USIA, AID or Agriculture representative, as the case may be) head the Consulate in a city where a particular U.S. interest predominates.

In the case of commercial cities, often the local host country government and business community look to the Senior Officer at the Consulate for assistance. If this officer is a State Department Consul General who is superior to the Commercial Officer, as is now normally the case, the status of the Commercial function is diminished and the special expertise of the Commercial Officer may not be made available. This detracts from the purpose of the reorganization designed to strengthen the Commercial function and to expand U.S. exports.

The State Department is now willing to consider appointing qualified career Senior Commercial Officers to Consul General posts if the Commerce Department agrees to consider appointing qualified career Foreign Service Officers (FSO's) to appropriate

posts in the Commerce Department.<sup>50</sup> State has been reluctant to give Consul General posts to FCS without Commerce's agreement to accept FSO's on more or less a *pari pasu* basis. The committee is of the view that Commerce should consider this arrangement since many of these FSO's can provide useful backgrounds and experience for some of the geographical area, trade development, and export administration slots in ITA. The Department of State has similar exchange agreements with other agencies such as AID and USIA for the appointment of appropriate officers from these agencies to Consul General posts in exchange for appointments of FSO's. It would significantly strengthen U.S. commercial objectives abroad for career Senior Foreign Commercial Service Officers to be selected to act as Consuls General in important commercial interest posts.

For all of these reasons, the committee recommends that Commerce and the State Department undertake a comprehensive review of the appointment of qualified career Senior Commercial Officers to Consul General posts, and the appointment of qualified FSO's to appropriate posts in the Department of Commerce, with a view to entering into an agreement to exchange such personnel. This review should not be limited to Consul General posts, but should include the possibility of selecting qualified FCS officers for DCM and Ambassador posts as well. The same arguments for naming qualified FCS officers as Consuls General apply in the case of DCM, or Ambassador in certain posts. The committee is not persuaded by the contrary argument that aiming for DCM or Ambassador would somehow detract from FCS becoming a highly specialized Commercial corp. If a career FCS officer has the ability and experience to perform the duties of DCM or Ambassador, he or she should not be precluded from such appointment. To open the door to these appointments would in fact provide greater incentive to the career members of FCS and would demonstrate the heightened importance attached to Commercial work by the U.S. Government.

#### 4. FCS/STATE ALLOCATION OF RESPONSIBILITIES

Another unresolved issue between State and Commerce is the allocation of duties and responsibilities for various tasks and functions between Economic and Commercial Officers in the posts abroad. In its response to the subcommittee's July 27, 1983, letter, Commerce stated as follows:

A staff inventory of functions has just been completed and the first rough cut issued. The study shows that some USFCS officers have not taken over the full range of USFCS activities, and we intend to work with the Senior Commercial Officers to bring them into line with what is expected of USFCS operations overseas. Of greater concern is the lack of understanding and clarity surrounding the

---

<sup>50</sup> Apparently, there are a greater number of FSO's with Economic-Commercial experience than there are useful jobs for them to do, especially in Washington. In part, this results from the fact that many FSO's did not want to transfer to FCS and FCS did not accept all of the FSO's who wanted to join. State has now requested that Commerce again "open the window" for FSO's who want to transfer to FCS to be considered. Many FSO's have reconsidered their initial hesitation since it now appears that not only will FCS survive, but that it is now organized and operating to do an effective job.

responsibilities of the Economic and Commercial section in such areas as MTN monitoring, import administration matters and trade policy issues. The range of response in the survey indicates that USFCS posts, in some instances, are involved heavily in these issues, while in other countries, they have no involvement. We intend to work with State management to seek further clarification of the original cable of inventory of functions, which was issued in 1980 (copy attached of 80 State 92661 as retransmitted to USFCS posts in June 1982).<sup>51</sup>

The subcommittee's investigation supports these findings and also revealed inconsistencies from post to post in handling other matters, including visits from State or local or port authority delegations, Overseas Private Investment Corporation (OPIC) missions, Export-Import Bank issues, and requests for commercial and/or economic information from agencies such as USTR and ITC. In Bangkok, for example, OPIC missions are handled by the Economic Section while in Jakarta they are handled by the FCS. Since these are clearly trade and investment missions, they should be the responsibility of the FCS. There is also continued confusion regarding the responsibility for MTN monitoring. The original division of responsibilities between State and Commerce provided that Commerce would monitor trade opportunities resulting from the agreements and that State would monitor compliance with MTN agreements. This division has given rise to different interpretations and work assignments in different posts.

Problems also result from the lack of consistency in the use of communications channels. In some cases, such as OPIC, Eximbank, USTR, and ITC communications, and the large number of visits by State and local delegations, State Department communications channels are utilized. In other cases, Embassies are notified directly by letter or commercial cable of a visit by a State or local delegation, for example. Often the assignment within the Embassy for responsibility for these tasks is determined by the unrelated coincidence of the State Department being used to communicate, or a letter addressed to the Ambassador being sent without the usual reference copies. At a minimum, the State Department in Washington should share such communications with the IEP Commerce desks so that Commerce is aware of all communications to the posts abroad transmitted by the State Department which may impact on the allocation of duties between State and FCS. Embassies should also keep the Commercial staff informed where the method of communication circumvents FCS.

More important, the committee recommends that the Memorandum of Understanding between State and Commerce be renegotiated to clarify the allocation of functions between State and FCS at posts throughout the world. In particular, consistency is needed in handling (1) MTN monitoring; (2) Eximbank support; (3) OPIC support; (4) trade policy formulation; and (5) trade administration.<sup>52</sup> It

<sup>51</sup> Hearings, pp. 195-6.

<sup>52</sup> Trade administration functions have two components, (1) import administration and (2) export administration. Import administration refers to the implementation of those trade laws,

is sometimes contended that it is not necessary or desirable to impose consistency on the handling of these matters at all posts throughout the world. Both the State Department and FCS agree that some flexibility is necessary and desirable to allow the Ambassador or DCM to consider the particular needs and problems of the post at any particular time in allocating tasks which may not clearly fall into the Economic or Commercial realm. In the last analysis, however, the committee is of the view that a general agreement should be spelled out, with the understanding that sufficient flexibility must remain to resolve local problems. In short, flexibility should operate in a context of an agreed understanding. To do otherwise only perpetuates the present state of confusion.

The question of who handles pre-licensing checks and post-shipment checks in the administration of the export control laws is of critical and immediate importance at some posts because increasing demands on Embassy personnel in this area inevitably result in other responsibilities being sidetracked. The export administration laws prohibit the sale of certain U.S. manufactured goods to Communist countries and require licenses for the sale of other goods. Before a license is granted, it is often necessary to check that the consignee is a legitimate business which is not likely to trans-ship the goods to the Communist block. After a shipment is made, it is often necessary to conduct an examination to determine if a diversion has been made. Since the export administration laws are administered by the International Trade Administration of the Commerce Department, it has been assumed the FCS would handle pre-licensing checks and post-shipment investigations, especially since these tasks involving dealing with the host country business community and this is one of FCS' primary responsibilities. However, the responsibility for conducting investigations and enforcing these laws and the amount of resources devoted to them have become very extensive at certain posts.<sup>53</sup>

FCS supplied the subcommittee with the following statement of its views on its responsibilities for export administration activities:

By law, the Department of Commerce is charged with the administration and enforcement of the Export Administration Act of 1979, as amended, to further and protect our national security and foreign policy interests without impeding legitimate export trade. The pre-license and post-shipment checks conducted by the FCS, usually on-site, are commercial inquiries, rather than criminal investigations, to verify the bona fides (or lack thereof) of proposed and accomplished export transactions. These checks are critical

---

such as antidumping, and countervailing duty statutes, which are designed to protect domestic industry from unfair trade competition. Investigations under these statutes often require information from overseas posts on our foreign competitors. Export administration, on the other hand, seeks to prevent the export or illegal diversion of sensitive goods and/or technologies to our adversaries, again requiring various services from our overseas posts. Trade administration functions required 240 work weeks of FCS overseas staff in fiscal year 1983.

