REORGANIZING THE GOVERNMENT'S INTERNATIONAL TRADE AND INVESTMENT FUNCTIONS

HEARINGS

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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CONTENTS

	Page
Opening statements:	
Senator Ribicoff	1, 305
Senator Robert C. Byrd	2
Senator Roth	5, 305
Senator Javits	26
Senator Cohen	235
Senator Mathias	233
Senator Stevens	306
List of witnesses	443

REORGANIZING THE GOVERNMENT'S INTERNATIONAL TRADE AND INVESTMENT FUNCTIONS

MONDAY, JULY 23, 1979

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 3302, Dirksen Senate Office Building. Senator Abraham A. Ribicoff (chairman of the committee) presiding.

Present: Senators Ribicoff, Roth, Durenberger, and Javits.

Chairman RIBICOFF. The Committee will be in order.

OPENING STATEMENT OF SENATOR RIBICOFF

Chairman RIBICOFF. Today the committee starts hearings on important legislation to reorganize the Government's trade functions. These hearings come as Congress and the country is about to begin a new era in the history of our trading relations with the rest of the world.

Under the agreements reached in the recent multilateral trade negotiations, the world will operate under a more formal and comprehensive set of trading rules than it ever has in the past. Our economic growth and political security will be linked to world trade even more than in the past. We have great opportunities, but also potentially great risks. At the moment this Government and the country is not prepared to meet these new challenges and opportunities. Responsibility for trade matters are scattered among at least 12 different agencies so that in most cases it is the primary mission of no 1 agency. As a nation, and as a government, we need to change our way of thinking about trade matters. We need to give far more priority to formulating and implementing an effective overall trade policy.

We need to organize the Government so that we can take full advantage of the new opportunities abroad, while detecting and correcting unfair trade practices which hurt the U.S. economy at home.

I have no doubt that this committee will work to structure its own meaningfull reorganization based on the five different bills that have already been introduced in the Senate, as well as the proposals of the administration. The reorganization needs to be a far reaching one. Halfhearted or halfway measures will not do if the new MTN agreements are going to be a success for the United States.

Ambassador Strauss, this is almost a last hurrah for you. I hope that by tomorrow night the Senate will have passed the MTN. You have said many times that once that is adopted that your job as STR comes to an end, and that you have many other important roles to play, and will.

However, I know you have done so much to make MTN possible. There is no question in my mind that were it not for your personal efforts I doubt whether we would have ever had an MTN agreement. On balance, the MTN agreement has great meaning for this country as well as the world.

However, I don't think your job is really over, and knowing you I don't think it will be with the adoption tomorrow in the Senate of MTN. You know from my many conversations with you informally that I feel that trade and ecopolitics has more of an impact in the world than geopolitics, and that if trade and international economics is going to work, you have to have in place an organization to make that policy work.

Personally, the administration proposal, I think, is flawed. I don't think it is all right. You can live with it. I don't know how much it really accomplishes. I have talked to you, Mr. McIntyre, too, and you have talked to Senator Roth. Senator Roth and I have had many conversations. It is my hope that after these series of hearings what this organization should really be like will evolve on the basis of the thinking of Senators, such as Senator Roth and myself and others, and the administration.

And I do hope that there will be some time, even after you get out of STR, that with Mr. McIntyre and your associates, you will be able to work with us, even though not in an official capacity, to try to get a meaningful trade organization.

Before we proceed, Senator Byrd has a prepared statement for the record.

[The prepared statement of Senator Robert C. Byrd follows:]

PREPARED STATEMENT OF SENATOR ROBERT C. BYRD

I am pleased to have this opportunity to provide my views to the chairman and the members of the Governmental Affairs Committee on our Nation's handling of foreign trade. Earlier this year, I introduced S. 891, a bill to establish a cabinet-level department of international trade, as I am convinced that the broad-based improvement of our current trade situation requires a thorough-going overhaul of our nation's Byzantine trade apparatus.

I am pleased that the Administration has now announced its proposal for a reorganization of the international trade functions of the Executive branch. I am confident that it will receive a thorough review by the Committee, under the able leadership of Abe Ribicoff, with a view toward strengthening its recommendations and sharpening its focus on the integration of the Federal government's trade activities.

LACK OF ORGANIZATIONAL SUPPORT FOR TRADE

We are one of several major free market industrial countries that attempts to operate without the benefit of a central trade agency. This puts many of our industries and businesses at a distinct disadvantage because they lack the wide range of support such an agency can provide. The time has long since passed when we could afford such a casual approach, and it is time for us to remedy this situation.

We must recognize that trade has become—as it once was during the mercantile era—an important symbol and indicator of national power and well-being. For this reason, competition in trade has become heavily fostered by the governments of some of our industrial and agricultural competitors. Indeed, the fostering of trade has replaced the "beggar-thy-neighbor" or protectionist policy of high tariffs that was followed by us and these other governments in the 1930's and that helped propel the entire world economic system into an economic tailspin.

Facing up organizationally to this new competition does not mean that we should end the strong separation between state and business that exists in our

country, or that we should emulate the ever closer state-business relationships of some of our competitors. It does mean that the numerous units of our trade bureaucracy should not be working at cross purposes, denying our business community in all too many cases the level of support it should receive from government. It also means that we must deal more effectively with some of the negative aspects of foreign governments' support of their exports.

To keep their domestic employment levels high, some of our trade partners have unfortunately used unfair trade practices to promote their exports. Our trade agencies have failed to do an adequate job in protecting our industries and businesses from such unfair competition. This must be a major consideration in any reorganization in the trade field.

OUR TRADE STATUS: FROM PREEMINENCE TO COMPETITOR

In the period immediately after World War II, the United States was able to dominate world markets as the preeminent economic power; however, we also saw it as in our interests to devote a considerable portion of our resources to assisting Japan and the countries of Western Europe with their post-war recoveries.

The U.S. position of preeminence has been challenged by the economic recovery of the very countries we aided. Their renewed strength has turned them into full-fledged rivals able to effectively compete with us on world markets.

OUR TRADE PERFORMANCE

Faced with this new competition, we are not faring particularly well in the international trade arena. Over the past three years, our trade deficit has totaled more than 60 billion dollars. The level of imbalance in our trade accounts has undermined our credibility with our foreign trade partners and been partly responsible for the weakening of the dollar.

The most recent monthly statistics reported by the Department of Commerce do not provide a basis for optimism. They indicate that this past May was the 36th consecutive month in which imports exceeded exports. The trade deficit widened in May to a seasonally adjusted $2.48 billion, from $2.15 billion in April. It appears that the wider May deficit is largely attributable to the failure to increase exports.

These developments reflect a marked change in our overall trade performance. Since the late 1930's, when the United States overtook the United Kingdom in the level of export trade, the United States has been the world's largest exporter. However, last year we almost lost our mantle as the number one exporter, because of the strong export challenge from the Federal Republic of Germany.

In 1978, our exports totaled $144 billion or 11.2 percent of world exports. The Federal Republic of Germany was a close second, with exports totaling $142 billion or 11 percent of world exports.

The nature of the challenge confronting us is especially apparent in manufactured goods, an area in which we lost export leadership to the Federal Republic of Germany about a decade ago. In 1977, our trade in manufactured goods totaled $80 billion, compared with German trade in these goods which totaled $104 billion. Our 1978 level of trade in manufactured goods, some $94 billion, accounted for almost two-thirds of our total exports.

The nature of the trade challenge is also apparent in such an area as coal exports. While there is a serious energy supply problem in many parts of the world, our exports of bituminous coal—a fuel which we have in abundance—have fallen steadily from 66 million net tons in 1975 to 40 million net tons in 1978. Furthermore, some of the coal export loss recorded by the United States has resulted in export gains for our coal competitors, such as Australia and Canada.

DOMESTIC CONSEQUENCES

Our failure to take adequate action to improve our trade situation hurts us internationally and domestically. Not only is trade an important measure of national power, it also is an important contributor to a country's economic well-being.

One of the best illustrations of this point is jobs. A net trade increase of $5 billion would produce, by the end of two years, according to an estimate prepared by the Congressional Budget Office, between 200,000 and 250,000 new jobs.

Thus, for example, if our 1978 trade deficit of almost $30 billion were eliminated by a net trade increase of an equal amount, between 1.2 and 1.5 million new jobs would be created. I cannot imagine a better measure of the importance of trade to our national well-being.

Another illustration of its importance is the contribution that a net increase in trade makes to our gross national product. A net increase in trade of $1 billion adds ultimately about $2.5 billion in GNP, again according to a Congressional Budget Office estimate.

Our fight against inflation can also be aided by a net increase in trade. It assists with the development of domestic price stability by fostering the allocation of domestic resources to the most productive areas of our economy, advancing overall economic efficiency at the same time that it leads to increases in jobs and production. Export expansion is one of the few areas in which we can increase domestic activity without unleashing strong inflationary pressures.

WHAT'S TO BE DONE

To face up to the situation I have described—which has grave ramifications for our economic well-being—I believe that we must move ahead on two fronts. First, we must develop a forceful and aggressive trade policy. Second, we must reorganize our trade bureaucracy.

The President has taken some first steps toward the development of appropriate policy with his announcement in September of last year of the National Export Policy. It calls for providing increased direct assistance to United States exporters, reducing domestic barriers to exports, and securing a fairer international system for all exports. Clearly, there is much now that needs to be done if we are to achieve these policy objectives.

I do not feel that they can be fully accomplished, however, until we reorganize our entire trade bureaucracy to allow us to systematically back up and implement such a policy. It was for this reason that I introduced on April 5, 1979, a bill S. 891, to create a cabinet-level department of international trade. It would bring order and leadership to our international trade activities, and to related domestic industry affairs. This department would consolidate the functions of many disparate agencies which now share jurisdiction in this area. It would allow for more efficient promotion of United States commercial interests; greater vigilance in the enforcement of laws on unfair trading practices; the improvement of our capability to monitor business and trade developments which have direct relevance for American jobs and industries; and improvement in the administration of controls on export of strategic goods and technology.

Our current organizational efforts in the trade field are inadequate to the task. They are characterized, unfortunately, by:

A diffusion of authority;

A duplication of responsibility;

An uneven and, at times, seemingly lackadaisical enforcement of current policy, especially in the area of unfair trade practices;

A crisis-orientation; and

A lack of long-term policy planning.

These are difficult problems which can be surmounted through a streamlining of our current trade efforts and the development of a new organizational structure which can better coordinate and unify our international trade and industry policies.

If Congress approves the implementing legislation for the Multilateral Trade Negotiations agreement, the costs of failing to restructure our trade activities will surely grow. The United States will need to be better organized to determine, for example, whether other countries are following the new rules of international trade established under the agreement. We are now woefully unprepared to deal with the new rules in such areas as export subsidies and export credits.

Furthermore, from the streamlining and reorganization of our trade activities, the United States would be in an improved negotiating position on international trade matters, including energy. The large numbers of agencies which have parts to play in our trade activities now work against the development of unified U.S. positions on trade matters.

For all these reasons, Mr. Chairman and Members of the Committee, we need to reorganize our trade activities. Trade is too important for our international standing and national welfare for us to continue to do business as usual in this vital area.

I believe that the time has come again for us to give trade the type of support that it received from our nation's leaders after our country gained independence. Then, John Adams as Minister to Great Britain and Thomas Jefferson as Minister to France are said to have devoted more time to trade promotion than any other single activity. Today, export promotion is as important to our Republic as it

was during the first years after independence. The need is great for us to undertake a major reorganization of our trade activities.

Chairman RIBICOFF. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. I welcome this continuation of the hearings that the committee commenced last year on trade reorganization. I agree with you, Mr. Chairman, that international trade is critical to the economy of our country and now accounts for about 15 percent of our gross national product.

It provides jobs for millions of Americans. However, trade will be even more critical in the future as we must take advantage of the markets abroad which are growing more rapidly than our own.

Today the United States is facing a first class trade crisis. We have had 2 years of record shattering deficits, we are not selling enough abroad to pay for what we want or need. This means inflation and unemployment that have resulted in a loss of confidence in the dollar which has been the traditional symbol of America's economic strength and leadership.

We are not maintaining the rates of savings, investment, productivity and growth to remain competitive. I agree with you, Ambassador Strauss, when you say that our trade crisis is a result of years of neglect.

We need a first class effort on the part of the Government, business, and labor to pull us out of this crisis and make us the leader in international trade once again.

The Federal Government needs a first rate international trade and investment apparatus to lead and underpin this effort. Frankly, I don't think the administration's proposal meets this test.

It is somewhat better than what appeared to be coming out a few weeks ago and I want to thank our witnesses today for intervening then to make some third rate options into a second rate proposal.

The proposal does represent an honest effort but frankly there are too many political constraints. The political and bureaucratic considerations have resulted in a concoction that may be acceptable to the Washington bureaucracy, and some lobbyists, but it is not the best we can do for this country. It says virtually nothing about making this country more export oriented. It creates a policy toward making coordination but it gives no tools to coordinate. The policy will have to be redelegated to other agencies.

It makes an artificial distinction between trade policy and day-to-day operations of trade functions and makes no mention of trade research and statistics, which are integral to an effective policy formulation and implementation. It shifts enforcement of statutes to protect American industry against unfair competition to a weak department. It fragments among two or three centers MTN implementation. It does not create a strong lead agency for trade.

I agree with the administration that it is desirable to have in place an effective trade apparatus as soon as possible. I hope the administration will remain flexible and that a consensus around an improved proposal can be reached. Unfortunately genuine consultation between OMB and Congress has been minimal until now.

I would just like to say that I am optimistic that a consensus can be arrived at. We are all indebted to the leadership of Abe Ribicoff who I would say is the other person along with Ambassador Strauss who is primarily responsible for the success of the MTN because of his interest and dedication.

Final thought: Good trade organization cannot substitute for good policy, but it makes it more likely. Good organization cannot fully substitute for good personnel but it helps attract and retain good people and make them more productive.

One of the reasons we need a good organization is that we are losing as special trade representative one of the most talented, educated, and productive men in America. I think Bob Strauss does deserve the deep gratitude of the country for the outstanding job he has done. While serving the President he has enjoyed an excellent relationship with the Congress; he has treated the minority with the same fairness and consideration as the majority, maybe in some ways more and it has been a most rewarding experience to work on trade matters with a man of the caliber and humor of Bob Strauss. He has received a lot of awards and a lot of accolades. I don't want him to leave with too swelled a head. As a matter of fact, I have another award which I think he is going to cherish. I think he is going to want to put it in a prominent place in his home.

Mr. STRAUSS. I am afraid I am not going to like this, Senator. [Laughter.]

Senator ROTH. I have here the Turkey Award of the year. [Laughter.] [Applause.]

Chairman RIBICOFF. That is what I call some way to start your testimony. [Laughter.]

TESTIMONY OF ROBERT S. STRAUSS, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, ACCOMPANIED BY RICHARD HEIMLICH, ASSISTANT SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. STRAUSS. Mr. Chairman, if I could break with custom for a moment and kind of ignore the chairman I would like to work on the cochairman just a moment. [Laughter.]

Chairman RIBICOFF. He is all yours.

Mr. STRAUSS. Thank you.

Chairman RIBICOFF. I would rather you carve that turkey. [Laughter.]

Mr. STRAUSS. Let me say this: All I want to say, I want to make one crystal clear statement for the record. Senator Roth, it takes one to know one. [Laughter.]

Now, thank you. Let me say to both of you informally, and let me say that I have some remarks by Robert S. Strauss that I would like to ignore.

Chairman RIBICOFF. Without objection, your formal remarks will go in the record at the conclusion of your testimony.

Mr. STRAUSS. Thank you. This is a bit of nostalgia for me. As you know, each of you last April, after a number of informal conversations with you, and Senator Long, Senator Ribicoff, the President asked

me to undertake these responsibilities and I recall very well our conversations and I recall that the first call I made here was not to Senator Long or to you, but was to see Senator Roth. And since that time we have worked exceedingly hard together agreeing and disagreeing, always respectful and always constructive I hope in our personal relationships, working primarily with the two of you and Senator Long has been something that I have cherished.

I am well aware of our personal relationship and I take great pride in it, my personal relationships with each of the three of you and with a great many members of your committee.

That is aside from the professional relationship. With respect to the bipartisanship, I suspect I have said to the President and to the press that concerning the support I have had, this is a bipartisan bill, and the credit must go equally to the Republicans and the Democrats. We have worked together and I suspect the truth of the matter is there have been many times when my support has been percentagewise stronger on the Republican side even than from my Democratic colleagues.

I take great pride in that. I have worked very hard. You and your staff have worked very hard with me and for me and it has just been as I once said to you, privately we have really had a classic example, that ought to be studied, of how the legislative process works best in America.

This is, I think, a very interesting case study and it goes back a bit, if I may be nostalgic. It really goes back to the 1974 Trade Act, whoever dreamed that up, whoever devised that, who executed it, although it too is flawed and has its imperfections, but it is an exceedingly wise, carefully thought-through plan.

It is hard to believe—I discussed it with Senator Javits the other day but we involved well over 1,000 people, private sector people on a daily basis in this program. We have not been running around the bureaucracy, but the 1974 Trade Act involved between 1,000 and 1,100 private sector people, most of whom have taken great interest in this, taken great pride in it.