<sup>53</sup> Export enforcement activities which include pre-license and post-shipment checks required 46 work weeks of staff time in fiscal year 1983. These activities were expected to grow by 50 percent to 68 weeks in fiscal year 1984. Most of this work is centered in the industrialized countries of Europe and the Far East. The workload has become so great at some posts such as Sweden, Spain, and Austria, that ITA has sent specialists on temporary assignment at various times rather than rely on the Embassy staff.

to the function of facilitating and enhancing legitimate export trade. The great majority are concluded favorably, establishing the suitability of a foreign consignee to receive or continue to receive controlled U.S.-origin commodities and technology and resulting in host country contacts for the USFCS officers.

At some posts these activities require considerable officer man-hours to be fully supportive of this Commerce program. We are working with ITA either to receive additional support—positions and funding—to allow us to increase staff in those USFCS posts or to have export control specialists assigned to those posts where export control responsibilities may require substantial officers' time and where current staffing limitations preclude devoting adequate time and resources to this important national security program.<sup>54</sup>

Given FCS's limited resources, if FCS is required to do extensive enforcement and investigative work on export administration matters, its primary mission of export promotion must suffer. Moreover, there is a practical and philosophic question of whether export control investigations and enforcement should be handled by the same personnel (even the same agency) who handle export promotion. It has been argued that export control investigations inevitably make the host country business community suspicious of the investigators. If the investigators tracking violations of export laws one day are the same people who are attempting to encourage U.S. exports the next day, confusion and suspicion must result. The counter argument is that pre- and post-licensing investigations help the export promotion function by increasing knowledge of contacts in the host country business community. Moreover, honest businessmen will not be suspicious if they are doing nothing wrong.

In addition, investigations relating to products allegedly being dumped on the U.S. market have increased dramatically as competition among nations increases. The question is: Who in the Embassy should be assigned to these tasks? The responsibility for conducting investigations and enforcing import administration (anti-dumping and countervailing duty) laws has become so extensive at at least one post that ITA has assigned full-time personnel to handle these matters.

As a permanent issue, however, the committee is concerned that tasks relating to these laws be not solely assigned to FCS, since to do so would further detract from the time FCS has available to engage in export promotion activities. Simply because the export administration laws and antidumping and countervailing duty investigations are the Commerce Department's responsibility should not automatically require FCS personnel to do pre-licensing checks or antidumping investigations. The State Department is also responsible for foreign trade policy, and in certain cases it may be more appropriate for State Economic Officers to handle import and export administration investigations. The interim solution, and the one which the committee recommends is for the ITA to assign per-

---

<sup>54</sup> Hearings, app. 1, p. 227.

sonnel on a full- or part-time basis to posts where the trade administration burden warrants such assignment. Until this is done, the investigative and enforcement burden should be shared between the Economic and Commercial Section of the Embassies affected. In the long run, Congress should consider transferring the export administration function out of ITA and moving it to an agency such as the Customs Service whose primary task is more compatible with the export control function.

With respect to the handling of State, local and port authority missions, the committee's investigation revealed that these visits are increasing rapidly at some posts as more States and localities realize the necessity for local industries to export and open export development offices overseas.<sup>55</sup> Commerce is often unaware of visits by Governors and other local officials, since they are often initiated by a letter or other communication directly to the Ambassador, who may or may not involve FCS in the visit. However initiated, they are handled differently in different Embassies. In some instances the Economic Sections handle these visits; in others the Commercial Section; and in still others, they are handled jointly. Here again, the committee recommends that these missions be handled consistently with the obvious allowance for needed flexibility. At minimum, Commerce in Washington or at the post should be notified of visits of which the State Department is aware.

#### 5. REDEPLOYMENT OF FCS PERSONNEL OVERSEAS

GAO's October 1982 study found that FCS began operation with its overseas staff misallocated, both among and within countries. Some posts, such as those in West Germany, were overstaffed for the commercial workload; while others, such as Saudi Arabia and Canada, were understaffed. In addition, the 65 "FCS countries" did not include some relatively commercially important countries such as the Peoples Republic of China and South Africa, but did include such relatively insignificant commercial countries such as Uruguay, Zaire and Ghana.

In a number of countries, GAO found FCS also needed to disperse staff away from the capital cities and into outlying commercial centers since, in some cases, the commercial staffs were heavily concentrated in political capitals. Political capitals are often centers of commercial activity, but at times are not, such as in the case of Canberra, Australia or Ottawa, Canada so it is important that in order to obtain trade leads and other commercial information, FCS should also have staff in significant outlying commercial centers. Many visiting and incountry U.S. business representatives located in commercial centers do not have ready access to FCS staff, if they are located in the capital city hundreds of miles from these centers of commercial activity. In Mexico, for example, Commerce maintained a combined trade center and Embassy FCS staff

---

<sup>55</sup> According to a March 1981 survey by the National Governors' Association, 37 States provide the broad range of services offered by their Federal counterparts, including market information, general export assistance, and opportunities to participate in trade shows and missions. All but one of the 50 States allocate some funds to promote their involvement in international trade. The States spent about \$17 million in fiscal year 1980 for export promotion activities. GAO, "Efforts to Promote Exports by Small, Non-Exporting Manufacturers", Jan. 12, 1983, p. 12.

of 8 officers and 15 FSN's, all of whom were located in Mexico City. Although Mexico City is undoubtedly the most important commercial center in Mexico, accounting for about 50 percent of gross national product, such a staffing pattern ignored other important commercial centers such as Guadalajara and Monterrey. The latter city is the second largest commercial-industrial center in Mexico, accounting for approximately 25 percent of gross national product and serving as headquarters for 9 of Mexico's 50 largest firms and two of its largest private corporations. Another example of this type of misallocation is the FCS staffing pattern in France. FCS maintained a combined trade center and Embassy staff of 7 Commercial Officers and 25 FSN's in Paris, while deploying only one FSN position each at the consulates in Bordeaux, Lyon, Marseilles, Nice, and Strasbourg. This staffing pattern virtually ignores important commercial centers, such as the Lyon consular district, which accounts for approximately 25 percent of French gross national product and about 26 percent of French imports of U.S. products. Indeed, this district accounts for more U.S. imports annually than Austria, Denmark, Norway, and Greece.

As previously indicated, the number and location of overseas positions transferred from State to Commerce in the 1980 reorganization was not based on an entirely rational allocation. Understandably, the State Department wanted to lose as few positions as possible and the process was subject to a negotiation process based on often inadequate information. Some arbitrary lines were drawn, such as the decision to transfer to FCS only those FSN's who had been devoting 70 percent or more of their time to commercial work. Also, the number of posts given to FCS depended on whether there happened to be a Commercial Officer assigned to the post at a particular time. The number of positions transferred was decided in a similarly arbitrary fashion.