The Nation has been well served. Let me direct myself to this reorganization plan, if I may. I think the plan is flawed, Senator Roth. There is no question but this is a flawed plan. I have been trying for 2 years to think through this subject because I believe we desperately need a trade reorganization in this Government. And I have looked at the legislation very hard, very carefully that you and Senator Ribicoff have introduced, Senator Roth. I looked at the legislation that Congressmen Jones and Frenzel introduced and I guess I have talked to 150 people at great length, and there just is no plan that is not flawed in the eyes of a great many of the beholders.

That is what has made this an exceedingly complex thing. I went to the President when I saw our first work product and was totally dissatisfied with it.

It wasn't his product. It was not Jim McIntyre's product necessarily, or either of your products. But it was not a satisfactory work product. Director of OMB McIntyre and I sat with the President and I said, "Mr. President, you have first a decision to make. Do you want to satisfy the bureaucracy and move easily, get it off your desk

quickly, or do you want to satisfy really some of the gut needs of this country, take some scars, take some heat?"

His answer was, "You know very well what I want, Bob. I don't care what you do with the bureaucracy. Get something that works and that we can present and we can sell." That is what we have tried to do.

The first thing we did was direct ourselves, McIntyre and myself and the members of our staff, to the following questions: McIntyre's question to me was, Bob, you have talked more about this than anyone in the country and you told me one or two of your people know more about this more than anyone in the country and I think they do. Tell me what are the basic requirements.

The basic requirements of the industrial community or the agricultural community and of the labor community and of the Congress—these were the constituencies we were looking at because we had to have something that the private sector at the highest level thought would work, something that the Congress thought was achievable and something that was right.

Well, there are three or four very simple things. First, the bureaucracy notwithstanding, this Finance Committee and its members felt very strongly that the commercial attachés should be removed from the State Department. Item 1.

This Finance Committee and its members thought countervailing dumping should be moved from Treasury. Item 2.

This Finance Committee and its members said that there should be better coordination of the export policy.

This Finance Committee and its members felt that we should not destroy, not destroy, the Foreign Service aspect of the Agriculture Department that was working so well.

This Finance Committee and its members felt that we should improve our oversight, get some oversight in for the first time and on and on and on.

It was also felt that we should put in place a proper authority to put in it, in the proper authority, sufficient responsibility to see that there was a proper implementation of these trade agreements, that as you and I know are a big step although not a 100-percent step in the right direction, but a major step in the right direction if and only if there is proper implementation.

The next question comes to mind, how do you do this? The simple and easy way to design it, Senator Roth, would be the way you designed yours, and that is with a new department, a new bureaucracy. With that, to get enough people, you have to do a number of things that don't really need to be done.

With that you have to create a new bureaucracy, something the Congress generally really does not want, and the people out across this country don't want, so we have a compromise on that. There are a number of others we had a compromise, all said and done, by restructuring the Commerce Department to make it a new Trading and Commerce Department, by strengthening and giving more power to the office of the STR which most people want done, both within the Congress and within the industrial and agricultural communities.

So what we tried to do instead of tearing down the STR, tearing down the Commerce Department, creation of a new bureaucracy, we

tried to restructure the Commerce Department to accomplish these objectives and others, restructuring the STR to accomplish these objectives and others, and in my judgment we have done so. If you asked me if I thought there was a single, knowledgeable individual in this country that would put an A plus mark on this trade reorganization plan, gentlemen of this committee, I have to say to you I do not know of one who would not find it flawed in some respect, but of all the plans I have seen this comes nearest.

This is not watered down to nothing because it compromises everything, because this has in it a dealing with the gut issues that everyone hasn't dealt with.

So it is that I think we have presented to you what I said we would present, a trade reorganization plan and structure that has meat in it, that is meaningful and substantive and worthwhile and one that will undoubtedly undergo change as it moves through the legislative process as indeed in many instances legislation should.

I know that Director McIntyre has some things on a more technical basis he wants to go over with you and I will be glad to join him at that time or now I will take such questions that you have may.

[The prepared statement of Mr. Strauss follows:]

PREPARED STATEMENT OF ROBERT S. STRAUSS, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. Chairman, members of the committee, I appreciate the opportunity to discuss President Carter's trade reorganization package.

From the day I became involved in international trade, it has been clear to me that we need a workable trade structure within our government to give international trade the high priority it deserves. And no one is more concerned than President Carter about our ability to respond to future challenges and opportunities in international trade. He has consistently and continuously demonstrated his leadership and commitment to improving our international trade position. He supported my efforts in Geneva at a time when everyone thought the Tokyo Round of Negotiations could never produce a result of any substance, and he has begun for the first time to develop a coherent trade policy for our country. Unlike some who are doing nothing but complaining, President Carter has taken positive steps toward solving our international trade problems—problems which have been building for decades because of neglect on the part of all of us.

This reorganization is one key element in our efforts to implement our new trade agreements, develop a coherent trade policy, and expand our exports. I would like to offer some of my general thoughts on why this proposal makes a great deal of sense to me, and Director McIntyre, who has worked so hard along with his colleagues on this proposal, will explain it in more detail.

This proposal follows the successful conclusion of the most ambitious round of trade negotiations undertaken since the original GATT. Now that we have agreed on new international trading rules, it is time to put them to work. We stand to benefit greatly from the new trade agreements through prompt, effective, and aggressive enforcement and implementation. This proposal addresses that issue. It establishes clear lines of accountability and responsibility within our government for enforcing the trade agreements.

Beyond implementation of the trade agreements, in this proposal we decided to leave untouched programs that are working right. For instance, the Export-Import Bank and the Foreign Agricultural Service are both performing effectively, and deserve the respect they have earned from the business and agricultural communities. Consolidation of these trade activities probably would not improve their effectiveness, and might even lead to poorer performance.

Where we are consolidating programs, we are building on our strong points. We used the Agriculture Department's sector analysis and export promotion programs as the models for similar programs within the Commerce Department. And in expanding the Special Trade Representative's responsibilities for policy coordination and negotiations, we are extending the very successful process of open consultation and cooperation between the public and private sector to new areas.

As many of you know, that process is one of the main reasons the Tokyo Round agreements hold so much promise for our economy.

The President is committed to organizational improvement, and he has already made changes within his authority that benefit us even as you consider this proposal. His actions in establishing clear accountability for implementing the trade agreements, and for representing American interests in the GATT are particularly important. We must begin to move aggressively in this area right now.

Let me conclude by saying that the President's proposal is the best possible plan available today. Almost all concerned parties are enthusiastic about this proposal because we met their needs.

Many members of Congress and the private sector are wary of creating a large new bureaucracy, because other Departments would have to be stripped of functions they are best equipped to perform. Customs and trade adjustment assistance are two areas that come to mind.

Our agricultural producers are concerned that trade issues might receive less attention and lower priority than they deserve in a "business-oriented" department.

And adding major trade program responsibilities to STR would overload the Executive Office of the President, and change its orientation from coordination and management to implementation.

On balance, the President's proposal is the best approach we could take at this time. It improves our government structure where it matters most. Even so, I don't want to create unrealistic expectations at home and abroad about our trade performance. We do not intend to overpromise and underperform. Even a more ambitious reorganization program won't solve our trade problems, because by and large they are a result of neglect, not organizational structure.

In international trade, as in so many areas, we have a long road ahead of us. We're going to have to travel that road one step at a time. This proposal is one of the first steps we must take.

Chairman RIBICOFF. Mr. McIntyre, I don't know what your wishes are, whether to read the full 20 pages or give a summary. I am sure there are questions that the three of us will have, and the others who will join us. Your entire statement will go in the record as if read at the conclusion of your testimony.

I do want to publicly state that you have been deeply concerned with our attitudes on this bill. You have been in frequent consultation with Senator Roth and myself. I do believe there is a realization on your part, as well as Ambassador Strauss', that there are many problems, and that if we are going to get a meaningful trade bill through we are going to have a considerable amount of cooperation between us in the weeks ahead.

We have never had any problem, you and I, working these problems out. This committee has acted on a bipartisan basis and there is respect and cooperation by all of the members of the staff, be they on the majority or minority side. I have a deep desire that we put into place before we are through a department that will really help our country in the whole field of international trade.

You may proceed.

TESTIMONY OF JAMES T. McINTYRE, JR., DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY HARRISON WELLFORD, EXECUTIVE ASSOCIATE DIRECTOR, REORGANIZATION AND MANAGEMENT; AND ERIC L. HIRSCHHORN, DIRECTOR, TRADE REORGANIZATION STUDY

Mr. McINTYRE. Thank you, Mr. Chairman.

I do not desire to read my entire statement. I prefer to have it submitted for the record as you suggested and highlight a few key

paragraphs in it. Before I do that, I might say I would like to address some remarks to Senator Roth.

After I saw his comments on the plan last Friday, I endeavored to look into and investigate a little bit about turkeys. I found, Senator Roth, that the turkey is very popular. In fact, Ben Franklin at one time wanted to make the turkey the national symbol. I also found that turkeys are extremely popular at certain times of the year and it is my hope that by the time of the first day on which turkeys are very popular we can have a trade reorganization proposal passed. And I hope you share that desire with me.

Senator ROTH. I just hope it is a Delaware turkey. [Laughter.]

Mr. MCINTYRE. Mr. Chairman, members of the committee, I am pleased to join with Ambassador Strauss this morning to present the administration's proposal for reorganizing our foreign trade functions.

Ambassador Strauss has described the environment within which we worked and some of the major considerations that underlie the basic proposal.

Let me just summarize a few of those. First, we undertook the reorganization primarily to build up the Federal Government's capacity to strengthen the export performance and import competitiveness of the U.S. industry and to this end this reorganization proposal is designed to prepare the Federal Government for aggressive enforcement of the MTN codes, which potentially open vast markets for U.S. labor, farmers, and business.

It also aims to improve our export promotion activities so that U.S. exporters as well as the Federal Government can be better informed about trade opportunities and challenges in foreign markets.

It is the judgment of those in the executive branch responsible for trade that we need to implement vigorously the multilateral trade agreements. Whereas international trade negotiations in the past have concentrated primarily on reducing tariff barriers, the MTN has as its primary focus the breaking down of nontariff barriers, including the many domestic subsidies and specialized restrictions on trade that have made it difficult for our exporters to penetrate Japanese and European markets.

We must be prepared to apply the codes domestically, and to monitor major implementation measure, reporting back to American business important developments and raising questions internationally about foreign implementation. The MTN will work if we establish procedures for monitoring and enforcing it.

Major trade functions are now located in eight major departments and agencies. Although the Special Trade Representative takes the lead role in administering the trade agreements program, many issues are handled elsewhere and no single agency has across-the-board leadership in trade. Aside from STR and the Export-Import Bank, trade is not the primary concern of any agency where trade functions are located.

In summary, the current arrangements lack a central authority capable of planning our trade strategy and assuring its implementation. We have come closest to this approach with the coordination structure that back-stopped our policies on the multilateral trade negotiations. Under the leadership of Ambassador Strauss we were able to compose a coordinated set of instructions to our negotiators that represented a broad consensus of the national interest.

Ambassador Strauss has outlined the major elements of the reorganization proposal. They are stated both in general and in detail in my testimony, Mr. Chairman. So I would like to direct my attention for just a moment to some of the other trade proposals that were considered, but rejected.

The Trade Agreements Act of 1979 specifies several other trade reorganization proposals for Presidential consideration. We have reviewed each proposal thoroughly and decided that the proposal the administration has outlined is the most practical and effective approach to the trade problems that we face.

In fact, it borrows a number of the features from those expressed alternatives.

The first proposal in the MTN bill suggested:

> Strengthening the coordination and functional responsibilities for the Office of Special Trade Representative to include, among other things, representation of the United States in all matters before the General Agreement on Tariffs and Trade.

We have in part adopted this idea. STR will have a clear lead role in coordinating both agricultural and nonagricultural trade policy. The jurisdiction of the Trade Policy Committee, which STR heads, will be broadened considerably. STR will take over GATT representation responsibilities.

We have concluded however that operational functions should not be placed in STR. Such a step would place too heavy a burden on STR in terms of line functions not suited to the policymaking role of the Executive Office of the President.

Also, making STR a focus of such activities might weaken its crucial role as a neutral honest broker among the various agencies involved in trade matter, a role that depends as much upon perception as upon reality. STR should be the focal point for policy matters, but operations should be located eleswhere.

Another alternative was the creation of a Board of Trade. As we understand it, such a proposal would establish an independent trade agency outside the Executive Office, headed by the cabinet rank Special Trade Representative, but not itself a cabinet department. This agency would include the major import relief functions and the negotiation functions now located in a variety of agencies in addition to the STR.

The Trade Policy Committee would have a separate executive office staff of 5 to 10 people and would continue to be handled by the special trade representative. MTN monitoring and implementation also would be located in the new agency, which would receive policy guidance from a Board whose membership would approximate that of the Trade Policy Committee.

In part, we have adopted this idea. Under our proposal, STR will have the lead role for all trade negotiations and will have the policy lead on the MTN enforcement. We believe that STR can handle these functions without a significant increase in staff. Accordingly, we propose to retain it in the executive office.

STR will have the responsibility for policy decisions on application of discretionary trade remedies. This will allow for their use as an adjunct to negotiations. We would not, however, move antidumping and countervailing duty matters to STR, as these are adjudicatory in character and therefore are best located in an agency other than the chief trade negotiator.

Finally, the MTN legislation proposes for consideration the concept of a new trade department, separate from and additional to the existing Department of Commerce. We rejected this idea principally because we have concluded that a significant problem in the trade policy area in the past has been its isolation from domestic economic consideration. Placing trade in an entirely separate department would further isolate it. We believe that the administration proposal addresses the problem ably within the existing governmental framework and without creating a new bureaucracy.

In brief, STR, with its view from the Executive Office, will take the lead on trade policy and negotiations, and operational functions will be located in the Department of Trade and Commerce, and the Department of Agriculture.

We have two further problems with the idea of the new Department. First, moving export promotion and export control functions out of the Commerce Department would seriously undermine its important role with regard to domestic businesses, not all of which are exporters.

Second, the creation of a separate department inevitably would lead to pressure for a new set of domestic field offices, parallel and duplicating the Commerce field structure that currently exists.

Mr. Chairman, I know that you share my desire that the Congress act expeditiously on these proposals. The next 6 months are critical for determining our trade posture for the next 5 years. Between now and the end of the year, our international trading partners will be testing our will. They will seek to learn if the United States is prepared and has the will to insist upon the new rights negotiated in the Tokyo Round. Inevitably, some misunderstandings and differing interpretations will arise. This is a natural followup to any complex negotiation process. The way we handle these initial challenges will affect attitudes and expectations abroad for years to come.

In this same period, the GATT will be reshaped; its organization changed and its new leadership chosen and new working patterns established to implement the codes. Our early monitoring of how our major trading partners implement the MTN will help set the precedent for success or failure, and we will still face a series of substantial and significant followup negotiations.

For these reasons I hope and trust that the Senate and the House will act with dispatch on reorganizing so that we can overhaul the Government's trade organization to meet these fundamental challenges and opportunities.

Mr. Chairman, that concludes my statement. Ambassador Strauss and I will be glad to answer your questions.

[The prepared statement of Mr. McIntyre follows:]

STATEMENT OF JAMES T. MCINTYRE, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and members of the committee: I am pleased to join with Ambassador Robert Strauss this morning to present the Administration's proposal for reorganization of our foreign trade functions.

We undertook this reorganization with one primary goal: to build up the Federal government's capacity to strengthen the export performance and import competitiveness of U.S. industry. To this end, this reorganization proposal is designed to prepare the Federal government for aggressive enforcement of the

MTN codes, which potentially open vast new markets for U.S. labor, farmers and business. It also aims to improve our export promotion activities so that U.S. exporters as well as the Federal government can be better informed about trade opportunities and challenges in foreign markets.

We have labored long and hard over the question of what organization will best promote these ends. Our consultations with the Congress and our examination of the proposals advanced by various Members—including Senators Ribicoff, Roth and Byrd and Congressmen Jones and Frenzel—have been very helpful. We also have consulted widely with representatives of the private sector. We gave special attention to proposals for the establishment of a new, separate trade department or agency—but we concluded that strengthening existing institutions is preferable to creating a new, separate bureaucracy.

In short, we believe that this reorganization will provide the leadership and resources for strong MTN enforcement, a more consistent trade policy, and more vigorous promotion of U.S. exports, while avoiding the need for a new agency and keeping disruption of ongoing programs to a minimum.

Recent events have focused more attention on the vitality of our trade position and on the way our trade machinery is organized. These events include our negative trade balance, increasing dependence on foreign oil, and the resulting pressure on the dollar. The MTN debate has heightened interest in, and dissatisfaction with, our current trade organization. New challenges, such as MTN implementation and trade with State economies, will further test our government organization.

We need to implement vigorously the multilateral trade agreements. Whereas international trade negotiations in the past have concentrated primarily on reducing tariff barriers, the MTN has as its primary focus the breaking down of nontariff barriers, including the many domestic subsidies and specialized restrictions on trade that have made it difficult for our exporters to penetrate Japanese and European markets.