When GAO examined the deployment situation it found substantial misallocation. It found that the vast majority of FCS staff tended to be concentrated in the mature and developed markets of Europe while newly rich developing countries and the Far East tended to be underrepresented. There were also anomalies within Europe as well. For example, Ireland, with a larger market for U.S. exports than, for example, Czechoslovakia, is not an FCS post, but Czechoslovakia is.

In March 1982 FCS began a comprehensive study to develop an analytical model to guide the reallocation of staffing levels for Commercial Officers and FSN's. The study demonstrated the need for a substantial reallocation of FCS overseas staff. This study used numerous objective factors for each FCS country (such as current levels of gross national product, import market for manufactured goods, size of U.S. exports, and apparent domestic consumption), projections of future growth rates for those factors, and various subjective judgments on country developments that affect trading patterns.

The study showed that significant numbers of USFCS positions overseas were misassigned, either because markets had ceased to have the importance they once had to U.S. exporters or, especially in the developing world, because the U.S. had not kept pace with dynamic market growth and consequently were seriously under-

represented in important areas of growing potential for U.S. trade. Director General of the U.S. and Foreign Commercial Service, Richard T. McElheny, testified at the June 27, 1983, hearing as follows:

Management has identified almost ten percent of our overseas positions which should be redeployed from countries of lower to higher needs in terms of incremental export potential. Working closely with State Department management officials, we are roughly three quarters finished with transferring the positions identified in this initial reallocation exercise. This is, of course a long-term process and depends on a number of variables which we cannot fully control.<sup>56</sup>

As a result of FCS's internal study and the GAO report, Under Secretary Olmer and former Under Secretary for Management of the Department of State Kennedy on July 22, 1982, advise the Chiefs of Mission overseas of Commerce's intended reprogramming plans and invited their comments. The Department of Commerce reported the reactions to their proposals as follows:

Predictably, Ambassadors gaining positions were enthusiastic about the projected staff increases, with the exception of Ambassador Mansfield in Japan. In fact, several Ambassadors, including Hummel in China and Pickering in Nigeria, contended that the recommended increases were too few and long overdue. Equally predictable, those Ambassadors losing slots reacted, for the most part, negatively to Commerce's proposals.<sup>57</sup>

Since the reprogramming process was a zero sum game, requiring a corresponding decrease for each position increase, Commerce officials have spent an extensive amount of time negotiating position increases/decreases directly with affected Ambassadors. FCS reported to the subcommittee:

We have been successful in convincing most of the Chiefs of Mission of the merit of Commerce redeployment plans. Approximately three-quarters of the reprogramming decisions have been accomplished or will be concluded at the end of this summer's reassignment cycle. As an illustration of the success of the USFCS redeployment effort, Germany was staffed with 10 percent of the total available USFCS personal resources and included a total of 16 U.S. officers and 46 FSN's for a complement of 62. There were almost twice as many U.S. officers assigned to Germany as there were in Japan (16 vs. 9) and more USFCS officers in Germany than in the entire Middle East when we inherited the Service from State. We have been successful in real-locating five officers and six FSN's in Germany to other areas.

On the plus side of the ledger, we have established officer positions in Alexandria, Egypt; Kaduna, Nigeria;

---

<sup>56</sup> Hearings, p. 9.

<sup>57</sup> Hearings, Appendix 1, p. 163.

Douala and Yaounde, Cameroon; Johannesburg, South Africa; Brasilia, Brazil; Surabaya, Indonesia, and Jidda and Dhahran, Saudi Arabia and Osaka, Japan among others, where business interests were not being adequately covered.

While we recognize that it will probably never be possible to obtain optimum staffing for our commercial establishments overseas or move as quickly as we would wish to reprogram, given the consultation process with Ambassadors, we feel we have moved much closer to meaningful staff patterns, given overseas market opportunities. We plan to update the computer model each year to keep pace with market changes overseas.<sup>58</sup>

As a result of the negotiations between State and Commerce, the number of FCS countries was expanded by 4, bringing the total to 69. More significantly, the redeployment involved shifting 24 officer and 34 Foreign Service National positions in and among 45 countries. The agreement also stipulated that FCS personnel would be withdrawn entirely from eight countries. The Commerce Department now believes that its deployment of Commercial Officers around the world does not differ substantially from the deployment utilized by our major trading partners. See appendix 2, item C, p. 243.

The Commerce Department, of course, does not have a free hand in redeployment. The State Department has an interest when FCS proposes to either increase or withdraw American personnel from any FCS-designated country. As Jerome W. Van Gorkom, the former Under Secretary of State for Management testified before the subcommittee regarding requests to withdraw all Commercial personnel from any country:

The commercial work to be done in these countries may be seen to be quantifiably less or of lower priority than that in other countries. But it has not simply dried up. In every case, there are commercial objectives still to be met. Often an ambassador must then assign this residual commercial work to economic officers. The only other alternative—an unacceptable one—is to leave the work undone. The ambassador's dilemma is that he cannot augment the embassy staff since the commercial positions and resources have been transferred to Commerce, which in turn is proposing to transfer them to another country.<sup>59</sup>

Under Secretary Van Gorkom further testified that as a result of State entreaties, Commerce has postponed the withdrawal of its staff from several countries. However, he added:

A number of these positions exist only on paper, however, since no one is being assigned to fill them until their ultimate disposition is determined. Tardiness in filling other FCS positions is a related problem we are addressing with FCS management. Economic officers do their best to fill in, but long delays in filling FCS positions inevitably mean

<sup>58</sup> Ibid., p. 164.

<sup>59</sup> Ibid., p. 22.

that our trade promotion effort is less effective than it could be.<sup>60</sup>

GAO reported that FCS had initially been slow to correct the misallocation of its overseas staff and pointed to the lengthy procedures and numerous levels of review as reasons for the failure to act more expeditiously. Further, FCS reallocation proposals are not automatic. To the contrary, the procedures for transferring positions between countries are replete with pitfalls and can be lengthy. Before being implemented, an FCS proposal to transfer an overseas position must be approved by the (1) pertinent Commerce Department regional offices, (2) pertinent State Department regional bureaus, and (3) overseas missions involved.

In addition, all Federal agencies must work through the MODE (Monitoring Overseas Direct Employment) system to transfer positions among countries. The MODE staff, which is responsible to the State Department's Under Secretary for Management, collects and tabulates data on the number of personnel assigned to diplomatic missions, and, until recently, evaluated and adjudicated staffing disputes between State's regional bureaus or missions and other Federal agencies. Numerous agencies, including FCS, have complained that State was abusing its position in the MODE system by vetoing transfer proposals opposed by the regional bureaus and/or missions. A policy change went into effect on June 2, 1982, which provides that disputes over staffing at overseas posts be referred to the Secretary of State or his designee for resolution. Assuming no resolution by the Secretary of State, the dispute is presented to the President through his Assistant for National Security Affairs for resolution. Nevertheless, State's regional bureaus and overseas missions could raise objections to the transfer of an FCS Commercial position and have already done so.

The Ambassadors affected by personnel changes may also raise objections, and, as indicated, some have also done so. In the case of Japan, Ambassador Mansfield has refused to accept two additional FCS officers in Tokyo although both State and Commerce agree on the need to add positions to an increasingly important trade partner. His objections are based on what he believes to be an already extensive U.S. presence in Japan, on a shortage of space in the Embassy, and his belief that foreign nationals can do the job at a far lower cost. He has, consequently, agreed to two FSN's in Tokyo and the placement of an FCS officer in Osaka. In Portugal, the Ambassador refused to give up his Commercial slot and the post has now been filled with an FCS officer. At present, negotiations are pending to eliminate FCS posts in Prague, Czechoslovakia, and in Belgrade, Yugoslavia. Unfilled FCS vacancies exist in Bolivia, Honduras and Czechoslovakia.

The committee recommends that the State Department should make greater efforts to encourage the appropriate current Ambassadors to accept those decisions agreed to by State and Commerce to either terminate or add Commercial positions at certain Embassies. If agreement cannot be reached, FCS should avoid de facto re-deployment by refusing to fill vacancies in countries where it

---

<sup>60</sup> Ibid., p. 22.

wishes to remove a Commercial slot. All vacant positions should be filled as soon as possible.

#### 6. ADMINISTRATIVE AND REPORTING BURDENS

In an effort to impose management control, to assess resource allocation and to plan and follow up on overseas activities, FCS has instituted detailed reporting from the posts in the form of a Country Marketing Plan/Post Commercial Action Plan (CMP/PCAP) as well as regular quarterly statistical and monthly reports. The PCAP is the latest in the evolution of a long process of targeting goals and reporting on Commercial activities overseas. It requires that the year be divided into post work weeks, sets post goals in five critical areas divided into 40 program activities (reduced from 53 program activities in fiscal year 1983) and then attempts, by quarterly and monthly reporting, to measure whether the post is meeting the goals set. It is the work plan and tool for resource allocation for the various posts.<sup>61</sup>

Post goals are set in accordance with five "critical elements" as follows, together with the percentage of time allocated to each function:

- Planning and Analysis, 5 percent;
- Program Support for ITA and Other USG Agencies, 30 percent;
- Counseling Services and Outreach, 50 percent;
- Major Multiplier Support, 10 percent; and
- Administrative Management, 5 percent.

The Planning and Analysis function, which comprises 5 percent of USFCS resource allocation, calls for a country strategy assessment to be prepared by each Senior Commercial Officer which translates the U.S. trade objectives in that country into a systematic game plan to achieve U.S. export and investment objectives. In addition to the country assessment, FCS expects its officers to identify upwards of a dozen U.S. industries which have high potential in individual markets and provide a comprehensive mini-market study of that industry's potential in the country. These studies are used by Commerce and other Government officials for planning purposes, but are also expected to be useful to the business community in directing their marketing efforts to countries with maximum potential for their products.

An estimated 30 percent of posts' resources is devoted to support of ITA and other Government agency programs. This support ranges from making appointments for visiting U.S. trade missions, to conducting pre- and post-licensing checks for ITA, to arranging U.S. exhibitions overseas and other direct trade promotion programs. In addition, Foreign Commercial Service Officers serve as the eyes and ears of the U.S. exporting community and provide commercial intelligence support in the form of World Trade Data Reports (WTDR's) and the Agent/Distributor Service. Over 5,000 WTDR's were developed in the first 6 months of fiscal year 1983. These documents provide credit information on potential suppliers

<sup>61</sup> See Hearings, app. 2, pp. 233-242 for memoranda regarding instructions for filing the 1983 and 1984 PCAP.

and representatives and also supply leads for U.S. companies interested in entering new markets. In addition to backstopping Commerce efforts overseas, the USFCS supports programs of the Eximbank, the Overseas Private Investment Corporation, the National Oceanic and Atmospheric Administration, the U.S. Trade Representative, the International Trade Commission and NASA's space shuttle marketing program.

FCS expects that a full 50 percent of all overseas effort is expended on the critical element labeled "Counseling Services and Outreach." Overseas personnel were expected to conduct approximately 50,000 individual counseling sessions during the first 6 months of fiscal year 1983, 30 percent of which were estimated to be in support of new-to-market and new-to-export companies. FCS has informed the subcommittee that the number reported by its posts ran much higher—62,000 sessions reported during the 6-month period. Finally, with respect to counseling, FCS reports to the subcommittee:

We have directed that our overseas personnel spend an increasingly large percentage of their time on out-of-office outreach activities. By establishing the goal of 50 percent of the post activity devoted to this critical element, we have increased the amount of time that officers spend in the field; this provides direct benefit to American exporters in the form of better market research, improved commercial intelligence, and a growing number of trade and investment opportunities which are transmitted back to Washington and to our District Offices for dissemination to the international trading community as well as potential exporters.<sup>62</sup>

Although, as indicated, FCS allocates 50 percent of its overseas staff resources to counseling and outreach, there are substantial indications that the U.S. business community is insufficiently aware of the availability of FCS' services. For example, one businessman informed the subcommittee as follows:

U.S. industry is not sufficiently aware of the changes which have occurred in the Foreign Commercial Service and of the excellent FCS program which is now in operation. Some articles have appeared, but key FCS personnel should devote much more time to selling their program to industry by speaking before industry groups and actually visiting several company operations at the international headquarters. There must be a better dialogue between the FCS leaders and international company executives. A modest travel allowance should be allocated for these very important educational processes.<sup>63</sup>

<sup>62</sup> Hearings, app. 1, p. 217.

<sup>63</sup> Letter contained in Hearings, app. 3, pp. 285-6, from George H. Perlman, Vice President, Martin Marietta International. FCS works closely with the regional organizations of the American Chambers of Commerce by holding three annual joint meetings with the local chambers and all Senior US/FCS Officers in Europe, Africa and the Middle East; Asia; and Latin America. These meetings and regular contacts between FCS and the local American Chambers of Commerce provide an opportunity to discuss FCS' program and broader problems and prospects. However, they do not result in making companies not already represented abroad aware of FCS' program.

With respect to the category labeled "Major Multiplier Support," FCS reports:

We have targeted some 10 percent of support overseas to work with American Chambers, State Development Agencies and other multipliers such as banks, freight forwarders and service organizations. American Chambers are located in most countries in which the Foreign Commercial Service is represented, and their members represent the top U.S. companies doing business abroad. As such, they constitute an important constituency for the Foreign Commercial Service; and our officers regularly participate in their deliberations—many of them serve as members of Chamber boards and act as chairmen of trade subcommittees. Additionally, our personnel overseas are working with State Development Agencies on the planning and implementation of large numbers of state-sponsored trade missions and exhibits. USFCS personnel provide the identical service to such state-organized events as they do to regularly organized Commerce trade shows; and as these State agencies increase their trade efforts overseas, our efforts on their behalf will undoubtedly increase.

Working through U.S. banks and freight forwarders overseas, the U.S. and Foreign Commercial Service officers regularly participate in seminars designed to increase awareness of the U.S. technology and to acquaint overseas buyers with the advantages of doing business with the U.S.<sup>64</sup>

Finally, FCS aims at spending no more than 5 percent of its overseas effort to management overhead, such as budget preparation, employee supervision, training, career development and other housekeeping functions. FCS reports:

A conscious effort is being made to reduce the administrative paperwork requirements to permit our field personnel to devote their maximum effort to assisting U.S. exporters and investors.