The MTN codes, especially the one opening up government procurement to foreign bidders, have significant export promotion possibilities. We will need to develop better methods for bringing foreign government procurement opportunities to the attention of American business. The new code on subsidies and the amended antidumping code will not only affect our own countervailing duty and antidumping procedures but also involve the U.S. in monitoring foreign subsidy practices and in international dispute settlement procedures. Enforcement here will have to be strengthened. New complaint procedures will be required. The code on product standards imposes obligations on the U.S., but more importantly forces other signatories to amend procedures that have discriminated against American goods and services. Similarly, the codes on customs valuation and on import licenses will give the government an enforcement role.

We must be prepared to apply the codes domestically and to monitor major implementation measures abroad reporting back to American business important developments and raising questions internationally about foreign implementation. MTN will work if we establish procedures for monitoring and enforcing it.

PROBLEMS WITH CURRENT TRADE ORGANIZATION

The trade machinery we now have cannot do this job effectively. Major trade functions are now located in eight departments and agencies. Although the Special Trade Representative (STR) takes the lead role in administering the trade agreements program, many issues are handled elsewhere and no agency has across-the-board leadership in trade. Aside from STR and the Export-Import Bank, trade is not the primary concern of any agency where trade functions are located.

Trade policies are coordinated by a network of special purpose and ad hoc committees with varying memberships, and some trade policies (e.g., dumping and countervailing duties) are not coordinated among agencies at all.

By strengthening the leadership for shaping trade policy, we will give trade problems greater priority as the President balances competing policy objectives. Trade will have higher visibility, the administrative effectiveness of our trade programs will improve, and the services the Federal government provides for exporters and potential exporters will be more responsive and helpful. Once the MTN agreement is in place, trade reorganization will help us live up to our commitment for a stronger trade position in the post-MTN world.

In summary, the current arrangements lack a central authority capable of planning our trade strategy and assuring its implementation. We have come closest

to this approach with the coordination structure that back-stopped our policies on the multilateral trade negotiations. Under the leadership of Ambassador Strauss, we were able to compose a coordinated set of instructions to our negotiators which represented a broad consensus of the national interest.

The MTN gave us a unique opportunity to consider our trade policy as a whole instead of in pieces. By offering more effective organization and focused leadership, this reorganization builds on that approach and provides a strong institutional incentive for successful implementation of the MTN agreements.

THE REORGANIZATION PROPOSAL

Briefly stated, we propose to strengthen and centralize trade policy coordination and trade negotiation functions in the Office of the Special Representative for Trade Negotiations, which will be renamed the Office of the United States Trade Representative. We would also give to the Commerce Department—renamed the Department of Trade and Commerce—added responsibility for export promotion, including commercial representation abroad, antidumping and countervailing duty cases, and the non-agricultural aspects of MTN monitoring. In addition, the coordinating role of the Trade Policy Committee will be significantly expanded. Finally, a position of Under Secretary for Trade will be established in the Department of Trade and Commerce.

Let me point out several things that our proposal does not do: First, it does not create a new bureaucracy. We are not asking for any significant increase in personnel. The number of people involved is small, and only a few hundred would be moved.

Second, we do not propose to transfer or significantly affect programs that are working well in their current locations. Thus, we recommend no shift in responsibility for foreign trade in agricultural commodities from the Department of Agriculture, which has handled this function successfully and is able to coordinate it with domestic agricultural policy. Similarly, the only change in the operation of the Export-Import Bank will be to make the Secretary of Trade and Commerce an ex officio, non-voting member of the Board of Directors of the Bank. Eximbank appears to be working well and its constituency is very happy with the fine leadership of its Chairman, John Moore.

Third, we are not creating a mechanism that could be a focus for protectionism. This Administration, like all Administrations since that of Franklin D. Roosevelt, has stood for trade on a broad basis, with as few restrictions as possible. The MTN agreements bear witness to this policy. At the same time, there must be relief for injured localities, firms, and workers. The MTN bill revises and streamlines import remedies. Our proposal will assure that these measures are effectively carried out and appropriately coordinated with each other and with other aspects of trade policy.

The reorganization we are proposing today can only partly address America's foreign trade problems. Our organizational structure is not the primary cause of our trade problems, and restructuring our trade organization will not alone improve the competitive position of United States industry. To a large extent import problems reflect the inability of domestic industry to meet foreign competition due to such competitive disadvantages as low productivity growth, inefficient and outmoded facilities, changing market demands, high production costs, legal disincentives associated with other domestic or international policies, and export policies less vigorous than those of some other countries.

Nevertheless, the contribution of this proposal will be important. It will provide us with unified policy direction; focus attention on major problem areas; enable us to negotiate with foreign governments from a position of strength; and provide a strong institutional base for the new trade order created by the MTN agreements.

We believe that our proposal addresses the major concerns and objectives expressed to the Administration in the course of extensive consultations with interested groups in the private sector and with the Congress.

SPECIFICS OF THE PROPOSAL

Our proposal will effect changes in the areas of export promotion; MTN monitoring, implementation, and enforcement; import remedies; trade negotiation; trade policy coordination; and sectoral analysis.

Export promotion

(1) *Commercial attaches.*—Assistance to U.S. exporters abroad is now provided by State Department Foreign Service Officers serving as commercial attaches. These commercial officers are a competent and dedicated group, but their export promoton activities too often, in appearance and reality, play second fiddle to economic reporting responsibilities. Further, there are questions whether the skills, training and career aspirations of diplomats are consistent with the job requirements for the most effective commercial representation.

We propose to transfer to the Department of Trade and Commerce the commercial representation functions for our major trading partners. This transfer would put both domestic and overseas export promotion staffs under a single agency charged with emphasizing expansion of U.S. exports. By having those who assist our export expansion overseas in the same organization with the domestic field offices that help industry and business here, we will be better able to connect an export opportunity in Hamburg with an American business in Hartford. Further, the new corps, modeled after the highly successful Foreign Agricultural Service, would be designed to attract people with a strong interest in commercial representation.

(2) *Export-Import Bank.*—Availability of acceptable financing is often a prerequisite to export sales; other countries frequently make government-assisted credit available at favorable terms as part of a sales package. In the U.S., the Export-Import Bank functions as the principal trade financing agency where normal commercial financing is not available or for other reasons is not acceptable. The Export-Import Bank does an excellent job. One area of criticism, however, has been that Eximbank sometimes assists with financing where there is little foreign competition, or where other commercial financing is readily available.

In order to help ensure that export financing policy is consistent with export promotion policy (and trade policy generally), we propose that the Secretary of Trade and Commerce be made a non-voting member of the Eximbank Board.

(3) *Other export functions.*—In addition to the Foreign Agricultural Service mentioned above, we do not propose to transfer the following export related units: The Commodity Credit Corporation, which operates to stabilize and protect farm income and prices, to assist in maintaining balanced and adequate supplies of agricultural commodities, and to facilitate orderly distribution of commodities, is concerned to a large degree with domestic agriculture, and seems most appropriately housed with other agricultural matters in USDA.

The Office of Trade Finance (Treasury), which provides general policy guidance to Export-Import Bank and recommends U.S. positions for international negotiations on the terms and extent of official trade financing, will remain in Treasury to help carry out its responsibilities in these areas.

MTN implementation, monitoring and enforcement

This is an important aspect of our proposal. What we have negotiated in the MTN will not be worth much if we do not aggressively monitor and implement the agreements.

We intend to make the Departments of Agriculture, Trade and Commerce, and Labor responsible for operational functions that are best handled outside the Executive Office by the departments that deal day-to-day with these sectors of the economy. Functions that would remain with these departments include educational and promotion programs, technical assistance to the private sector, consultations with private sector advisory committees, data base development and maintenance, staffing of formal cases, information dissemination, and analytical support.

But the broad policy management of formal cases must be coordinated across the government and, where appropriate, pursued through negotiations. We recommend placing this function in STR (with the exception of antidumping and countervailing cases and cases arising under section 337 of the Tariff Act of 1930).

Import functions

(1) *Antidumping and countervailing duty cases.*—The most criticized import function is the administration of countervailing duty and antidumping cases, in which foreign producers are accused of receiving subsidies or selling at less than "fair value" in U.S. markets. With the advent of the MTN subsidy/countervailing and amended antidumping codes, countervailing duties and dumping assessments will become even more important tools for limiting trade-distorting practices and thereby providing relief to domestic producers.

The functions are now administered by Treasury's Office of Tariff Affairs and supported by other Treasury personnel (in Customs particularly). The administration of these functions has been criticized for delays and lack of coordination with other trade policy instruments.

It should be noted, however, that some critics of the present structure disagree not with the method of administration but with the results (i.e., the failure to order relief in individual cases). I must stress that we do not intend or expect this transfer to alter the results of individual cases. We recommend placement of the functions in a location that will afford high priority to faster, efficient enforcement, but we are not acting out of any belief that Treasury has a "free trade" bias or Commerce a protectionist one.

We also will transfer to Trade and Commerce the Treasury's role in national security import cases and embargo administration.

2. *Section 337 unfair import practice cases.*—Section 337 of the 1930 Tariff Act authorizes the International Trade Commission (ITC) to apply sanctions for unfair import practices. The ITC recently has expanded its activities (from the traditional patent infringement cases) and has been entering into some agreements that are inconsistent with U.S. trade policy or duplicative of other enforcement functions. An additional problem with the present organizational arrangement is that the Administration can review these cases only after they are concluded.

The major objective of transferring this function (as well as the ITC's tariff nomenclature function) would be to ensure consistency in application with other import relief functions. Thus, in transferring this function to Trade and Commerce, we are locating it in an agency that has other instruments at its disposal. Such a transfer would in no way interfere with the ITC's other major activities—import injury determinations in escape clause, antidumping, and countervailing duty cases.

(3) *Other import functions.*—We are not proposing transfers of any of the following import relief functions:

The functions for the Generalized System of Preferences, escape clause actions, market disruption cases, and unfair trade complaints under section 301 of the Trade Act of 1974 are appropriately located in the negotiating agency and thus will remain with STR.

The agricultural import program has been administered well by the Foreign Agricultural Service and should remain there.

Trade adjustment assistance responsibilities and administration of the textile program both benefit from the industry expertise of Commerce and should remain there; the same is true for Labor's administration of trade adjustment assistance for workers.

Trade negotiations

Although the negotiation of the MTN agreements has been concluded, there will be continuing negotiations when allegations of violations are made. In addition, there will be negotiations on bilateral trade matters and on non-tariff barriers.

STR will generally have the lead role in trade negotiations, including those implementing the MTN agreements, commodity negotiations (now led by State) and East-West negotiations (also now led by State). STR will represent the United States in GATT (General Agreement on Tariffs and Trade) matters. To ensure that all negotiations are handled consistently and that our negotiating leverage is employed to the maximum possible extent, a new Trade Negotiating Committee, directed by STR and including State, Treasury, Agriculture, and Trade and Commerce, will manage the negotiation of particular issues and will coordinate the operational aspects of negotiations. The Trade Policy Committee, though, will continue to coordinate trade policy, including the policy aspects of trade negotiations.

Trade policy coordination

Much, but not all trade policy is coordinated through the Trade Policy Committee and two committees (the Trade Policy Review Group and the Trade Policy Staff Committee) functioning beneath it. All now are chaired by STR. While policy coordination has worked adequately on the whole, some important issues are not addressed through the Trade Policy Committee mechanism. We will add coordination of the following areas to the jurisdiction of the Trade Policy Committee:

(1) *Import remedies.*—The Trade Policy Committee will coordinate generally the application of import remedies (since antidumping and countervailing duty

cases are mostly adjudicatory in character, the Trade Policy Committee review of such matters would center about new precedents, negotiating assurances, and coordination with other trade matters, rather than case-by-case factfinding). The Trade Policy Committee also would analyze long-term trends in import remedy cases and recommend any necessary legislative changes.

(2) *International commodity policy.*—Commodity policy, now handled by State (with responsibilities on agricultural commodities shared with Agriculture) has an interagency process separate from the Trade Policy Committee. However, since STR now will have lead responsibility for commodity negotiations, commodity policy will be coordinated by the Trade Policy Committee.

(3) *East-West trade.*—Since STR will have lead responsibility for East-West trade negotiations, the Trade Policy Committee should assume policy coordination for East-West trade policy. Also, the East-West Foreign Trade Board, established under the 1974 Trade Act, has been largely inactive. Accordingly, we recommend abolishing the Board and transferring its functions to the Trade Policy Committee.

(4) *International investment policy.*—There is now no overall coordinating mechanism for this area, though State, Treasury, Commerce and Labor have roles regarding matters of U.S. private investment overseas and foreign investment in the United States. We propose no transfers of functions or units, but will bring the formulation of international investment policy within the Trade Policy Committee's purview.

(5) *Energy trade.*—Energy trade matters now are handled by the Department of Energy, which is the locus of the very specialized expertise required in such matters. We do not plan to transfer the lead role, but will coordinate energy trade issues in the Trade Policy Committee.

Sectoral analysis

Finally, in connection with this reorganization, the sectoral analysis capability of the Department of Trade and Commerce will be upgraded and enhanced. We are now working with the Commerce Department leadership to develop a plan to accomplish this goal.

OTHER PROPOSALS CONSIDERED

The Trade Agreements Act of 1979 specifies several other trade reorganization proposals for Presidential consideration. We have reviewed each thoroughly and decided that the proposal just outlined is the most practical and effective approach to the trade problems we face. In fact, it borrows a number of features from these alternatives.

The first proposal in the MTN bill suggested "strengthening the coordination and functional responsibilities of the Office of the Special Representative for Trade Negotiations to include, among other things, representation of the United States in all matters before the General Agreement on Tariffs and Trade."

We have, in part, adopted this idea. STR will have a clear lead role in coordinating both agricultural and nonagricultural trade policy. The jurisdiction of the Trade Policy Committee, which STR heads, will be broadened considerably. STR will take over GATT representation responsibilities.

We concluded, however, that operational functions should not be placed in STR. Such a step would place too heavy a burden upon STR in terms of line functions not suited to the policymaking role of the Executive Office of the President. Also, making STR a locus of such activities might weaken its crucial role as a neutral "honest broker" among the various agencies involved in trade matters, a role that depends as much on perception as on reality. STR should be the focal point for policy matters, but operations should be located elsewhere.

Another alternative was the creation of a "Board of Trade." As we understand it, such a proposal would establish an independent trade agency outside the Executive Office, headed by the Cabinet-rank Special Trade Representative but not itself a Cabinet department. This agency would include the major import relief functions and the negotiation functions now located in a variety of agencies in addition to STR. The Trade Policy Committee would have a separate, Executive Office staff of 5 to 10 people and would continue to be handled by the Special Trade Representative. MTN monitoring and implementation also would be located in the new agency, which would receive policy guidance from a Board whose membership would approximate that of the Trade Policy Committee.

In part, we have adopted this idea too. Under our proposal, STR will have the lead role for all trade negotiations and will continue to head the Trade Policy Committee. STR also will have the policy lead on MTN enforcement. We believe

that STR can handle these functions without a significant increase in staff; accordingly, we propose to retain it in the Executive Office.

STR will have the responsibility for policy decisions on application of discretionary trade remedies, which will allow for their use as an adjunct to negotiations. We would not, however, move antidumping and countervailing duty matters to STR, as these are adjudicatory in character and therefore are best located in an agency other than the chief trade negotiator.

Finally, the MTN legislation proposes for consideration the concept of a new trade department, separate from and additional to the existing Department of Commerce. We rejected this idea principally because we have concluded that a significant problem in the trade policy area in the past has been its isolation from domestic economic considerations. Placing trade in an entirely separate department would, we believe, further isolate it. We believe that the Administration proposal addresses the problems ably within the existing governmental framework and without creating a new bureaucracy. In brief, STR, with its view from the Executive Office, will take the lead on trade policy and negotiations, and operational functions will be located in the Department of Trade and Commerce and the Department of Agriculture.

We have two further problems with the idea of a new department: First, moving export promotion and export control functions out of the Commerce Department would seriously undermine its important role with regard to domestic businesses (not all of which are exporters). Second, the creation of a separate department inevitably would lead to pressure for a new set of domestic field offices, paralleling and duplicating the Commerce field structure that already exists.

Mr. Chairman, I know that you share my desire that the Congress act expeditiously on these proposals. The next six months are critical for determining our trade posture for the next 5 years. Between now and the end of the year, our international trading partners will be testing our mettle. They will seek to learn if the U.S. is prepared and has the will to insist upon the new rights negotiated in the Tokyo Round. Inevitably, some misunderstandings and differing interpretations will arise. This is a natural follow-up to any complex negotiation process. The way we handle these initial challenges will affect attitudes and expectations abroad for years to come.

In this same period, the GATT will be reshaped; its organization changed; its new leadership chosen; and new working patterns established to implement the codes. Our early monitoring of how our major trading partners implement the MTN will help set the precedent for success or failure, and we will still face a series of substantial and significant follow-up negotiations.

For these reasons, I hope and trust that the Senate and the House will act with dispatch on reorganization so we can overhaul the government's trade organization to meet these fundamental challenges and opportunities.

Thank you. My colleagues and I will be pleased to respond to your questions.