Based on lessons learned this year, the CMP/PCAP for FY 1984 has been significantly simplified. The FY 1983 process required posts to allocate their staff resources among 53 program activities, and to track these over the course of the year. The FY 1984 process will reduce the number of such program activities to 40, in order to simplify record keeping and report preparation by the posts. We believe that sufficient specificity will be retained to meet USFCS program management requirements and the informational needs of other organizational units which utilize the system.<sup>65</sup>

In addition to the CMP/PCAP, each post is required to prepare a relatively short monthly narrative report which highlights post activities. This report asks for information on principal accomplish-

<sup>64</sup> Ibid., pp. 217-18.

<sup>65</sup> Ibid., p. 218.

ments, "success stories" (concrete reporting achievements), and significant problems encountered. The report also asks for information on the number of U.S. firms counseled concerning export opportunities, and the number of foreign (host country) firms counseled concerning U.S. products and services. Posts also prepare a quarterly statistical report which recaps the allocation of staff resources among the various program activities, and which provides quantitative information on accomplishments in a number of areas.<sup>66</sup>

In addition to the CMP/PCAP and regular monthly and quarterly reports, FCS officers must contribute to various other reports prepared by posts abroad. Much of this reporting activity is carried out under an interagency effort called the Combined Economic Reporting Program (CERP). This is a cooperative effort involving State, Commerce, Agriculture, Treasury, Interior, Labor, Energy, the Federal Reserve Board, and intelligence entities. To illustrate FCS involvement in the CERP program, FCS supplied the subcommittee with a list of reports prepared under the CERP program by two typical posts. In the case of Rome, Italy there are 6 such reports a year, 3 annually, 2 semiannually and 1 quarterly, for a total of 11 submissions. Abidjan, Ivory Coast prepares five CERP reports annually and provides input into one additional report.

Based on its investigation, including interviews with many present FCS and ITA officials, the committee finds that the reporting and administrative burden imposed by FCS on its posts is still excessive. FCS allocates 5 percent of its overseas efforts to management overhead and an additional 5 percent to the planning function and to the preparation of the CMP/PCAP. Almost every FCS officer interviewed estimated that about double these estimates are actually spent on these activities, thereby detracting from the time available to engage in the primary mission of promoting exports. The 1983 CMP/PCAP from Kuwait states:

The PCAP/CMP requires too much time to prepare because in its present form it is too elaborate and to a certain extent repetitive. Based on our experience with the PCAP/CMP, it will take eight staff weeks to prepare unless it is simplified.<sup>67</sup>

Other observers have commented on what they believe to be excessive administrative requirements. In one of his cables to the Commerce Department, Ambassador Galbraith in Paris expressed concern that "the FCS is continuing to over-administer itself. I don't think such activity is necessary; it is costly in terms of time taken away from real work \* \* \*" After citing a few relatively insignificant examples, Ambassador Galbraith continued: "Beyond these examples, I continue to be concerned by the FCS' tendency to worry more about its own administration, rank and prerogatives than about the substance of its work."<sup>68</sup>

In its October 1982 report, GAO found that:

<sup>66</sup> See Hearings, app. 1, pp. 233-42, for forms used by posts in preparing quarterly reports and instructions for monthly reports.

<sup>67</sup> Copy of Kuwait 1983 CMP/PCAP contained in subcommittee files.

<sup>68</sup> Copies of Ambassador Galbraith's cables contained in subcommittee files.

The commercial staffs overseas continue to devote too much time to reactive programs and activities, limiting the time available for active promotion of exports. In particular, many posts devote an inordinate amount of time to planning and other administrative work as well as to certain Commerce information programs.

GAO reported further:

We heard numerous complaints about the lack of time and money available for developing and nurturing host-government and business contacts. For example, a senior commercial officer told us that to be effective he should spend about 50 percent of his time seeking trade and investment opportunities for U.S. businesses but that he spend only about 5 to 10 percent on this activity. A chief FSN commented that the number of trade opportunities, given the commercial importance of her area, should ideally approach 200 a year. However, she was able to make only two or three business calls and to report only 17 trade opportunities during fiscal year 1980.<sup>69</sup>

GAO recommended that FCS reduce the level of detail required in the PCAP in order to improve the planning process and to decrease the administrative burden placed on overseas personnel. FCS responded as follows:

The Post Commercial Action Plan (PCAP) process for FY 1984 is being considerably simplified to reduce the level of detail. Specifically, the fifty-three program activities being tracked (planned for and reported on) in FY 1983 will be reduced to about thirty-five for FY 1984. The number of outputs (accomplishments) to be reported will be reduced from thirty to twenty or twenty-one. Thus the PCAP start of year estimates and quarterly reports will be numerically simplified by about one-third. Since posts will also have correspondingly less back-up record keeping to perform, time savings in total PCAP document preparation should approach forty to fifty percent. This reduction in the level of detail should not adversely affect the usefulness of the PCAP as a management tool for both posts and headquarters.<sup>70</sup>

Finally, then Director General McElheny testified, regarding the reporting as follows:

As a businessman, I am not surprised at the criticism which has been levied by a number of our officers overseas concerning the reporting requirements of this new system. The relationship between any headquarters management and a far-flung field operation is always going to experience a certain degree of dynamic tension; this is natural between the central planners and the overseas operators

---

<sup>69</sup> GAO report, p. 43.

<sup>70</sup> FCS response to GAO report contained in subcommittee files.

and implementers. Headquarters wants to control everything, and field operatives want total freedom.<sup>71</sup>

FCS officials are of the view that there is a need for targets in precise, measurable terms if an effort is going to be made to measure results and assess responsibility for accomplishments and failures. They believe that this is the norm in the business world where regional managers have no problem in continually reporting results to headquarters. They also believe that the resistance to reporting among many FCS officers is a carryover from the largely decentralized State Department system under which relatively little non-substantive reporting was required. At the same time, they believe that the old system cannot be justified where, as in the case of FCS, a measurable service is being performed and where Congress and the public will increasingly demand results for tax dollars spent.

Although it is possible that the current reductions and simplifications which the reporting requirements are currently undergoing will reduce the excessive administrative and reporting burden to some extent, the committee recommends that efforts be increased to simplify and reduce these requirements. The committee has been advised by IEP officials and by some Regional Management Coordinators that some of the monthly reports go largely unread. Another FCS official agreed that the quarterly statistical reports had limited utility because they rely solely on numbers ("bean counting", this official called it) without any assessment of the type or quality of the activities counted. For these reasons, the committee also recommends that consideration be given to eliminating the quarterly statistical report in order to lessen the already heavy reporting burden imposed on overseas posts.

Another issue relating to the PCAP and quarterly statistical reporting process is whether FCS has any effective method for testing the accuracy of the data submitted. As indicated, the process requires detailed reporting of items such as the specific number of counseling sessions held and a division of staff work weeks spent on literally dozens of different categories. FCS must rely largely on the honor of the reporting personnel because it has no other way of testing the accuracy of such data. The Commerce Department Inspector General has limited resources and a very large Department to oversee, so it is not a reasonable alternative to expect that IG audits will maintain the accuracy of field reporting. In fact, FCS has no established mechanism in place for conducting oversight and audits of its posts abroad. The Regional Management Coordinators might serve this function, but they have virtually no staff, nor are the IEP country desks organized to perform an oversight and audit function. The State Department, on the other hand, with a long history of running posts abroad, has a well-established and highly regarded internal audit mechanism which might serve as a model for a similar system to be established by FCS. The committee recommends, consequently, that FCS should establish an internal audit mechanism based on the system used by the State Department to audit posts at least once every 5 years.