Chairman RIBICOFF. Gentlemen, Mr. Strauss, I think one of your outstanding characteristics is your ability to see the big picture. I don't think this committee or the Finance Committee is interested in organization for organization's sake. We perceive and have perceived in our work, in the Finance Committee especially, the meaning of trade. Many years ago I think I was the first one to coin the phrase "ecopolitics" as something taking the place of geopolitics in the affairs of nations.

Trade policy must have both thinkers and doers. It seems to me that the proposal submitted to us doesn't come to grips with the major trade issues and problems of the 1980's.

How does this bill respond to these issues that, as I see it, this country is going to have to face in the 1980's, not today or tomorrow?

The problems of competitive export financing. You haven't handled the Eximbank to help there.

Risk insurance for foreign operations. You haven't taken into account the role of OPIC.

Selective retaliation against unfair trade practices.

The application of antitrust laws to foreign operations.

The increasing importance of revenues from service industries, banking, and industry to the balance of payments.

Expanding tourism as an American export and earner of foreign currency.

Tax incentives for exports or companies which export.

The adjustment of trade relationships between capitalists, European Socialists, and Communist nonmarket economies.

A fundamental survey and analysis of the U.S. laws affecting international trade and investment, with a view toward establishing a genuine program to support the expansion of American exports.

The expansion of trade with developing countries through bilateral, multilateral, or UNCTAD negotiations which now absorb 38 percent of our industrial export.

The plan submitted to us doesn't establish one agency to manage or develop such an overall trade policy. STR has part of the responsibility, Commerce has a minor role to play, and the Trade Policy Committee has a coordinating function. How is this proposal going to avoid bureaucratic rivalry between STR, Commerce, and the Trade Policy Committee?

What bothers me is not being satisfied with what you have brought in and potentially proposed. To that extent I think it does you more than anybody else a disservice when the Government tries to convert the results of your negotiations into future success.

For the past 16 years that I have been working in this field I have found it exciting, stimulating, and interesting. And so has Senator Roth and the members of this committee. And we would like to feel somehow that we are really making a contribution, not just putting into place an organization for organization's sake, and then look back at the handiwork and not be proud of it.

I think all of us ought to have a sense of pride in what we try to accomplish, just like you have in the success of the MTN. I throw out to you that the problems worry me, and I think they worry you, too. I don't see that you have addressed yourself to them. I don't say you personally. Do you want to answer that?

Mr. STRAUSS. That is such a good question and so pertinent, and it ought to be the subject of a week seminar at Aspen or somewhere where people can relax and talk about these things, but unfortunately no one is doing that. That is why it is a good question right here and now. That is one of the things we ought to be doing, because these are the gut issues that affect this whole area and you articulate them very quickly and very precisely. Let me see if I can respond as best I can.

In the first place, I think that we begin—in the first place, let me say this. You really talk about several different things. You talked about the top of the mountain, large, global, macro issues that this Government, this committee, indeed this Nation, is going to have to grapple with over the next decade. And then you talked about also some policy questions that need to be answered that really fall out of the scope of what we talk about here as we direct ourselves to that, and then it seems to me, Senator, that you talk about the things that aren't pleasant but the kind of things that you have to deal with every day.

When you get away from the top of the mountain, large global issues that we have to grapple with, there also is that dirty ditch sludgework, and that is the detail of setting up some kind of structure.

So we have all of those things to deal with here in my judgment as we have structured Commerce and STR. We structured a Trade and Commerce and STR that can give trade a top priority.

You talked about specific things like export financing. One of the questions we have, for example, is what you do with Eximbank. It happens Exim is working. It happens it has one of the few very real happy constituencies in this whole field and while it was tempting to fool with it, it didn't need anything. It really needs to be left alone. All we did was put in here an ex officio member on its board to be sure that there was proper coordination.

You talked about OPIC which is another important thing. OPIC is taken care of through IDCA.

Chairman RIBICOFF. When we had an IDCA reorganization, I think we made it clear that we were unhappy. Really OPIC doesn't belong in IDCA. If it belongs anywhere, it belongs somewhere in here because it is business and trade oriented. It isn't an aid program.

One of the problems we have to wrestle with when we almost lost the reorganization on the floor of the Senate, was OPIC.

I just wanted to indicate I have always had in my mind if we had a reorganization here we would pull OPIC out of IDCA.

Mr. STRAUSS. My personal position is that you will find no objection on that. Having been treated that way it seemed more appropriate to leave it here at this time. You talked about antitrust. In my judgment our antitrust laws need to be looked at, not necessarily here, but this is the sort of thing I hope STR and the Secretary of Trade and Commerce could—and this is the sort of thing that members of this committee, Senator Javits for one, has been talking about—undertake a reexamination of these antitrust laws to see what we do with trading committees in this country, small trading committees.

So our antitrust laws do need to be looked at. Our expanding tourism problem, the very gut issue you mentioned, this is beyond trade reorganization, but it is the sort of thing we are going to have to look at and in the larger context, you talk about trade with developing countries. We think that with what we have done here, with the way we set the implementation here, have we come to grips with the new export policy that can be created here or a better, a more aggressive one, with the President's new Export Policy Council, chaired by Mr. Jones, chairman of General Electric who thinks he has got a small workable committee with a few members of the Government involved in it and representatives of the private sector. I think that is going to help.

Overall we are talking about the trend toward the nationalistic tendencies, if you will, that are coming more and more to bear and becoming more involved in our whole trade series of problems.

So all in all I share those views of yours. In fact, I probably am more sensitive even than you to these concerns. I have no disagreement with a single word you said. I think you set the agenda. I think you have set the agenda in this field in your statement for the next 10 years.

I think we begin coming to grips with it in the MTN. We come and take the second stage here, and we move on.

Mr. McINTYRE. May I make a couple of comments, also, Mr. Chairman?

Chairman RIBICOFF. Certainly.

Mr. McINTYRE. I think, as Ambassador Strauss has said, many of the issues that you have raised are not issues that can be corrected by structural changes. For example, the questions of financing, the questions of antitrust laws, these are fundamental policy issues that have to be addressed in context.

Chairman RIBICOFF. If you will excuse me, Mr. McIntyre, this is what bothers me, because if organization isn't policy, it is meaningless. What I have been driving at is that if we have these serious policy problems, then we must have an organizational setup that can address and coordinate and work on these problems. Otherwise, we are all really floating around aimlessly at sea. These are the basic issues that affect every serious student of international trade.

What concerns me is we haven't addressed ourselves to this on an organizational basis.

Mr. McINTYRE. I agree with your statement that organization is policy. But we have a number of different types of policies here that have some impact on trade or some element of trade.

We have tried to deal with the fundamental questions that I believe your bill and Senator Roth's bill addresses, and that is to centralize policy and negotiations in one place in the Government.

We have addressed the problem of the commercial attachés, moving them from State to an agency that deals with domestic business and has a domestic field structure throughout the United States, and now will carry that forward into the international arena.

Chairman RIBICOFF. But excuse me. The problem is you have taken the commercial attachés out of State just for some countries. When it comes to the Third World, where there should be more work and harder work to develop trade with the Third World, you leave those at State.

Mr. McINTYRE. That is an area, Mr. Chairman, that is certainly negotiable with us. We had some reasons for taking them from the major countries because there was a clearer line between the economic analysis functions of the embassies in the larger, more developed countries and the commercial attaché function representing or working with industry.

Senator JAVITS. May I inject one word there?

Mr. McIntyre, how do you reconcile leaving the commercial attachés in the developing countries to State, but taking away from State and turning over to the STR the very negotiations they are supposed to structure, to wit: Commodity negotiations and North-South negotiations?

Mr. McINTYRE. I think what we are trying to do, there seems to be virtually a large consensus to do, and that is to try to centralize the policy and negotiating functions in one agency.

Senator JAVITS. But you take away the commercial attachés from the very entity that you are now creating to do that.

Mr. STRAUSS. Senator, let me answer that if I can a little more precisely. Not all of the developing countries are left out. The major ones as I recall in this plan are brought under. You had to stop somewhere. There is a limit to how much you can do in STR or in

Commerce under this thing. It was felt that countries, larger developing countries, major ones are covered the same way the developed countries are covered.

I think that is the answer to that. Yet, you probably had to draw a line somewhere. A lot of these things are the key. I may be mistaken on that. But I don't think that I am.

Senator Ribicoff asked, I think, another key question. You talked about export credit policy. I think that is a very key question and you have to decide where you are going to go. There was a great deal of conversation. I for one looked very seriously at bringing it under the TPC where you could be maybe somewhat more aggressive, but on the other hand you have budgetary restraints that this committee and others are concerned about, some felt maybe you are better off in keeping this in the hands of, the budgetary hands of Treasury, OMB, and others.

We've got budgetary problems. So the argument can be made on the other side. I made it. I am not so sure I was convinced that it is good and when you balance them off, the trade outcomes, you came down on that side.

Those are the answers I would give in answer to this question. I am not prepared to swear by any of these things to be the pure litmus test answer.

Chairman RIBICOFF. I have a myriad of questions, but I want to share the time with my colleagues. I will come back later.

Senator Roth?

Senator ROTH. I would like to expand in a sense on what the chairman has already touched. What concerns me is I don't see where this reorganization really creates a single focal point for trade, both policy and the implementation of that trade policy.

Mr. Ambassador, as I mentioned earlier, what I really want to see is this country become the No. 1 trading nation and I think in order to become the No. 1 trading nation we have to have a spokesman somewhere in Government, a Bob Strauss who can effectively push an active trade policy.

Frankly, if I were President, I wouldn't know how to go to Bob Strauss and say where can I put in this apparatus? Do I make you Deputy Secretary of Commerce? Presumably it has much of the action. Or do I try to put you on the Trade Policy Committee? In my judgment a committee is no way of getting an active policy in this area. We want one individual to be the focal point, the activist, the man or woman who is going to change the trade policy of this country.

Let me point out what I am talking about. Trade today, world trade roughly amounts to $1 trillion. Some of our economists tell me that by 1990 that is going to be $4 trillion. In the last 15 years our share of world trade has dropped from something like 18 to 12 percent. That is partly expected because of the success of some of our other policies in building strong allies to be very candid about it. But I think we have to reverse that trend.

If we could have 15 percent of that $4 trillion by 1990, we would provide an awful lot of new jobs, an awful lot of growth in this economy. For every $1 billion worth of trade it is estimated that we create 40,000 jobs for American workers.

The thing that bothers me and what you are talking about here instead—I don't see this as any substitute or equivalent. If I were the

Japanese, I would be laughing at this. I would say the United States really is not that serious about trade.

I daresay that one of the real problems we are having in trade today is that we are losing so many of our good people, not only you but a number of others and it is only a matter of time before more are going to go.

We are not creating an apparatus that is going to create, that attracts the people we need or the professional kind of a corps that we need to implement MTN.

We did propose, as you know, in our legislation what was called an International Trade and Investment Department. I want to make one point very clear. At no time did we suggest creating a new bureaucracy. The last thing I think our experience with the Department of Energy has shown is that a large bureaucracy is not the answer. We want a tight and lean agency that is going to do something.

I can appreciate a President not wanting to create a new department or even a new Cabinet position. But why can't we build that around the STR? He is a Cabinet member. We already have the agency, but by putting so much of this into the Commerce, which no one considers a strong department, and I say that in no disrespect for the Secretary of Commerce. I think she is a very able and very fine lady. But I just don't think that we are going to see that department actively protect the U.S. needs in these coming years.

To me, when you talk about the codes, the nontariff codes, which are a step forward, as I said I think in these hearings, earlier, Mr. Chairman, whether or not they are going to prove successful I think will depend very strongly on the people who are enforcing them. That means we are going to have to have an apparatus that does something.

I guess I should be a witness instead of the questioner.

Mr. STRAUSS. I will be glad to swap with you. [Laughter.]

Senator ROTH. I just want to make one point, that our proposal does not create a new bureaucracy. But for example, talks about consolidation, let's look at investment. There are a number of different offices scattered around the Government relating to foreign investment. In the State Department we have an Office of Investment Affairs, Treasury has an Office of International Investment, Commerce has an Investment Policy Division, an investment staff in the Bureau of Economic Development and an Office of Foreign Investment in the United States.

I would like to ask Mr. McIntyre, has OMB examined each of these offices? Are there overlapping jurisdictions? Why shouldn't there be some consolidation in this area?

Mr. MCINTYRE. We have suggested that the international investment functions of the Government be coordinated through a strengthened Trade Policy Committee. We agree that there needs to be more direction given these activities and we would think that the proposal that puts STR in the role as a Cabinet officer coordinating our policy, speaking for the Government on trade policy is the best way to deal with the issue.

Let me give you a couple of other examples. We are always going to have other departments that have some legitimate interest in trade functions. Even if you had a single department such as you suggest there is no way you can take the State Department away from its

international responsibilities. So obviously the way to get at this is to have representation at the Executive Office of the President level to deal with these broad crosscutting issues.

Senator ROTH. I regret that I just don't believe the creation of a committee is the way to get an active policy. It just won't work. We have tried it many times. We tried it in energy under Nixon and Ford. They tried exactly the same approach and it was a major failure.

Mr. MCINTYRE. It worked very well with the multilateral trade negotiations. Ambassador Strauss was chairman of the Trade Policy Committee. They met. He can speak for himself on how effective it was. But he was able to hammer out an agreement within the administration as chair of that committee that permitted our negotiators to represent the Government effectively.

Senator ROTH. In all candor, I think the success has to be given to the personal qualities of the Ambassador and not to the organizational set up. One of my concerns is that today, in the case of MTN, you could attract unusual people because of the importance of that position. Today those negotiations are over, and we see all of the top people fleeing STR to other challenges. What I am saying is we have got to create some kind of an organization where we can attract the same caliber of people and I don't believe that a committee is going to be—there has to be some coordination, you are absolutely right, somewhere along the line. You can't divide it so other departments don't have an interest.

What I am trying to create is a lead agency with a gal or guy at the top who can be the type of person who will have the ear of the President. One of the reasons I think Mr. Strauss has been successful is he has had the ear of the President. No Deputy Secretary of Commerce is going to have that ear. This is one of the real basic weaknesses I see of the reorganization.

Mr. STRAUSS. Senator Roth, I do think this: That I agree with what has been said here, that a single focal point is not a panacea and I do think that the STR here is getting considerable additional functions. As a matter of fact, the job is larger. It is a more attractive job in many respects for the next fellow to have than I have had.

Senator ROTH. Will you stay there, Mr. Ambassador?

Mr. STRAUSS. No; I am going to move on to the Middle East where things are easier. [Laughter.]

But I do want to respond to a couple of other things. With respect to me, you made the argument that I made 2 years ago, and there is an answer to that because you and I have talked so much that a lot of the things you are saying, I must say you are stealing some of my lines now.

Senator ROTH. I am always glad to learn.

Mr. STRAUSS. I am taking notes. If we looked at that, that is what I wanted. You find something that is good, copy, steal it, copy it. But agriculture would be ill-served in our Government with that sort of thing. They would be lost.

One of the concerns we have, one of the things that is carrying us here is the most effective and efficient agricultural apparatus in the world. As for more productive capacity in the world, we don't want to lose that and lose our thrust there.

Japan doesn't have that kind of problem. They can have the industrial thrust because that is where they are.

There is one more thing that I would say. With respect to those commercial attachés that you talked about, we will get better people in those jobs. That is a job that is looked down on right now in the State Department. They are the fellows who haven't made successful Foreign Service careers. These are going to be plums to be grabbed right now as you try to attract good people, not the pits of the plum and what they have been in the past. Really, the whole thing is different.

There is some merit in everything you say. But in a lot of things you say, we have weighed those things and you have weighed them and this committee has when you try to structure a plan. Maybe people say Strauss is too much of a pragmatist, but I am telling you that a good deal of what we have talked about here, we cannot structure in this country and have the support of agriculture, labor, industry, and the Congress and pass it.

And I also say to you that the basic five or six priority items that you set forth, you, Senator Roth, we have accomplished in this program, in this plan. This isn't the end of the road. There will be continued building on it. But I think it is a plan that has tremendous merit.

One thing is that STR needs to stay in the Executive Office of the President. That is what gives it the authority it has. It serves a good function. The members of this committee want the STR to stay in the Executive Office and be built on, in my judgment, and if it did all of the things that you wanted it to do, frankly, they are all appealing and people like to grab authority and grab power, but it would make it entirely too large and too unwieldy to be any kind of an effective operation, make the Executive Office too large and unwieldy. That is another problem we came across.

Let's remember the STR is working in the Executive Office reporting to the President and reporting to the Congress. That was a well thought through plan and let's don't take it out of the Executive Office. That is all I am trying to say.

The 1974 Trade Act was no bum piece of legislation. You go back and wish you had done this, that and the other. We followed that carefully as we have moved along and it has been really, it has provided the benchmarks.

Senator ROTH. Mr. Chairman, I realize considerable time has passed. I have further questions.

Chairman RIBICOFF. Senator Javits?

Senator JAVITS. Thank you, Mr. Chairman.

I would like to try a little bit to deal with the positive in this plan, first, Mr. Chairman, with your permission I would like my statement inserted in the record.

Chairman RIBICOFF. Without objection.