---

<sup>71</sup> Hearings, p. 10.

Finally, the reporting requirements lead to the "bottom line" question of how to assess the quality of field activities and their impact on U.S. exports. FCS officials agree that we need a more effective program evaluation method for measuring the impact of various FCS activities. Also, virtually all observers agree that the relationship between FCS' activities and U.S. exports is extremely difficult to measure with any precision. There is simply no exact answer to the question of how would the kind and level of U.S. exports be affected if there were no FCS. The committee is of the firm belief that FCS performs a necessary and useful function and that its efforts add substantially to U.S. exports, especially by aiding businesses which are new to the export market. Moreover, substantial anecdotal evidence exists of specific examples of how FCS has assisted particular businesses in particular markets. However, no valid statistical evidence can now be marshalled to assess the overall cost benefit of the Government's export promotion activities. The committee believes an effort should be undertaken to determine whether a valid measure can be found to make these important determinations. It consequently recommends that the GAO undertake a study to determine whether the benefits of FCS' activities can be measured in terms of increased U.S. exports, and, if so, to supply the committee with an assessment of what those benefits are.

#### 7. INTERNAL COMMERCE REALIGNMENTS SINCE 1980—CONTINUING CONCERNS

##### *a. Communications*

The February 1982 realignment which merged the U.S. and Foreign Commercial Services also addressed the question of the proper channels for post/headquarters communications. Prior to the realignment, the overseas Commercial posts lacked an effective contact point in Washington which could represent their interests. As a result, the overseas posts faced uncoordinated, burdensome, and often conflicting requests for information from Commerce headquarters, since any one of several different headquarters organizations within Commerce could independently task an overseas post.

The realignment addressed this problem by establishing under the Assistant Secretary for International Economic Policy four regional offices, each headed by a Deputy Assistant Secretary. The Deputy Assistant Secretaries are now the contact points for the FCS posts in their respective regions. All substantive communications with the posts are expected to go through and be managed by the Deputy Assistant Secretaries, enabling them to control and coordinate the administrative workload placed on the posts from various Commerce offices and other Government agencies.

Despite the progress that has been made with the realignment, there are some continuing difficulties. While the realignment in February 1982 assigned regional desks at Commerce as central contact points for all substantive communications with the posts, some non-Commerce Government agencies such as the International Trade Commission, United States Trade Representative, Overseas Private Investment Corporation and Eximbank communicate directly with the FCS posts overseas via State Department communi-

cation channels or private telex. Given the numerous client groups which the FCS must serve overseas and the limited time available for the overseas staffs to service all demands, it is important that there be a central clearinghouse in Washington for any work assignments levied on the overseas staff. Besides allowing the regional desks to coordinate and monitor the reporting burden of the overseas posts, this clearing process allows the desks to screen requests for information to determine if such information is already available at Commerce Headquarters or from other Washington sources. In this way the desks could potentially obviate otherwise unnecessary overseas reporting.

The only exception to the requirement of desk clearance on overseas communications should be those communication links established between the Commerce district offices in the United States and the overseas posts on routine export promotion programs such as the Agent Distributor Service and Trade Opportunity Programs. For these programs there is no need for Washington clearance and the advantages of direct communication links far outweigh any potential disadvantages. It is nonetheless important that even in these cases information copies of communications be sent to the regional desks so that they be apprised of the post workload. District communications of a non-routine nature requiring above a certain threshold of time to complete should continue to be cleared through Washington.

Also in the area of communications, the Commerce Department has scaled back appreciably its proposed World-Wide Information and Trade System (WITS). WITS was intended to be an automated trade information system equivalent in operation to an airline information system with all US/FCS offices having access to one another's data by means of a massive computer hookup. Unfortunately, original cost estimates for the system were grossly understated.

The Commerce Department abandoned the WITS project in favor of a much more modest effort currently known as the Automated Information Transfer System (AITS). The primary objective of AITS appears to be the automation of post records and information by the use of computers and word processors. Existing communication channels will continue to be used.

According to a Commerce Department representative, most of the budgetary cost for the ill-fated WITS program went for computer hardware and will therefore be used for the scaled back system. While no estimates were provided as to the unsalvageable budgetary waste which went into the WITS system, the loss was termed marginal. The total budgetary cost of the WITS and AITS system is estimated to be \$12 million.

Even with the scaled back AITS system, however, it remains to be seen if US/FCS personnel will be adequately trained and prepared to use the sophisticated computer hardware being provided.

#### *b. Disparities between USCS and FCS systems*

In addition, despite the consolidation of the overseas and domestic export promotion arms of Commerce, the promise of a highly integrated Commercial service encompassing both the U.S. Commercial and Foreign Commercial Services has yet to be achieved. There is a continuing disparity between Civil Service and Foreign

Service personnel, resulting from their dissimilar backgrounds and the very different personnel systems under which they operate. Coordination between the two units is also apparently in need of improvement. According to a memorandum on USCS/FCS relations, US/FCS Headquarters has not been merged in any operational sense. At the functional level, coordination is minimal and, at least from the USCS perspective, integrative thinking is totally absent.<sup>72</sup>

A truly integrated Commercial Service may in the long run require the development of a career professional corps encompassing the staff of both the USCS and FCS. A similar action was taken when the Foreign Agricultural Service was organized in the Agriculture Department. Since the new Foreign Agricultural Service was to consist of both Civil and Foreign Service personnel it was decided to eliminate the distinction and establish one professional corps. We recommend that Congress study the desirability of establishing an integrated personnel corps in the Commerce Department consisting of all US/FCS employees, whether they serve abroad, in headquarters, or in U.S. district offices.

*c. Regional management coordinators*

As noted earlier, another management change occurring at the same time as the realignment was the establishment of four regional management coordinators (RMC) set up within the Office of Operations to monitor and evaluate overseas post activities. Besides having primary responsibility over the semi-annual and annual evaluation of the Senior Commercial Officers in the field, they, in effect, act as the advocate or ombudsman for all the overseas posts, representing their interests in Washington. RMC's also share responsibility with IEP Deputy Assistant Secretaries and country desks in managing overseas commercial activities. Responsibility for these functions was largely ignored prior to the creation of the RMC's.

The RMC's, therefore, play a key role in the smooth functioning of post activities and of Washington's ability to keep abreast of developments overseas. In fact, their contribution to improved FCS operations can be enhanced if certain standards are adhered to. These include minimum tours of duty and rank, previous field experience, and regular post visits.

First, since a fairly substantial learning curve is required for performing the duties of RMC's, these positions should be looked at as more than a way station between overseas assignments. The tendency to look at headquarters assignments in this way was very prevalent during FCS's early years. There is some evidence that this problem continues. One RMC was making active preparations for his new assignment overseas, sometimes involving extended absences, only about 1½ years after assuming his RMC responsibilities. The importance of the RMC's giving their undivided attention to their assignments takes on even greater proportions since they have very limited staff to backstop them if the need arises. A practical solution to this problem would be to require 3-year assignments for the RMC's. The first year would overlap with the exiting RMC during which time the new staff person can learn the new

<sup>72</sup>See app. 2, pp. 257-60.

position and also backstop the exiting RMC, who at times may be preoccupied with his new assignment. The second year would be handled entirely by the incumbent RMC who would then, in his third year, familiarize the entering RMC with his new assignment. In addition, FCS should consider assigning additional headquarters staff to RMC offices.

Second, two key qualifications which should be mandatory for all RMC's are senior rank and previous overseas experience. Since RMC's manage overseas posts, the need for previous overseas experience is readily apparent. The need for RMC's at the highest rank is necessary for two reasons. One, since the RMC's will be critiquing and evaluating the Senior Commercial Officers overseas, for their evaluations to have credibility, the RMC's should be, at least, of equal rank. Two, and most importantly, the impartiality of the RMC could be compromised if, being of a lesser rank than the Senior Commercial Officer he is evaluating, it is possible that he may find himself being supervised and rated by the same officer sometime in the future.

Finally, it is important that the RMC's make annual visits to all the posts for which they are responsible. Besides the fact that this is one way of verifying data and information reported by the posts, which may otherwise be unverifiable, it affords the RMC's the opportunity to talk to the Embassy staff and local and American business community representatives in order to better evaluate the performance of the Senior Commercial Officer.

#### *d. Export promotion services group*

In early 1984 the Commerce Department consolidated responsibility for all export promotion services into one Export Promotion Services Group. Before the consolidation, Commerce identified four different units under the Director General of the US/FCS and the Assistant Secretary for Trade Development with major business related duties. Each had its own accounting system and product line and little effort was being made to identify the relationships among the various products. There was also increasing evidence of different units' products competing with one another. This fragmentation of responsibility made it difficult to develop a coherent business strategy. Commerce was not approaching the business community in a coordinated way with a full line of export promotion services.

By combining the various units responsible for export promotion services Commerce hopes to address these deficiencies. Besides managing the various export promotion programs, the group will:

- Review existing products/services from the perspective of privatization, pricing, subsidy and ITA program priorities;
- Restructure the product line on the basis of this review;
- Examine new product possibilities;
- Determine prices based on uniform costing principles, market clearing prices and explicit subsidy decisions; and
- Review and approve sales goals/programs, financial plans, promotional campaigns, advertising, production and distribution plans, and similar business plans.

According to Commerce Department representatives, their goal is to offer a full product line of service on a cost-recovery basis while at the same time developing the export potential of both the prospective and actual U.S. exporter.

While Commerce currently charges a fee for many of its services such as World Trade Data Reports (WTDR), Agent Distributor Service (ADS) and Trade Opportunity Lists, among others, it has been variously estimated, depending upon how costs are defined, that the subsidy element for these services is anywhere from \$3 to \$11 million. By examining the actual cost to the U.S. Government of delivering these services, Commerce hopes to bring service revenues and costs more into line.

At the same time it is pursuing full-cost recovery, Commerce is turning over to the private sector several services or products for which there are private sector alternatives. By pursuing both policies, the Commerce Department is reducing or eliminating the subsidy element now found in their export services.

While the committee supports these steps in terms of curbing unnecessary Government expenditures and achieving economy and efficiency in Government, we are concerned that, if carried too far, these policies can be counterproductive. As previously discussed, exports by small- and medium-sized firms, many of which are currently not in the export market, provide a great opportunity for increasing the U.S. export potential. These firms can be dissuaded from entering the export market if the initial costs are too high and results uncertain. Moreover, the total projected cost recovery appears to be minimal in light of the costs of administering the program and the potential loss of exports. These concerns were recently echoed by Secretary Baldrige when he wrote that Commerce has a responsibility to serve those small- and medium-sized businesses which cannot or will not pay the higher cost services of the private sector.<sup>73</sup> The committee supports the Secretary's views and therefore hopes that they will be reflected in all future decisions made on full cost-recovery and privatization issues. In addition, a comprehensive cost-benefit study is needed. The committee therefore recommends that FCS should prepare a comprehensive cost-benefit analysis, including a study of the expected impact of new fees on the use of FCS products and services, particularly by small- and medium-sized businesses; the expected dollar return to the U.S. Treasury from imposing various levels of cost recovery; and any potential problems in achieving expanded exports which may arise from the imposition of full cost recovery. A copy of such study would be supplied to the House Subcommittee on Commerce, Consumer, and Monetary Affairs by September 15, 1984.

#### 8. EXTENSION OF LIMITED NONCAREER APPOINTMENTS

At the September 27, 1983, hearing the following interchange between Chairman Barnard and then USFCS Director General McElheny took place:

<sup>73</sup> Hearings, app. 1, pp. 151-2.

Mr. BARNARD. One last question. Do any of you gentlemen foresee any legislation that would be in the offing to assist in the program or correct some problems?

I know that in 1985 the statutory exception to the career service will expire. Under that exception, 10 limited appointments were available outside of the career service, and I understand that you do have some experienced businessmen working in Peking, Tokyo, Brussels, and Bonn, but this does expire in 1985. Do you, Mr. McElheny, see the need to extend that program or to change it? Or any other legislation?

Mr. McELHENY. Mr. Chairman, I would very much like to see that extended. It is a very good continuation of the concept of balancing a mix of Government background people with private sector people. These are the senior positions that could be rotated in different posts around the world. We have been able to attract some very fine men, both midcareer who will say, "Look, I don't want to work for the Government for my entire life, but I wouldn't mind helping for 3 or 4 years," or a man who says, "I have been working in the private sector for 30 years; I would like to retire early and cap my career with a contribution to the country, to the Foreign Commercial Service."

I have found men and women in both categories. It would be a shame to lose that option of being able to bring in some experienced people, senior people on a short term basis and let them return either back to the private sector or go to retirement. If we lose that authority—and it is terminated in 1985—it is a real loss to the country. I would hope that we could extend that legislation with a very small change in the language. It would give us flexibility that we need, and it would be good for the Commercial Service.<sup>74</sup>

When FCS was created in 1980 it received 162 Foreign Service Officer positions overseas, but only approximately 39 incumbent State Department officers transferred to the Foreign Commercial Service. In order to staff up quickly to fill this gap and to bring on board experienced individuals who were able to make an immediate contribution, FCS sought and obtained an exception to the limitation on the number of noncareer officers permitted in the Foreign Commercial Service. Although FCS has by now recruited the majority of officers who form the FCS officer corp, blending the transferees from State and other Government agencies with candidates from private sector backgrounds over two recruiting cycles, it seeks an extension of the provision of law allowing FCS up to 10 noncareer Senior Foreign Service Officers. At the beginning it was necessary to go outside of the career system to staff quickly, and now FCS maintains that flexibility is needed to permit it to fill special needs.

The Foreign Service Act of 1980 (Public Law 96-465, October 17, 1980) provides the authority for the appointment of noncareer or

<sup>74</sup> Hearings, p. 43.

limited appointments at the senior and mid-levels of the Foreign Service. The act permits the agencies authorized to use the Foreign Service personnel system, including the Department of Commerce in the case of the FCS, to make a limited number of noncareer appointments for periods of up to 5 years. Appointments made under this authority may not be extended or renewed once the 5-year maximum is reached. In addition, the total number of noncareer appointments in the Senior Foreign Service is limited to 5 percent of the total number of members of the Senior Foreign Service. In the Department of Commerce this limitation is superseded by Section 2403(c) of the act until October 1, 1985. Section 2403(c) permits the Department of Commerce to have up to 10 noncareer members of the Senior Foreign Service at any one time. Since the total number of Senior Foreign Service Officers authorized for FCS is 19, if FCS were limited to 5 percent, the total noncareer Senior FCS positions available would be about one.