[The statement of Senator Javits follows:]

DEPARTMENT OF TRADE AND COMMERCE

I am pleased that the Governmental Affairs Committee is beginning hearings this morning on various proposals to establish a Department of Trade and Commerce, and I would like to take this opportunity to commend Chairman Ribicoff and Senator Roth for the leadership that they have shown in this important area.

In my view, increased exports of our goods and services is crucial to our economic well-being. I have watched in recent years with growing concern as U.S. products have become less and less competitive overseas, while sales of

foreign goods in this country have sharply increased. Last year, for example, our trade deficit was approximately $30 billion, contributing to the loss of jobs, inflation, and the decline of the dollar. As a Senator and a member of the President's Export Council, I hope to be able to focus attention on these and other manifestations of this country's weak trade posture.

There are many reasons for this situation, of course. But I believe that one fundamental reason is that the private sector has not received the type of support from agencies of the U.S. government—such as the Commerce and State Departments—that foreign companies receive from their governments. And part of the reason for this lack of support is that there is no one agency anywhere in the government that views its primary mission as facilitating trade.

Thus, I am convinced that there is a need for reorganization to upgrade government interest and to bring together the disparate agencies now involved in export decisions. This will not, of course, solve the problem by itself. What is really necessary is increased awareness nationwide—including the highest levels of government and industry—of the need to export. This reorganization is a useful first step along that path.

As to the specifics of the proposed reorganization, I retain an open mind. I must say, however, that at this point, there are several features of the Roth-Ribicoff approach that I prefer over the administration's proposal.

Thus, for example, I would transfer OPIC to the new Department. I have taken a close interest in that agency since its inception, and have always viewed its functions as trade oriented rather than developmental. Like Senators Roth and Ribicoff, I would also transfer all of our commercial attachés to the new Department rather than just those stationed in the major industrial countries. These are people called upon to make business decisions; the State Department is not the appropriate place for such decisions.

I think there are important questions raised by the administration's decision to keep the Office of Special Trade Representative as a separate entity, and to establish a Trade Policy Committee and Trade Negotiating Committee linked to STR. For example, I am not convinced of the wisdom of placing in separate agencies the functions of policy and operations regarding the application of antidumping and countervailing duties. I believe, however, that this arrangement represents an improvement over current practice.

Also, for the first time STR and the Policy Committee will have a clear legal mandate to provide central direction to our trade negotiations, including international investment and commodities. I further recognize that the Commerce Department does not have a record in this area that would inspire confidence in its ability to meet increased responsibilities, even if, as under these proposals, Commerce were significantly reorganized.

Nevertheless, I am concerned about the practical effect of dividing up responsibility in this manner. Under the administration's proposal, the new Department will carry out the day to day operation of our trade laws, but major policy and decisionmaking will go on in a different agency outside of the Department. I am not convinced that this can work, at least without further clarification of the exact role to be played by STR, the Trade Policy Committee, and the new Department.

Senator JAVITS. I like what you have done about building up the trade representative. He can be the fellow that Senator Roth is talking about, provided that we let the President know that we don't intend to confirm anybody who isn't really from the major leagues.

I would hope, Mr. Chairman, that whatever we do about this we make that crystal clear to the President, that this time he has got to give us, as Senator Roth said, another Bob Strauss or we won't be content.

The other thing that I think you have done which I like very much is to take the commodity negotiations and the North-South dialog out of the State Department. With all respect for the wonderful men who have tried it there, somehow or other it seems to be dead on its feet.

I attended, along with Senator Ribicoff, a number of those meetings of UNCTAD and so on. We have seen it actually happen.

The third thing which I think is also sound is this transfer of commercial attachés. I must say I am a little uncertain about what that means, Mr. McIntyre. You speak of our principal trading partners and as I read it originally, it related to the principal industrial countries.

Mr. Strauss has answered my question, indicating that it must be our principal trading partners because he said it includes some developing countries, or what we call the so-called middle level countries which are now being passed over. Which is it?

Mr. McINTYRE. It is the latter, Senator Javits. Actually there are about 30 countries.

Senator JAVITS. Thirty?

Mr. McINTYRE. Yes.

Senator JAVITS. Can you give us a list?

Mr. McINTYRE. Yes. I will be glad to supply a list for the record.[1]

Senator JAVITS. They include the Brazils, the Mexicos, the Koreas?

Mr. McINTYRE. That is correct.

Senator JAVITS. It will include those 10 countries that are passing over.

Mr. McINTYRE. That is correct.

Mr. STRAUSS. That is correct.

Senator JAVITS. That is good.

Mr. McINTYRE. There are at least 30 countries and over 100 people that we are talking about.

Senator JAVITS. I think that is all for the good.

There are weaknesses, I think, and Senator Ribicoff has already pointed out one. I am unhappy that you have neither the OPIC nor the IDCA, if you want to let that lay for a moment, you ought to have IDCA represented at a much higher level than they are. I notice they are not even on the trade policy——

Mr. STRAUSS. I think it is on the Trade Policy Committee. I could be wrong.

Mr. McINTYRE. Senator Javits, it was not included in the fact sheet because it does not yet formally exist. IDCA will be represented on the Trade Policy Committee.

Senator JAVITS. That is in addition, too.

Mr. STRAUSS. International investment would be a function also of the Trade Policy Committee. So it would be covered there. But the point is well made.

Senator JAVITS. IDCA will be on the Trade Policy?

Mr. McINTYRE. Yes, sir.

Senator JAVITS. The other thing that I think is important, and I think that is a good one, I am glad that you are taking care of that, I don't think you adequately recognize the position of labor. Labor is a member of the Trade Policy Committee, one of the few. I noticed one reference in your statement to labor. It occurs where you speak of trade policy coordination.

I think you refer to the fact that labor is there, but I don't think that the position of labor is adequately tied in for this reason: Labor's position—I for a long time was ranking member of the Human Resources Committee—labor's position will determine in my judgment whether you can or cannot have an open trading system or whether

[1] See p. 37.

you go protectionist. It is argued that the outlook of labor is limited and that there are more workers in the export trade, Senator Roth has already emphasized that point—than are hurt by imports.

But that is not true of the labor policy of the country in terms of the major organized labor federation, the AFL-CIO, which is very heavily protectionist today, except for a couple of its constituent unions and it is the constant oppositional factor in our trade policy.

I believe that you ought to think through more carefully how to give labor a big enough voice to help make the policy, and because it helps to make the policy, I think it is very likely to be much more realistic than it is today.

Mr. STRAUSS. Senator, that is so important. May I answer that right now at this stage because it needs to be directed and I don't think we have properly done that.

Let me begin by saying because of the very thing that you talk about we work exceedingly closely with labor and the Department of Labor and with labor itself. That is the reason why although labor has traditionally resisted legislation like the MTN, we had the biggest part of labor, independent unions, a great many of them supported us and labor itself, AFL-CIO, trying to take the position of opposition which everyone assumed they would do, to oppose the MTN. We worked carefully with them. Labor is not on the Trade Negotiating Committee because labor doesn't do any negotiating. It doesn't particularly care to be on there.

The reason that the countervail dumping was moved to Commerce instead of STR, one of the main reasons was that the total labor community wanted it out of STR and wanted it in Commerce, taking their concerns into consideration.

Howard Samuel, in the Department of Labor, has worked extremely closely with us through this whole process. He, more than any other person, I think, is responsible for interpreting for labor what we were doing and where it would work and in the advisory groups labor has additional considerable input.

Paul Hall, and others, participated fully in the past and will in the future. So through the advisory groups, through the Trade Policy Committee, through the dialog that goes on with them, I think labor has been fully involved in this. I think they will be the first to tell you so.

If labor had not preferred Commerce, I suspect countervailing dumping would have ended up in STR.

So I hope that addresses that question, because without labor involved in this, obviously one leg of the three-legged stool is missing.

Senator JAVITS. Mr. Strauss, it addresses itself to it. It doesn't answer it. Let me tell you why. Because while it is true, knowing you as well as I do, I am sure you touched all the bases very effectively, including labor, but I don't think as a person who has lived with this for a long time that labor is intelligently implemented into the total organizational process.

Mr. STRAUSS. How would you suggest it, Senator?

Senator JAVITS. That is a very good question and I can't answer it this minute, but I will undertake to. I will undertake, if the Chair would allow me, to come up with an answer as to how do you get labor so sufficiently tied into the process that it will not only seek benefits,

but take responsibility. I will come up with my answer and you people can think about it, too.

Mr. STRAUSS. There is one thing that labor could do. I have told them to do it and I hope you will join with me. They could strengthen their own analytical capacity and judge where their participation ought to be and how it could be supportive. I think that would be a big thing that the labor movement could do. They don't need me to advise them. They seem to be getting along pretty well. But that is one thing that could be done and I am very serious when I say to you that we looked at all of this.

Mr. McIntyre looked at it, I looked at it, and I didn't ask the question as you know of being impertinent, I asked it because I don't know the answer to what more we can do. But anything you can suggest, let's look at it.

Chairman RIBICOFF. Senator Javits, my suggestion would be this. We will have these hearings this week and we will get a pretty good consensus of how the country is thinking about this proposal. It would be my suggestion that during the August recess the respective staffs of those members who will have a deep interest in the subject work very closely together with OMB, Ambassador Strauss' staff, to see if when we return we can't have this ironed out and something definitely in place.

I certainly would look to you to have an input into not only that, but especially this particular issue that you have raised.

Senator JAVITS. The last thing, Ambassador Strauss, that I want to discuss, is the utilization of the U.S. private investment capital. That is a very big item.

Mr. Chairman, again, I will study this carefully and do my best to come up with a pragmatic suggestion, but that is really a hard nut that has got to be solved because I am convinced that unless the markets of the United States and other trading agencies are extended and we stop taking in each others wash, this world is in for a much rougher economic and monetary period than is even now contemplated.

Mr. STRAUSS. I share that concern. Let me say with respect to myself, Senator Ribicoff, members of the committee, that my sensitivity to this as most of you know is much the same as your own. I have been having to deal with it exclusively, so in most cases it is even more. For example, my two trips to the Middle East I have made so far, the two of what I suspect will probably be 42 before I get through, each trip I have taken along from 8 to 12 people from the private sector dealing with trade issues and economic issues in Egypt, Israel, and, indeed, the whole Middle East because again I know that is the answer. That is the big part of what we will build on out there. So I am extremely sensitive and the members of our staff are.

I would like the record to reflect that I don't think there is a single individual in this Nation who understands this whole area any better than Richard Heimlich here, who is assistant STR who will be all summer working for these people. I am volunteering him right now. I will be away on vaction, of course. [Laughter.]

Mr. STRAUSS. And we will work exceedingly carefully with you and I know I speak also for Director McIntyre.

Senator JAVITS. It is a pretty tough time to not get a vacation.

Mr. STRAUSS. It is a good time to take one. [Laughter.]

Chairman RIBICOFF. If I could follow up further, the questions of private or governmental credit become very, very important because we are at a competitive disadvantage with most of our major trading partners. They see to it that favorable credit terms are advanced to their exporters to help them, whether it is in research and development, or favorable terms for investment, or in trade. We have nothing comparable. That is why my concern for the role of the Eximbank, OPIC, or any other agency along the line suggested by Senator Javits. These are some of the factors we are going to have to take into account.

Senator Durenberger.

Senator DURENBERGER. Thank you, Mr. Chairman.

I will be very brief. I am a babe in the woods of the experts on this subject. I have a deep interest, so I will get my staff person to spend August dealing with the subject. I did take one of those trips with Ambassador Strauss, thinking I would get up to speed with all the rest of you, learned a great deal about a lot of other things from Ambassador Strauss, but I am not at your speed yet. But I find myself very much in sympathy with the administration's proposal. I think as you know I introduced the Jones-Frenzel bill here and find it and the administration's proposal almost identical.

So you understand where I am coming from, Mr. Chairman, the essence of it is toward the end of Mr. McIntyre's presentation in which he talks about clearly delineating the policymaking in the operational issues.

My strong feeling, and I think it is clarified in part by the events of the last week or so, is that the executive branch of this Government has gotten itself to the point where it is very difficult to distinguish between the policy recommending role and its role of implementing policy as adopted by the Congress.

I find a great deal of merit in this basic proposal, which puts STR or keeps STR in the Office of the President, clearly tries to delineate the policymaking, coordinating functions from the operation. So I am very supportive of most of what is in here.

I might ask just one question as it relates to the policy function and that is with regard to the role of the Secretary of Commerce and Trade in the Export-Import Bank in the process.

I think the Jones-Frenzel bill talks in terms of the Secretary being chairman of those two agencies while you have a different setup in this proposal as it relates to the policymaking function. I wish you would explain why you have chosen this particular report.

Mr. STRAUSS. The Eximbank is working well as it is now. The constituency that uses the Eximbank didn't want it in the shape where it would have the Secretary of Commerce, Trade and Commerce as its chairman. The chairmanship would then be a token chairmanship and be nothing because this is a full-time hard job and it requires someone as chairman who is in fact a chairman, a chairperson to be correct these days, and the constituency just didn't want it and I didn't frankly see any reason for it because I thought it was a token chairmanship.

In this way we have an active, very aggressive chairman. I hope we will keep the same type. By the way, John Moore, to whom I refer as the present chairman, is exceedingly well regarded in this total constituency out there.

Mr. McINTYRE. Senator, we did look at the possibility of making the Secretary of Trade and Commerce Chair of the Eximbank. We rejected that idea for the reasons that Ambassador Strauss has just stated. We feel that as an ex officio member of the board, the Secretary of Trade and Commerce will play a key role and can adequately communicate trade policy to the board and also provide communication the other way, back to the other trade functions in the executive branch.

Mr. STRAUSS. It was in the plan, as a matter of fact, for about 24 hours and taken out.

Senator JAVITS. Thank you very much.

Chairman RIBICOFF. I have many questions but I think that there is no sense of asking them because if has become very obvious that it isn't the details of your proposal, but the question about what is good or bad about the proposal. I think what this session has done is make us realize the philosophical base upon which we must act and that is the value of today's session, not whether your proposal is good or bad, or our proposal is good or bad. I think we understand one another as a result of this. I am looking forward to very productive hearings so we can move very rapidly in September on something meaningful that you could recognize that is good, and that we could recognize as good. I think we will be able to to that. Are there any other questions of this panel?

Senator JAVITS. I would like to join the Chair in thanking the witnesses, Mr. Chairman, for the very searching effort along the very lines that we all have in mind. I believe we can come to a conclusion. I think, Mr. Chairman, in the present state of the country, if when the executive department and the Congress can agree upon some major issue, we can be grateful.

Chairman RIBICOFF. As Senator Javits knows, I think the great pride I take in this committee is its uniform ability to work together irrespective of party or irrespective of what side of the table we sit. With various administrations we have been able to work out these problems. So usually, we come out with unanimous reports and are able to win our positions on the floor of the U.S. Senate. Every once in a while we do not. There are not many. And I am hoping we can work out a constructive solution on this issue before the year is up.

Mr. STRAUSS. Senator, may I make a final statement to you and members of the committee on behalf of the President and Jim McIntyre and myself?

This really has been a good session this morning. And we needed to have a good session today. There are so many simplistic ideas afoot in this country, so many solutions that sound so good, just closing the doors, turning the demagogues out or get rid of the rascals, but this is so terribly important and it is so complex as you have said.

We needed to have this very, very responsible dialogue we have had here today. I think this is another good step along the road to the problems we are going to come to grips with.

I can't tell you how pleased I am. Thank you so much.

Senator ROTH. Mr. Chairman, I have a number of detailed questions I would like to know about. Rather than take the time today, if we could submit them to you and you answer them in writing.

Chairman RIBICOFF. Without objection, any member who has some questions—I have many, too—will be able to submit them in writing and they will be answered.

[Answers to written questions follow:]

Question 1. How will the responsibilities of the newly established International Development Cooperation Agency in the area of trade and commodities be affected by the proposed reorganization?

Answer. IDCA will not be affected directly by the reorganization of trade functions; however, IDCA will become a member of the Trade Policy Committee and hence participate in its deliberations on trade and commodity issues.

Question 2. How many staff positions would be transferred by the Administrations' reorganization proposal. Would you please submit for the record a list of each function to be transferred and the number of positions that will be transferred along with such functions?

Answer. Transfers to TAC (estimated) from Treasury:

Thirteen positions from the Office of Tariff Affairs for countervailing duties and antidumping cases.

An undetermined number from the Office of Foreign Assets Control for the embargo function.

Two hundred and six from the Customs investigative unit for countervailing duties and antidumping (this includes the 130 additional positions recently requested from Congress to handle the growth in the countervailing and dumping caseload).

From State: at least 100 commercial officers to be reassigned to TAC (actual number not yet set); plus affiliated local employees (several hundred).

From ITC: No more than 25 transferred for Section 337 cases (actual number not yet set).

Some of the 55 working on tariff nomenclature and statistics (actual number not yet set).

Transfers to USTR (estimated) from State:

Five from the Office of International Commodities.

Four from the Office of East-West Trade.

One from the Office of Fuels and Energy.

One from the Office of Investment Affairs.

Five from the GATT mission.

From Treasury: One from the Office of East-West Economic Policy.

Question 3. In addition to negotiations in specified areas, you say that the U.S. Trade Representative would also be responsible for "all other trade negotiations." Does that include bilateral beef agreements? Civil aviation agreements? Negotiations in UNCTAD with respect to the Common Fund? Other UNCTAD negotiations? What agency would be responsible for the so-called "North-South" negotiations?

Answer. Negotiation of bilateral beef agreements will be assigned by the new Trade Negotiations Committee, which includes both Agriculture and State, the negotiators of these agreements in the past.

Civil aviation, maritime affairs, and telecommunications will not be negotiated by the U.S. Trade Representative as these are more transportation and communications activities than trade activities.

The "North/South" or "UNCTAD" dialogue comprises discussion of a wide variety of economic issues whose collective effect is extremely important in our foreign policy relations with the developing countries. It is this foreign policy aspect that has prompted our participation in a dialogue. Sometimes these issues are examined collectively as in the CIEC in Paris or the UNCTAD in Manila and sometimes they are considered separately, e.g., an UNCTAD commodity negotiations. Some of the issues are primarily trade questions, e.g., LDC reaction to the GATT negotiations or the U.S. position for negotiation and sometimes their focus is little related to trade, e.g., LDC suggestions in the international monetary area or their efforts to promote increased bilateral aid.

Coordination of each of these specific issues will vary, with the State Department continuing to manage the varying forms of coordination for conferences that involve a whole range of LDC interests and with USTR taking the lead on trade issues. Development assistance, technology transfer, behavior of multinational corporations and financial transactions—all relating to LDCs—will not come under the purview of the Trade Representative. U.S. decisions on issues that are pri-

marily trade-oriented will be coordinated through him and that includes our positions for commodity negotiations, whether the latter are in the UNCTAD or outside it. Though the Common Fund is to be created in support of commodity agreements, it is essentially a financial institution much the same as the International Monetary Fund is a financial institution, one of whose main purposes is to help countries manage balance of payments so that they can maintain an open trading system. However, when and if commodity agreements are negotiated under the Common Fund umbrella, USTR of course will have lead responsibility for such negotiations.

Question 4. Your proposal would assign to the U.S. Trade Representative "responsibility" for commodity negotiations, East-West trade, all negotiations related to MTN (including representation to the GATT), and "all other trade negotiations." Does this mean that the U.S. Trade Representative would be the lead agency for all of these negotiations in the sense that an official of U.S. Trade Representative would be the chief of the delegations to all these negotiations?

Do you envision a permanent U.S. Trade Representative delegation in Geneva to represent the United States before the GATT?

Answer. The Office of the U.S. Trade Representative will be the lead agency for the negotiations listed. That does not mean, however, that officials from that Office—which will remain a small unit in the Executive Office of the President—will necessarily lead every delegation. In all probability the Department of State will continue to handle many negotiations on commodites and East-West trade, but now with oversight by the U.S. Trade Representative and policy guidance from the Trade Policy Committee. Officials from the Office of the U.S. Trade Representative will lead our delegations to GATT. Since the GATT will be the principal international forum for implementation and interpreting the results of the Tokyo Round, the Trade Representative will be very active there. And, since GATT meetings, including committee and working group meetings, occur almost continuously, the Trade Representative will have officials in Geneva permanently to represent the United States to the GATT.

Question 5. You propose to add to the existing responsibilities of the interagency Trade Policy Committee. The Trade Policy Committee would be responsible for import remedy policy including "anti-dumping and countervailing duties to the extent legally permitted." What exactly does this mean?

Who will negotiate agreements with a foreign country or exporter to eliminate the effect of dumping or subsidies? The Department of Trade and Commerce? The U.S. Trade Representative?

Answer. The Department of Trade and Commerce will be the administering authority for countervailing and antidumping duty cases, and will have the statutory authorities and duties most recently revised in the Trade Agreements Act of 1979. The Trade Policy Committee, through the new Trade Negotiating Committee, will coordinate CVD and antidumping negotiations, but TAC will have the final legal say and cannot be reversed by USTR or the TPC. In view of its final legal authority, TAC will lead delegations in such cases; USTR presumably also will participate. The TPC will advise on the interpretation of the international countervailing and antidumping codes. This can be particularly important during the first months that these codes, and the U.S. implementing act, are in effect. Precedents will be set that may govern these codes for years to come.

Question 6. You propose to create a Trade Negotiating Committee within the Trade Policy Committee. Why have a special subgroup?

How would the role of the Trade Negotiating Committee differ from the role the Trade Policy Committee now plays in establishing policy for trade negotiations?

You propose to put the U.S. Trade Representative, State, Treasury, Agriculture, and the Department of Trade and Commerce on the Trade Negotiations Committee. Would you also include the Department of Energy and the Department of Labor?

Answer. The Trade Negotiating Committee is being created to ensure that all negotiations are handled, consistently and that our negotiating leverage is used to the maximum extent feasible.

The TNC would be involved in a more detailed way with the substance, tactics, and trade-offs in the negotiations of particular issues. The TPC would continue to develop basic U.S. trade policy and objectives for trade negotiations.

The TNC would include only these agencies involved directly in negotiations, whereas the TPC includes all agencies affected by trade policy. We do not propose

at present to include Energy and Labor on the TNC. This is because they generally are not involved in trade negotiations. Agencies chiefly involved in such negotiation are and will continue to be USTR, TAC, State, Treasury and Agriculture who, accordingly, will constitute the TNC.

Question 7a. You propose to put energy trade issues under the Trade Policy Committee. However, you do not add the Department of Energy to the Trade Policy Committee. Why not?

Answer. In order to provide the greatest airing of energy trade issues, we will recommend to the President that the Energy Department participate in the TPC committee structure whenever energy issues are under consideration.

Question 7b. While you put East-West trade policy under the Trade Policy Committee, it is not clear whether this includes policy with respect to the Export Administration Act. Will this be included?

Answer. Export controls, as prescribed in the Export Administration Act, are administered by the Department of Commerce, with interagency involvement of the Departments of State and Defense and occasional assistance from other departments. A recent policy review of the control procedures, conducted at the direction of the President, has recommended changes in the procedures, changes to speed up the process. We believe the present system should implement these changes and improve its operations. Accordingly, and bearing in mind the overriding importance of the national security aspects of strategic trade controls, we are not including export controls under trade policy committees at this time.

In a July 20 letter to Senator Stevenson and a July 23 letter to Congressman Bingham, the Department of Commerce informed the Congress "that the Administration is opposed to any amendment which would alter the existing array of responsibilities within the Executive Branch with respect to the administration of export controls. . . ."

Question 7c. What do you mean by "international investment policy?"

Answer. "International investment policy" will include four general sets of issues relating to: (1) foreign investment in the United States; (2) investment by Americans abroad; (3) the operations of multinational enterprises and related subjects, such as technology transfer; and (4) multilateral agreements on international investment. U.S. policy concerning international investment will come within the province of the Trade Policy Committee.

Question 7d. Who will staff the Trade Policy Committee?

Answer. USTR will continue to staff the TPC.

Question 8a. The new Department (TAC) and the Department of Agriculture would have responsibility for MTN "implementation support." What precisely does this mean?

Answer. Agriculture and TAC will:

Develop basic information on foreign laws, regulations and procedures affected by MTN agreements.

Monitor foreign compliance.

Educate U.S. agricultural and business interests to the provisions of the agreements and processes for dealing with problems that arise.

Assist U.S. exporters in qualifying for foreign government procurement opportunities, identifying problems, securing certification, etc.

Perform staffing for formal complaints.

Consult with private sector groups.

Question 8b. How would the TAC and Agriculture MTN implementation support functions relate to the responsibilities of the U.S. Trade Representative for MTN implementation? For example, who would determine whether to initiate a section 301 case?

Answer. USTR would establish and operate domestic decisionmaking processes for domestic and foreign complaints under the codes and for overall coordination of code implementation and renegotiations. It would also represent the U.S. in consultations regarding the negotiation of additional trade agreements under the GATT and extensions of country coverage of existing codes.

USTR, in consultation with the TPC, would determine whether to initiate section 301 cases and would decide such cases; TAC and Agriculture would do the staff work (as is now the case). Other involved agencies would continue to provide advice through the Trade Policy Committee.

Question 9. Would both the Office of Tariff Affairs in the Main Treasury and the technical branch of the Customs Service move to the new Department?

How would the new Department coordinate with the Customs Service?

Answer. The answer to the first part of your question is yes. With respect to the second part: because virtually all Customs activities relating to antidumping and countervailing duties will be transferred to TAC, coordination problems should be minimal. Customs will continue to perform certain monitoring functions (such as checking whether a particular shipment is subject to outstanding dumping orders) but the work of duty assessment and collection will be all located in TAC. TAC will coordinate with Customs similar to the way 40 other agencies now coordinate with Customs for a variety of Customs services (e.g., drug traffic interdiction for the Drug Enforcement Administration; animal and plant quarantine for USDA; and statistics for Commerce's Census Bureau).

Question 10. The statement by Mr. McIntyre recognizes that the trade problems of the U.S. result from a number of different factors, including low productivity growth and inefficient and outmoded facilities. What role do you think the new Trade and Commerce Department could play in promoting greater U.S. productivity and innovation?

Answer. There a number of ways in which TAC could play a role in promoting greater innovation and productivity growth. The TAC's science and technology programs can provide the research and technology transfer support needed to spur industrial innovation. The Economic Development Administration, particularly through an enhanced business loan program, can provide the financial support to stimulate plant modernization and increased productivity. The Department's sectoral analysis capability can investigate how economic and institutional problems deter innovation and productivity gains in individual industries. Through existing, and with the commercial officer corps, enhanced information programs, the Department can assess and forecast industry-specific technology developments in foreign countries. The Department's field office system can provide a vehicle for disseminating information on new methods and new technology. Other ways in which TAC—and other agencies—can contribute to productivity and innovation will be discussed in an interagency task force study on innovation. This study, led by Commerce, is in its final stages, with a report expected to be available this fall.

Question 11. Why do you think that in the past the Agriculture Department's sector analysis and export promotion efforts have been more successful than similar efforts by the Commerce Department?

Precisely how do you intend to revitalize and upgrade the sectoral analysis and export promotion efforts now conducted by the Commerce Department?

Answer. The notable success of the Agriculture Department's sectoral analysis and export promotion efforts have been aided by several factors:

Export promotion

First, the U.S. is basically a very efficient producer of foodstuffs.

U.S. Agriculture produces far more than the domestic market can absorb, and other countries need our output to feed their peoples. Everyone realizes our farm produce must be exported and there is no division of objectives about this.

Since farm products are fungible, the government can assist in export efforts without the problems that arise on the industrial side when aid to one manufacturer in making sales may be perceived as injuring a competitor.

As for attaches, the FAS is directly under the Department of Agriculture. Agricultural attaches are selected, trained and judged for their performance in farm exports work.

Differences between the agricultural and industrial markets will prevent full adoption of all the techniques that have worked so well for agriculture. However, much can be learned from the successful agricultural export assistance mechanism.

Sectoral analysis

First, sectoral analysis in Agriculture is clearly linked with policy.

There is also a high ratio of analysts to number of commodities.

The analysts have a high level of academic training.

The present reorganization proposal calls for two shifts that should allow a major improvement:

First, restructuring the Commerce Department into a Department of Trade and Commerce is designed to focus top level departmental attention to the issues of trade in general, and to increasing exports in particular.

Second, shifting commercial officers to TAC should assist in the development of a specialized corps similar to FAS with a primary purpose of aiding U.S. non-agricultural exports. Housing the officers in the same department with the

Commerce field offices should improve greatly the flow of information between foreign markets and domestic manufacturers.

These two moves should provide a major organisational improvement in our government trade-re'ated structure. However, as the question indicates, a number of changes are required in the performance of functions, and use of resources now in commerce. This need is recognized and is being addressed. An examination is underway of present performance within Commerce, so that full advantage will be taken of strengthened structure we have proposed. This internal plan has not yet been completed, but it will address the need for strong direction of the Department's analytic capability to ensure that resources are devoted to the most pressing problems and that the analytic capabilities of the Department are up to the job.

Question 12. You propose to transfer to the Department of Trade and Commerce "the commercial representation functions with regard to our major trading partner countries."

Would you please list the countries which you would include under this phrase?

Will the commercial attaches to these countries be employees of the Department of Trade and Commerce?

Answer. We have not yet decided the precise countries that would be included, though we will have that information by the time we submit a definitive proposal. However, we anticipate that the transfer will include those markets that are currently or that promise in the near future to present the major destinations of our non-agricultural exports. We anticipate that the list of countries will include a heavy selection from members of the OECD. Also included will be countries from all of the major regions of the world, e.g., the large Latin American countries, the Pacific Basin and some countries in Africa and the Middle East. The final list probably will include all countries on the attached page.

The commercial attaches to these countries will be employees of the Department of Trade and Commerce, with provision for detailing some commercial attaches from the State Department to TAC from time to time. This will enable TAC to retain State's attaches during the transition period, benefit from the experience of some of State's attaches for a longer term, and provide for an interchange with State's Foreign Service Officers doing commercial work in countries other than our major trading partners.

THIRTY MAJOR TRADING PARTNERS

OECD:
- Australia
- Belgium
- Canada
- Federal Republic of Germany
- France
- Italy
- Japan
- Netherlands
- Sweden
- Switzerland
- United Kingdom

Latin America:
- Argentina
- Brazil
- Colombia
- Mexico
- Venezuela

Africa:
- Nigeria

Middle East:
- Egypt
- Israel
- Saudi Arabia

Asia:
- China
- Hong Kong
- India
- Indonesia
- Philippines
- Singapore
- South Korea
- Taiwan[1]

Other:
- Spain
- U.S.S.R.

[1] Commercial officers will be employees of the American Institute of Taiwan.

Question 13. You propose to move enforcement of "embargoes," and national security trade investigations to the new Department.

What precise authorities to impose "embargoes" would be transferred?

Does national security trade investigations mean section 232 of the Trade Expansion Act of 1962?

Answer. The authority for trade embargoes is in section 5(b) of the Trading with the Enemy Act (50 App. U.S.C. 5(b)). This is the authority for the trade embargoes now in effect with Cuba, North Korea, Vietnam and Cambodia. For

imposing any new embargoes, the authority would be the International Emergency Economic Powers Act (50 App. U.S.C. 1701–06).

Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. 1862) is the authority for national security trade investigations to be transferred.

Chairman RIBICOFF. Gentlemen, I know you have got much to do. Thank you very much.

The committee will be in order.

Senator Stevenson?

Thank you for coming here. I know how deeply involved and interested you have been in this entire subject and of your expertness in this field. We appreciate your coming here today.

TESTIMONY OF HON. ADLAI E. STEVENSON III, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator STEVENSON. I thank you, sir, for those comments and for this opportunity. Certainly no one in our Government has been more deeply involved than you. I would like to begin by commending you for all of your efforts. If it were not for those efforts, and the efforts which Senator Roth and Senator Javits have joined in, we would not be as far along as we are today.

Mr. Chairman, my purpose here today is to testify in support of S. 1493. By consolidating trade functions in a single new department, this bill elevates international trade and investment policy to a status reflecting their crucial importance to our economic well-being in a highly competitive, highly interdependent world. Mr. Chairman, may I have my full statement entered into the record?

Chairman RIBICOFF. Without objection, the entire statement will go into the record as if read, at the conclusion of your testimony.

Senator STEVENSON. Thank you, sir. I will try to summarize. In the trade functions it incorporates, S. 1493 is similar to S. 377. However, S. 1493 goes one step further, to unite those trade functions with the responsibilities for industrial policy and technology now in the Department of Commerce.

The Department of Commerce has evolved over the years into a kind of bureaucratic orphanage for stray programs ranging from weather modification to fire prevention. But with concomitant reform of the Commerce Department's programs relating to industry and technology—a process already begun in the Legislative and executive branches—this bill would create an institutional framework in which technological innovation, industrial competitiveness, and export growth, all related, can all be promoted effectively.

It would create a new department—not another department. And the new department would comprehend the related functions of trade, investment, and industrial innovation.

The United States alone among the major industrial countries has no single Government agency with the authority and responsibility to advance its competitiveness in the world marketplace. Yet international trade and investment flows already mean one-third of a trillion dollars for the country annually. Other nations, more dependent upon maximizing their share of international commerce, have long orga-

nized for successful and aggressive competition in the world. In the United States we have been slow to recognize the importance of overseas markets and laggard about competing. In the fast-growing trade with developing countries, for example, the Japanese over the past two decades have more than doubled their market share in the export of manufactures (from 12.6 percent to 26.1 percent), while the U.S. share has declined. We cling to a quaint notion that Government policy has no role in promoting industrial well-being or trade expansion.

We persist in casting Government and business as adversaries, while foreign competitors find an integrated approach to industry, trade, and investment the key to economic success.

Today there is scarcely an industrial sector in the United States which does not face vigorous competition from abroad. In three decades, the Japanese and Europeans have recovered from World War II to challenge our dominance even in those industries where we had no peers—electronics, communications, and aviation. A company which cannot compete abroad soon finds it cannot compete at home. We are losing markets at home, too.

If, as I see it, trade requires competitiveness, it makes little sense to divide trade policy from the responsibilities for the health of American industry.