Since FCS believes it has a critical need to fill positions that require special skills not readily available in the career service, it has proposed to make permanent the provision of the law allowing up to 10 noncareer members of the Senior Foreign Service at any one time. After carefully reviewing the development of the career FCS, the use made by FCS of the noncareer appointments and the arguments in favor of and against continuing the exception, the committee recommends that the exception be continued under circumstances to be described below.

The committee believes that the authority provided to FCS to make up to 10 noncareer appointments has proved to be invaluable by allowing it to bring experienced people on board who were able to make an immediate contribution at a time when staffing quickly was essential. There is universal agreement that the present senior noncareer appointees in Bonn, London, Tokyo, Brussels, Paris, Riyadh, Rome and Bogota have done excellent jobs and that in many instances they are people whose experience in particular markets and special abilities (such as language) was not available in the career service.<sup>75</sup> Many of the senior appointments expire in 1984 and 1985. This presents FCS with the dilemma of what to do about filling these jobs when the present terms expire. It is difficult to recruit top noncareer candidates unless it is clear that their terms will not end when the law's noncareer exception terminates in 1985. For example, to fill a recent opening in Saudi Arabia FCS first determined whether any career officer was able or willing to fill the post. Determining that no career officer was available, it sought to fill the position from the private sector. However, the fact that FCS can only offer a noncareer exception until 1985, when the current law expires, limited its search to someone willing to accept, in effect, a relatively short-term guarantee of tenure. For this reason, the committee believes that the extension of noncareer slots for 10 Senior FCS Officers should be acted upon well before the present provision expires in October 1985.

FCS believes and the committee agrees that the authority to make a limited number of noncareer appointments remains essen-

---

<sup>75</sup> In addition to these few Senior Foreign Commercial Service Officers, FCS currently has a total of 50 noncareer appointees overseas, most in the top to middle range of the pay scale.

tial to its mission by affording it the flexibility needed to respond rapidly to changes in the marketplace. The committee agrees that FCS's ability to make limited noncareer appointments into the Foreign Service allows it to augment its career workforce with highly qualified individuals possessing "state-of-the-art" expertise and experience in particular government, industry and business sectors. The kind of expertise required is often the result of extensive experience that cannot be acquired easily or efficiently through training. In the ever changing international commercial arena the flexibility afforded by the ability to make limited noncareer appointments is invaluable.

All available evidence indicates that FCS is dedicated to building a career foreign commercial service. Its policy has been to use limited, noncareer appointments only to augment areas of special need. A total of 58 noncareer overseas appointments are currently serving in posts abroad. Of this number the bulk are mid-level appointments. Several large posts in major capitols are headed by noncareer appointees, including Paris, London, Rome, Bonn, Brussels, Saudi Arabia, and Tokyo. On the other hand, several equally important posts are currently held by career Senior FSO's, including Mexico City; Ottawa; Brazilia; Seoul; Korea; Caracas, Venezuela; and Beijing, China.

Since its formation in 1980, FCS has conducted three large-scale recruitment campaigns, including a current effort to fill 21 additional positions authorized in the fiscal year 1983 budget. These recruitment efforts were designed to select individuals committed to a career in the Foreign Service. Since the initial recruiting cycle, the size of the career service has grown with a resultant decrease in the use of noncareer appointees. FCS intends to reserve 20 percent or 40 positions for noncareer appointments in the total complement of approximately 200 FCS officers. To date, there have been approximately 140 career hires with 21 presently under recruitment. With the current 21, FCS will reach its full corp of about 160 career officers. Some notable noncareer recruits have qualified for the career service.

In the order to further supplement staff resources, a retired executive program has also been implemented which allows the US/FCS to hire retired executives with international business experience on a deferred compensation basis. While they do not draw salaries, they can receive travel and representational allowances. At the time of our study, 35 executives, 10 overseas and 25 in U.S. district offices, were on board or in the process of being hired. The US/FCS plans to have 120 executives in the field under this program by the end of fiscal year 1984. The total waived compensation for this group should exceed \$2 million per year.

Recruitment campaigns have made a special effort to attract applicants with solid technical credentials (in an export marketing context) in the following fields of specialization: Computers and peripherals; telecommunications equipment; electronics industry production and test equipment; engineering consulting and design services; and mining and petroleum extraction equipment. Since FCS' experience indicates that its recruitment effort may not produce sufficient individuals with the required background, it has

been necessary to supplement its career service with limited appointments.

Once it has been determined that a special country specific requirement cannot be met from within the career service a search is made for an alternative individual to fill the assignment on a limited appointment. Candidates for such assignments come from several sources: referrals, personal applications and from the Special Applicant Register maintained by the Office of Foreign Service Personnel. Candidates for overseas positions with the Foreign Commercial Service are placed on this register when they are identified as possessing critical skills, such as hard language fluency or specific industry knowledge. Offers of a limited appointment may be made to individuals whose names appear on this register. All individuals to be assigned to a position in the US/FCS overseas must have the approval of the Foreign Commercial Service Overseas Assignments Panel.

Although there is no evidence that this has occurred, some concern has been expressed that noncareer appointments to choice posts may be used to pay political debts or to place persons of compatible ideological views in influential jobs abroad. Moreover, career officials are concerned that if the top posts are given entirely to noncareer appointees, the development of a career service will be impeded. As one career officer explained, since the FCS is a specialized service, there is little likelihood of an FCS officer becoming a DCM or Ambassador. The best he or she can aspire to is one of the large posts with significant responsibilities and staff. If these posts are filled by noncareer appointees (even if they are qualified) it will diminish incentive for the career officer.

The committee agrees that the limited noncareer exception for the FCS should be extended to allow FCS not more than 10 noncareer members of the Senior Foreign Service at any one time. However, in order to preserve incentive for the career service and to prevent the limited appointments from being used for political purposes, the law extending the limited appointments should provide that no more than half of the 10 largest posts (in terms of budget and personnel) may be filled with persons serving limited appointments at any one time. In addition, the limited appointments should be distributed among all areas of the world avoiding concentration of such appointments in any one area.

## LIST OF ABBREVIATIONS

AACCLU	Association of American Chambers of Commerce of Latin America
ADS	Agent/Distributor Service
AID	Agency for International Development
AITTS	Automated Information Transfer System
APCAC	Asia-Pacific Council of American Chambers of Commerce
CG	Consul General
CM/PCAP	Country Marketing Plan/Post Commercial Action Plan
DCM	Deputy Chief of Mission
DPS	Direct Program Support
EDO	Export Development Office
Eximbank	Export-Import Bank of the United States
FCS	Foreign Commercial Service
FSN	Foreign Service National
FSO	Foreign Service Officer

## LIST OF ABBREVIATIONS—Continued

GAO	General Accounting Office
IEP	International Economic Policy
IG	Inspector General
ITA	International Trade Administration
ITC	International Trade Commission
JETRO	Japan External Trade Organization
MCS	Management Control System
MIPRO	Manufactured Imports Promotion Organization
MOU	Memorandum of Understanding
MTN	Multilateral Trade Negotiation
OPIC	Overseas Private Investment Corporation
PCAP	Post Commercial Action Plan
USCS	United States Commercial Service
US/FCS	United States and Foreign Commercial Service
USIA	United States Information Agency
USTR	United States Trade Representative
WITS	World-Wide Information and Trade System
WTDR	World Trade Data Reports

○