Technology is the basis of our ability to compete abroad and at home. Technology-intensive products, measured by R. & D. input, still account for approximately 40 percent of U.S. exports. By contrast, R. & D.-intensive exports comprise only 28 percent of the total exports of Germany, Japan, France, and the United Kingdom. But these nations are catching up—and a generation of advanced LDC's is just behind them.

Already foreign technology is making large inroads in the United States. This year Japan brings on a fourth generation of computers and that is the highest of the high technologies. The competitiveness of the United States in the world is tied to support for technological innovation—and that goes for its competitiveness at home, too.

Superior products do not market themselves in the world. Successful competition in the world also depends upon financing, marketing, and servicing. U.S. institutions like Exim and OPIC lack the resources, clout, and policy backup to organize export "packages" as attractive as those now proffered by foreign competitors.

The trade promotion unit of the Commerce Department has been unable to exploit fully the on-the-spot services of commercial attachés who are State Department officers with only minimal career experience and commitment to trade.

Exports remain the province of major corporations in part because information about market opportunities and direct assistance with languages and customs are not aggressively extended to small- and medium-sized firms, which constitute a virtually untapped pool of export potential.

A central U.S. Government department responsible for export expansion, industrial growth, and maintenance of our innovative advantage is needed to provide the mix of expertise, commitment, and

authority with which to formulate and implement policies that enhance U.S. competitiveness. This bill creates the Department of Commerce, Trade, and Technology.

Inconsistencies and impediments in the treatment of U.S. industrial and agricultural exports have been, in some instances, crippling. U.S. exporters face a web of controls—antitrust, antibribery, human rights, environmental review—and other restrictions which their counterparts abroad do not.

Nowhere is there an agency with the authority and the mandate to promote U.S. competitiveness. The absence of an advocate with visibility and clout to fight for consistent policies and minimal bureaucratic restrictions undermines our competitiveness in both agriculture and industry against other nations not so disabled.

Mr. Chairman, if I might, I would like to make a few observations about the administration's proposal and I regret that I didn't hear the testimony from the administration's witnesses.

The administration's proposal leaves a new Department of Trade and Commerce without responsibility for trade policy or trade negotiations. With functions from the International Trade Commission and the Eximbank, the Department acquires some clout—but not the means with which to use it. And similarly, the U.S. Trade Representative has negotiating and policymaking responsibilities but not the sources of authority with which to press both forward. The effort to advance the interests of U.S. competitiveness at home and abroad would remain disembodied.

World trade has expanded sixfold since Bretton Woods and adoption of the GATT. Over this period, the dependence of this Nation on access to the markets and suppliers of others has grown no less rapidly. Effective trade negotiation is critical if the United States is to continue to push back protectionist barriers and find a limit to the export subsidies which threaten the world's economic stability.

Yet the United States remains, and would remain, under the administration's proposal, the only nation whose trade and commerce authorities are in different, uncoordinated agencies, equipped with neither the overall perspective, nor the power, to advance the Nation's competitiveness.

The administration's proposal does not go far enough By leaving negotiating authority in the White House, divorced from the export promotion and import relief functions concentrated in the new Department of Trade and Commerce, the plan leaves voices, lines of responsibility, and strengths uneasily divided.

A Trade Representative maintained in the White House has access to the President we are told. Yet access to the carrots—such as export financing—and sticks—such as countervailing duties—available to negotiators of other nations, would be the province of the Secretary of Trade and Commerce.

An officer of the United States with responsibilities for commerce, trade, and technology as S. 1493 proposes, would have access to the President and more authority than an obscure, redesignated Trade Representative in the White House.

Mr. Chairman, we have seen these STR's come and go over the years. I don't think we ought to be fooled by recent experience.

Ambassador Strauss is unique in the history of STR's. By and large, they get relegated to obscurity in the White House.

He has been unique because of his ability and, of course, because of his unprecedented relationship with a U.S. President.

The administration's proposal misses a crucial opportunity to consolidate the power and create the authoritative advocate U.S. industrial and agricultural producers need, and the Secretary of Commerce, Trade and Technology proposed in S. 1493 could be. This bill strives for comprehensiveness. It unites within the Department of Commerce, Trade and Technology responsibility for:

—export promotion and financing;
—import monitoring and relief;
—international investment policy;
—international trade negotiation authority;
—industry and trade economic analysis, and
—trade policy and coordination.

The bill draws the Office of the STR into the new department. It links the Export-Import Bank and OPIC with the department, by making the Secretary of Commerce, Trade and Technology chairman of their boards. The bill differs slightly from S. 377 in that all functions of the International Trade Commission would be transferred to the new department.

Commerce Department reorganization and Trade Department creation should be viewed as twin questions. Over the long term, reversal of our trade imbalance hangs on our ability to encourage innovation and increase productivity. Industry, technology, and trade are inseparable.

And this is no less true for U.S. agricultural exports—which are the world's most R. & D. intensive—than it is for industrial products.

The Senate Commerce Committee is already developing means to stimulate industrial innovation. The administration is conducting an interagency study on the same subject. And in all these enterprises the Department of Commerce occupies the center of a now disordered stage.

That Department is the logical, indeed only, agency with comprehensive responsibilities for industry and innovation. S. 1493 underscores the inseparable relationship between industry, technology, and trade. It merges them. A new department is created. Its mandate is not protection. Its mandate is trade, and that means competitiveness.

The power of this new department could benefit all sectors, and none more than that which is most dependent on trade—agriculture.

An additional department of the Federal Government would not simplify Federal management. S. 1493 merges the Department of Commerce into the new department. It would, therefore, leave the new department with some anomalous agencies, principally the National Oceanic and Atmospheric Administration.

But those anomalies can be dealt with in due course, and some elements of the existing Commerce Department, notably the National Bureau of Standards, are made an integral part of a coherent body by the comprehensiveness of S. 1493, and its emphasis on technology. I urge you to act favorably on this bill.

Chairman RIBICOFF. Mr. Stevenson, I think you, more than any Member of the Senate, have been involved in the whole field of export

financing. How do you think we should be handling the question of financing?

Should we stay with what we have got? Should we change it? What are some of your thoughts?

Senator STEVENSON. Sir, I think export financing is one of the smaller parts of the package, though not an inconsiderable one. We need to increase the authority of the Eximbank, especially if we are to negotiate trade agreements with the U.S.S.R. and the People's Republic of China. If that is done, and both are eligible for credits, the existing authority of the Eximbank will be insufficient.

Whether that goes for the CCC, I really don't know. But it seems to me the main thing that needs to be done is to give these export support agencies—especially Eximbank—a link to this new department, as my bill proposes to do. My reasons for this are similar to those for bringing in the ITC.

With approval of the trade agreement, I see the competition beginning to shift away from import protection toward export promotion and export subsidies; in the future the Trade Representative is going to have to involve himself in efforts to get other nations to negotiate a reduction in an export subsidy war.

This has already begun, with respect to credits. So for that purpose, as well as the more traditional functions of our trade negotiators, I think it is imporatnt to give this agency some power.

That would come from drawing in the Eximbank, principally, when you are talking about export credit. Bring it in and we will be in a better position to accomplish a deescalation of what is emerging; namely, an export subsidy war. But beyond that, I think with our private resources and the CCC and Eximbank given adequate authority we are in pretty good shape on financing.

Chairman RIBICOFF. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman. I am very sympathetic to the type of consolidation you want, Senator Stevenson, and I think it is absolutely essential that this be accomplished. I also agree with you that I really don't think we should separate so-called policy from operations.

I think that would be a serious mistake, particularly in this area of endeavor. I have to say that where we consolidate I guess is the real question. I think the administration proposal makes the mistake in that it really does not accomplish that.

Senator Ribicoff and I originally initiated I guess the debate by creating a new department, a lot of people have talked about the Department of Commerce. The problem with the Department of Commerce, if you technically create a new department, and put Commerce into it, is that it is not known as a strong department.

The question really is whether it would have the means and the will to do what is necessary. So that where I come out is probably, the consolidation somehow should be around the STR, but much along the lines with what you are talking about in the limited discussion. I thank you for your helpful testimony.

Senator STEVENSON. Thank you.

May I respond briefly to that? I share your concern—and that is why this bill creates an entirely new department. I don't think the history of the Department of Commerce is relevant to this new

department—which would have a new mandate, a mandate that goes beyond trade promotion to include technology.

In drafting this, we were very conscious of what you say, but conscious also of the dangers of proliferating departments, or adding unnecessarily to the number of departments, for fear of making management of the Federal enterprise even more unmanageable.

That is the hope. I share your concern, but I think you will find in this bill an effort to address it by leaving history to history and creating an entirely new department with the mandate of trade, and not protection. This will be a strong department.

I don't think you can separate any of those functions.

They are all related.

Senator ROTH. Would the new department absorb, in effect, the current department?

Senator STEVENSON. That is right.

Senator ROTH. I agree in principle. But I must admit I have some reservations about whether it would work, although I strongly agree with you as to a need for consolidation in what we are trying to achieve.

Thank you very much.

The CHAIRMAN. Senator Javits?

Senator JAVITS. I was interested in your bringing the technology into focus here. That has not been emphasized by the administration's plan. It is very interesting. I just have been reading what you have in your statement about it. If you would, would you think through the relationship which your idea would have to the President's Science Adviser, such Offices of Science and Technology as exist in the Federal Government—for example, we have one up here—and to articulate with greater particularity than you do in your statement that which states what to me is so very obvious.

We have fallen very seriously behind though we are way ahead in terms of our brain power. In respect of technology we seem to have fallen behind. I think the record of the Patent Office shows that more clearly than anything else. Two-thirds of the patents roughly speaking are going to the foreign side, only one-third to us. After all that was the source of the U.S. strength.

If you would be kind enough and if it would not tax you too much, I think it would be useful, no matter how we finally decide this thing to have before us the issue of technology, where it stands, and what to do with it and how it bears on the trade commission.

Senator STEVENSON. Yes, sir, Mr. Chairman, these suggestions reflect the lengthy studies of U.S. competitiveness performed by the Subcommittee on International Finance, which I chair, and also the efforts in the Senate on industrial innovation and technology being carried out through the Subcommittee on Science and Technology, which I also chair.

I am holding hearings this very moment on patent policies in one of those subcommittees. That subcommittee also has the oversight jurisdiction, the legislative jurisdiction for OSTP, the President's Science Adviser. I am not sure I have thought through all of the implications of your question but I do feel very strongly as a result of these studies that there is a connection between competitiveness and

industrial innovation, and our relative capacity for industrial innovation is being eroded rapidly in the world.

The basic responsibility for industrial innovation is not in OSTP. It is in the Department of Commerce. It is one of the reasons I suggest merging that Department of Commerce into this new Department of Trade. It is the Department of Commerce which right now is taking the lead in the administration's interagency review on industrial innovation.

So I think if the connection between technology and trade is as strong as I believe it is, then it becomes logical to merge the Department of Commerce, where the responsibility for technology and industrial innovation exists, into the trade oriented agency I propose.

Senator JAVITS. If you are going to help us in this way, I wish you would, because as the Chair said, we have a few weeks to think these things over, and you will remember during World War II there was a Council for Innovation headed by Lawrence Langlon. One of his advocations was the Theater Guild in New York. He functioned in the Department of Commerce.

They inventoried all of the Buck Rogers ideas that came pouring into the Government. Some of them worked out. But I think you could help us. I hope our Chair and my colleague, Senator Roth, will agree that as long as you have such an interest in this point by having it rather vividly before us as we consider the total picture.

Senator STEVENSON. Mr. Chairman, the only prior systematic efforts to develop a U.S. policy on industrial innovation were undertaken by Herb Hollomon when he was in the Department of Commerce.

That was under Kennedy or Johnson, I can't remember, and the only prior instance was when Herbert Hoover was not President, but Secretary of Commerce.

That is where the efforts have been. I will take that suggestion to heart and try to come up with a better answer.

[The prepared statement of Senator Stevenson follows:]

PREPARED STATEMENT OF SENATOR ADLAI E. STEVENSON

The Administration's plan to concentrate certain trade functions in a renamed Department of Trade and Commerce attempts more than many of us expected. In a number of respects the plan is identical to S. 1493. The proposal differs fundamentally in its retention of principal negotiating and policy authority in the Office of the Special Trade Representative (redesignated the U.S. Trade Representative).

Diffused responsibilities for trade and confused bureaucratic duplication are luxuries which a nation experiencing persistent large trade deficits can ill-afford. By consolidating trade functions in a single new department, S. 1493 elevates international trade and investment policy to a status reflecting their crucial importance to our economic well-being in a highly competitive, highly interdependent world.

In the trade functions it incorporates, S. 1493 is similar to S. 377. However, S. 1493 also unites trade functions with the responsibilities for industrial policy and technology now in the Department of Commerce.

The Department of Commerce has evolved over the years into a kind of bureaucratic orphanage for stray programs ranging from weather modification to fire prevention. But with concomitant reform of the Commerce Department's programs relating to industry and technology—a process already begun in the legislative and executive branches—this bill would create an institutional framework in which technological innovation, industrial competitiveness and export growth, all related, can all be promoted effectively. It would create a new De-

partment—not another Department. And the new Department would comprehend the related functions of trade, investment and industrial innovation.

The United States alone among the major industrial countries has no single government agency with the authority and responsibility to advance its competitiveness in the world marketplace. Yet, international trade and investment flows already mean one-third of a trillion dollars for the country annually. Other nations, more dependent upon maximizing their share of international commerce, have long organized for successful and aggressive competition in the world. In the U.S. we have been slow to recognize the importance of overseas markets and laggard about competing. In the fast-growing trade with developing countries, for example, the Japanese over the past two decades have more than doubled their market shares in the export of manufactures, (from 12.6% to 26.1%), while the U.S. share has declined. We cling to a quaint notion that government policy has no role in promoting industrial well-being or trade expansion. We persist in casting government and business as adversaries while foreign competitors find an integrated approach to industry, trade and investment the key to economic success.

Today there is scarcely an industrial sector in the U.S. which does not face vigorous competition from abroad. In three decades, the Japanese and Europeans have recovered from World War II to challenge our dominance even in those industries where we had no peers—electronics, communications and aviation. A company which cannot compete abroad soon finds it cannot compete at home. We are losing markets at home, too. If, as I see it, trade requires competitiveness, it makes little sense to divide trade policy from the responsibilities for the health of American industry.

Technology is the basis of our ability to compete abroad and at home. Technology-intensive products, measured by R&D input, still account for approximately 40 percent of U.S. exports. By contrast, R&D intensive exports comprise only 28 percent of the total exports of Germany, Japan, France and the U.K. But these nations are catching up—and a generation of advanced LDCs is just behind them. Already foreign technology is making large inroads in the U.S. This year Japan brings on a fourth generation of computers and that is the highest of the high technologies. The competitiveness of the U.S. in the world is tied to support for technological innovation—and that goes for its competitiveness at home, too.

Superior products do not market themselves in the world. Successful competition in the world also depends upon financing, marketing and servicing. U.S. institutions like Exim and OPIC lack the resources, clout and policy backup to organize export "packages" as attractive as those now proffered by foreign competitors. The trade promotion unit of the Commerce Department has been unable to exploit fully the on-the-spot services of commercial attaches who are State Department officers with only minimal career experience and commitment to trade. Exports remain the province of major corporations in part because information about market opportunities and direct assistance with languages and customs are not aggressively extended to small and medium sized firms, which constitute a virtually untapped pool of export potential.

A central U.S. government Department responsible for export expansion, industrial growth and maintenance of our innovative advantage is needed to provide the mix of expertise, commitment and authority with which to formulate and implement policies that enhance U.S. competitiveness.

Inconsistencies and impediments in the treatment of U.S. industrial and agricultural exporters have been, in some instances, crippling. U.S. exporters face a web of controls—anti-trust, anti-bribery, human rights, environmental review—and other restrictions which their counterparts abroad do not. Nowhere is there an agency with the authority and the mandate to promote U.S. competitiveness. The absence of an advocate with visibility and clout to fight for consistent policies and minimal bureaucratic restrictions undermines our competitiveness in both agriculture and industry against other nations not as disabled.

The Administration proposal leaves a new Department of Trade and Commerce without responsibility for trade policy or trade negotiations. With functions from the International Trade Commission and the Exim Bank, the Department acquires some clout—but not the means with which to use it. And similarly, the U.S. Trade Representative has negotiating and policy making responsibilities but not the sources of authority with which to press both forward. The effort to advance the interests of U.S. competitiveness at home and abroad would remain disembodied.

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World trade has expanded sixfold since Bretton Woods and adoption of the GATT. Over this period, the dependence of the nation on access to the markets and supplies of others has grown no less rapidly. Effective trade negotiation is critical if the U.S. is to continue to push back protectionist barriers and the export subsidies which threaten the world's economic stability. Yet the U.S. remains, and would remain under the Administration proposal, the only nation whose trade and commerce authorities are in different, uncoordinated agencies, equipped with neither the overall perspective nor the power, to advance the nation's competitiveness.

The Administraton's proposal does not go far enough by leaving negotiating authority in the White House, divorced from the export promotion and important relief functions concentrated in the new Department of Trade and Commerce the plan leaves voices, lines of responsibility and strengths divided.

A Trade Representative maintained in the White House has access to the President, we are told. Yet access to the carrots—such as export financing—and sticks—such as countervailing duties—available to negotiators of other nations, would be the province of the Secretary of Trade and Commerce. An officer of the United States with responsibilities for commerce, trade and technology as S. 1493 proposes, would have access to the President and more authority than an obscure, redesignated Special Trade Representative in the White House. The Administration's proposal misses a crucial opportunity to consolidate the power and create the authoritative advocate U.S. industrial and agricultural producers need, and the Secretary of Commerce, Trade and Technology would be, under S. 1493.

This bill strives for comprehensiveness. It unites within the Department of Commerce, Trade and Technology responsibility for: export promotion and financing, import monitoring and relief, international investment policy, international trade negotiation authority, industry and trade economic analysis, and trade policy and coordination.

The bill draws the Office of the STR into the Department. It links the Export-Import Bank and OPIC with the Department, by making the Secretary of Commerce, Trade and Technology Chairman of their Boards. The bill differs slightly from S. 377 in that all functions of the Internatonal Trade Commission would be transferred to the new Department.

Commerce Department reorganization and Trade Department creation should be viewed as twin questions. Industry, technology and trade are inseparable. Over the long term, reversal of our trade imbalance hangs on our ability to encourage innovation and increase productivity. And this is no less true for U.S. agricultural exports—which are the world's most "R&D intensive"—than it is for industrial products. The Senate Commerce Committee is already developing means to stimulate industrial innovation. The Administration is conducting an inter-agency study on the same subject. And in all these enterprises the Department of Commerce occupies the center of a now disordered stage.

That Department is the logical, indeed only, agency with comprehensive responsibilities for industry and innovation. S. 1493 underscores the inseparable relationship between industry, technology and trade. It merges them. A new Department is created. Its mandate is not protection. Its mandate is trade—and that means competitiveness. The power of this new Department could benefit all sections none more than that which is most dependent on trade—agriculture.

An add tional Department of the Federal government would not simplify Federal management. S. 1493 merges the Department of Commerce into the new Department. It would, therefore, leave the new Department with some anomalous agencies, principally the National Oceanic and Atmospheric Administration. But those anomalies can be dealt with in due course, and some, notably the Bureau of Standards, are made an integral part of a coherent body by the comprehensiveness of S. 1493 with its emphasis on technology. I urge you to act favorably on this bill.

U.S. SENATE,
Washington, D.C., July 26, 1979.

Hon. JACOB K. JAVITS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR JAVITS: In the course of my testimony before the Governmental Affairs Committee Monday you asked about the "focus on technology" in my bill, S. 1493, to create a new Department of Commerce, Trade and Technology. We discussed briefly the existing Commerce Department's traditional role in the area of industrial technology and innovation, but I wanted to make a few additional points.

First, you questioned the relationship of OSTP and NSF to the Department I propose. The health of our industrial R&D establishment depends over the long term on basic research. However, that does not suggest that NSF or OSTP need be moved to a Department of Commerce, Trade and Technology. Indeed, to do so could accelerate the tendency to subordinate basic research to the short term temptations of applied research.

Lack of coordination between the NSF and the existing Department of Commerce is not the root of the industrial problem. The real problem is that the Department of Commerce lacks the foundation for serious attention to the problems of industrial competitiveness, productivity, innovation and the effective development and commercialization of new technologies.

These concerns have prompted me and other members of the Commerce Committee to introduce several bills which begin an overhaul of the Department's programs relating to industry and technology. S. 1250, the Technology Innovation Act, and S. 1215, the Science and Technology Research and Development Utilization Policy Act, are only initial attempts to deal with some broad and serious problems.

S. 1250 would stimulate technological innovation in two ways. First, it would improve the ability of universities and industry to collaborate in generating new technological ideas with commercial potential. The bill would create an Office of Industrial Technology within the Department of Commerce to oversee the establishment of a Centers for Industrial Technology. The Centers would be affiliated with universities and non-profit institutions, and supported by industry and government.

Second, the Office would develop a sectoral analysis capability which would enable it to identify problems as well as opportunities for the advancement of socially and economically desirable technologies.

S. 1215 addresses the problem of government-generated patents; it establishes a coherent federal policy to encourage the use of inventions developed under federally supported research and development. Oversight responsibility is assigned to the Department of Commerce.

Although I share the concerns you and Senator Roth expressed about the effectiveness of the Department of Commerce at present, moving the Industry and Trade Administration and export administration responsibilities out of Commerce to a new Trade Department—as proposed in S. 377—would do nothing to make it more effective. It would further erode the ability of the Commerce Department to represent and assist U.S. industry. The approach of S. 377 leaves the strong substantive link among trade, technology and industry unacknowledged.

There is an important circularity of causation between trade and domestic industrial growth; each spurs the other. Export promotion cannot be effectively performed outside the agency with principal responsibility for the exporters. In a measure, what I propose is inspired by the success of the USDA in expanding agricultural exports. Control over its own Foreign Agricultural Service and its export financing programs have unquestionably helped the Department achieve a coherent, aggressive approach to export expansion which Commerce has never been able to match.

S. 1493 creates a logical and comprehensive institutional framework in which technological innovation, industrial competitiveness and export growth, all related, can all be promoted more effectively. The Department of Commerce, Trade and Technology will not succeed without serious reform and expansion of existing programs in industrial technology. But this process has commenced. Creation of a Department of Trade in a vacuum, or putting trade policy in the White House, by ignoring these difficulties, would exacerbate them.

I would be pleased to have this letter entered in the record.

With every good wish,

Sincerely,

ADLAI.

Chairman RIBICOFF. Thank you very much. The committee will stand adjourned until Wednesday at 10 a.m.

[Whereupon, at 11:45 a.m., the committee adjourned, to reconvene Wednesday, July 25, 1979, at 10 a.m.]

REORGANIZING THE GOVERNMENT'S INTERNATIONAL TRADE AND INVESTMENT FUNCTIONS

WEDNESDAY, JULY 25, 1979

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFAIRS,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 3302 Dirksen Senate Office Building, Hon. Abraham Ribicoff (chairman), presiding.

Present: Senators Ribicoff, Roth, Javits, Percy, and Durenberger.

Chairman RIBICOFF. The committee will be in order.

Our first witness is Mr. William Wearly. We are pleased to have you with us today. You may proceed, sir.

TESTIMONY OF WILLIAM L. WEARLY, CHAIRMAN AND EXECUTIVE OFFICER, INGERSOLL-RAND CO., ACCOMPANIED BY MR. BABSON, MR. FOX, AND MR. KLINE

Mr. WEARLY. I have here with me Mr. Babson, also from Ingersoll-Rand Co., and Mr. Fox and Mr. Kline from the NAM.

Mr. Chairman and members of the committee, I am the chairman and chief executive officer of the Ingersoll-Rand Co. I am appearing today on behalf of the National Association of Manufacturers as chairman of its international economic affairs committee.

The dramatic reversal of the Nation's trade balance and the dollar's problems in world currency markets reflect the urgent international economic challenges now facing this country.

These international difficulties can mean higher domestic unemployment, growing inflation at home, and reduced growth in the U.S. standard of living.

The U.S. Government announced an export expansion program. However, little has been accomplished beyond a modest increase in the Export-Import Bank's financing activities. Many of the Government's own policies actually continue to discourage exports. Additionally, the U.S. Government has failed to act effectively against foreign countries engaging in unfair trade practices which have harmed important segments of U.S. industry.

Opportunities exist to improve U.S. trade performance by making our economy more competitive at home and by improved access for U.S. goods to foreign markets. NAM has supported the recently concluded multilateral trade negotiations which established improved rules for expanding world trade. However, we must be prepared to vigorously implement and enforce the new agreements in support of U.S. interests.

Mr. Chairman, if I could just say to you that the world is a very big place and if American business is to remain viable in the world arena, we must be strong and we must establish that we are not adversaries with the Government. We are a part of the big team.

On the basis of past performance, it seems clear that there must be a reorganization of the U.S. Government's international trade apparatus if all these challenges are to be met successfully. The current system of diverse, overlapping or even competing functions and authorities almost guarantees that there will be no adequate leadership in this area. U.S. international economic interests can no longer be treated as the poor stepchild of other national concerns. This policy area deserves high level attention on a sustained, integrated basis and requires a top policy spokesman and advocate at the cabinet level of Government.

Senators Abraham Ribicoff and William Roth have introduced a bill, S. 377, to consolidate Federal policymaking and execution into one Department of International Trade and Investment, DITI. Senators Robert Byrd, Adlai Stevenson, and others have introduced bills which offer somewhat different consolidation patterns, but are directed at similar objectives. Last week the administration announced its own reorganization proposal.

After nearly a full year of study during 1978, NAM's international economic affairs committee voted last November to support a modified version of S. 377. I would like to describe our reasons for that decision, since those reasons constitute the criteria against which we measure all current reorganization proposals.

A reorganization proposal should help improve the U.S. Government's ability to respond effectively to at least six identified major problem areas: (1) Inconsistent policy; (2) negotiating leverage; (3) international agreement enforcement and followup; (4) analytic economic research; (5) business promotion services; and (6) eliminating unnecessary duplication. NAM supports a consolidated Department of International Trade and Investment as the best reorganization alternative to meet these objectives.

A DITI cabinet officer would be in a strong organizational position to become a needed advocate for broad, international economic views to counterbalance State's diplomatic focus, Treasury's financial outlook, and various agencies' self-interest perspectives. New policy initiatives harmful to U.S. international economic interests more likely would be challenged at an early stage, while further efforts could be made to alter or clarify presently inconsistent policies. Without a cabinet department charged with international trade and investment responsibility, the current scattered authority will continue, with each agency pursuing interests more central to their primary mission than U.S. economic competitiveness in world markets.

While other industrialized nations have centralized their economic negotiations in one organization, U.S. negotiating interests are weakened by uncoordinated actions and positions among the various Government agencies involved in international economic activities. A DITI would integrate many such activities into one department, while also providing the coordinating mechanism to tie other departments more closely into a central negotiating team. Consolidation of most import relief functions also would give the United States a more

forceful and effective mechanism for dealing with unfair foreign trade practices.

Closely related to the need for better U.S. leverage in negotiations is the requirement of more effectively following up on international trade and investment agreements once they are reached. It is especially important now to take full advantage of new U.S. trade opportunities resulting from the tariff and nontariff measure concessions obtained in the MTN. A followup program must encourage new export efforts with adequate commercial information, export credit financing, license approval and other actions, while assuring that foreign governments do not close off the newly negotiated opportunities. In particular, the various nontariff barrier codes will be meaningless for American interests unless an effective U.S. Government enforcement mechanism is devised. This type of practical implementation followup would be handled best by a single integrated department structure.

Many scattered agencies now have some involvement in the Government's international economic data collection and analysis activities. The integration of these staffs in a DITI would enhance the Government's capability to identify and encourage future areas of national economic strength, as well as provide earlier warnings to help avoid domestic dislocation arising from international economic forces.

Business promotion services such as export expansion efforts and Eximbank financing could be aided by closer coordination within a single departmental framework. Certainly for smaller companies new to the overseas market, an integrated international trade and investment department would be a less confusing and more reliable ally than the current array of agencies scattered all over town which offer various bits and pieces of business support programs.

An added benefit to the improved analytic and promotional capabilities of a DITI would be the elimination of unnecessary and costly duplication of activities which currently exists in many international economic policy areas.

We believe that the bottom line to this analysis regarding an international trade and investment department proposal comes out clearly on the positive side. Government reorganization is not a panacea, but it is a necessary step to complement other policy actions. It is NAM's position that consolidation of current international trade and investment functions into one department, as proposed in S. 377, is the best approach to this problem. We would, however, like to suggest a few modifications in the bill.

The major change which we would recommend for S. 377 is the addition of a specific interagency coordination mechanism, which would have two levels. First, standing coordinating committees could be established within DITI in major issue areas such as international commodity policy, export promotion, trade and investment negotiations, et cetera. The regulations governing these interagency committees should give clear policy leadership to DITI, whose staff would act as the secretariat.

Some issues, of course, may ultimately require White House discussion and decision. Therefore, a second coordination level should involve a White House group, with appropriate Cabinet-level membership, chaired by the DITI secretary. This group would be designed to

insure top-level, interagency consideration of controversial major policy issues.

A second modification to the bill would be to incorporate the International Trade Commission, ITC, fully into the new Department. The ITC could function in the same semiautonomous manner as provided in the bill for Eximbank and OPIC.

Finally, we suggest some further broadening of the proposed Department's authority, specifically in the areas of trade adjustment assistance and mixed credits, for the reasons outlined in our full written statement.

Thus far I have discussed the proposal to establish a Department of International Trade and Investment, while suggesting some desirable modifications to S. 377. We believe that such a modified proposal represents the best reorganization option and urge its serious consideration by this committee.

Before closing, I would like to make a few comments specifically on the proposal recently outlined by the administration.

The administration's proposal recognizes many important problem areas and takes several steps toward their resolution. We would support elements of the proposal which consolidate some of the currently scattered trade functions. In particular, we support: (1) The consolidation into one office of negotiating authority over a broad range of international economic subjects, (2) upgrading of the Commerce Department's sectoral analysis capability for trade expansion purposes, and (3) the transfers of most import relief and unfair trade response functions.

The administration proposal, however, fails to go far enough in meeting the necessary objectives of reorganization. The proposal puts two agencies in charge of trade rather than consolidating all responsibilities in a single Cabinet Department. As a result, policy and implementation functions are split between a White House trade representative office and the renamed Trade and Commerce Department. An even further division of authority occurs when Commerce trade responsibilities are delegated to an Under Secretary, thereby adding a new actor to the process and meaning that the Secretary will continue to be occupied by a variety of traditional nontrade matters.

Vitally important MTN followup responsibilities are also split between the trade representative and Commerce, so that the negotiators are separated organizationally from investigators, analysts, and other staff support functions. The trade representative is given broader new negotiating responsibilities, but no additional staff to carry them out. Either these issues will not receive the attention they deserve, or else there will again be an awkward reliance on staff controlled by other organizations.

One gets the impression that the reason for separating the trade personnel in this manner may have more to do with considerations regarding the size of the White House staff rather than economic or good management criteria. We believe that these trade areas are too important to artificially split policy and negotiations from analysis and implementation in this manner. Such a division will only be detrimental to the objectives of sustained, coherent international trade programs.

Several important policy areas also appear to be shortchanged in the administration's proposal. Export expansion is not given priority attention in the new organizational arrangement. International investment policy is fitted within a broadened agenda for the Trade Policy Committee, but no practical consolidation of authority or functions is accomplished. Even the transfer of overseas commercial officers to the Trade and Commerce Department is a partial measure, since it affects only those officers located in certain foreign countries.

In summary, we believe that the administration's proposal falls short of the prompt, forceful action needed to address the country's urgent trade problems. In the end, trade authorities and functions still would be split unnecessarily. We must have one strong trade policy leader, who has the full implementation resources of a unified Cabinet Department, including the negotiating authority to both "reward" and "punish." The administration's proposal does not meet this standard and therefore is significantly weaker than S. 377.

Mr. Chairman, I would like to commend you and Senator Roth, along with your colleagues who are cosponsors of S. 377, for perceiving the urgent and serious task facing this country in the international marketplace, and for taking the initiative to begin steps aimed at meeting this challenge. Certainly a reorganization of governmental functions by itself is not a complete answer to our problems, but it is a necessary if not fully sufficient step toward their solution.

NAM supports the consolidation of current Government functions into a Department of International Trade and Investment. The bill before this committee, S. 377, is a constructive proposal to accomplish this consolidation. With the few modifications we have suggested, NAM supports passage of S. 377.

Chairman RIBICOFF. Thank you, Mr. Wearly. Today, companies exporting have to go through many agencies and a lot of paperwork. You are the president of a major corporation with much export business. You are speaking on behalf of associations of some 13,000 members.

Can you or your associates give us some specific problems that you have when you try to export goods or services?

Mr. WEARLY. Let me start to answer that by saying that I feel we must get an attitude in America that we are all on the same team; Government, business, labor are on the same team to promote exports and to promote American business in the world.

Now, instead of that, we have inescapably an adversary relationship where it almost appears that if something works out well in the export field, there must be something wrong with it, so we had better put up a barrier to doing that.

As we look back, we can recount all of the things that have made exportation difficult. I will just mention one that hurts big companies more than little ones. That has been the bad position we have taken toward the taxation of U.S. nationals living in foreign countries where we try to give them subsistence and the IRS is taking the position that is taxable income to these people. And I understand even after a change in the law to permit subsistence to these people the IRS has said, "If you live within 50 miles of a town of 2,500 people, we can't consider you are in an outpost." I will tell you that in the desert if you are 50 miles from a town of 25,000 people, you are in an outpost. If

you are 50 miles from a town of 100,000 people, you are in an outpost. So it is the various interpretations we put in a punitive way, as if we are not on the same team.

Little companies are just about excluded from the export market because they can't wade through the maze of bureaucratic things that are needed, that are required by our Government to export. So they must work with a big company. They must more or less tie themselves onto the tails of a big company to do this.

I can talk about what hindered us yesterday, but of more importance is what is going to hinder us tomorrow, the restrictions that some of our agencies are going to come up with.

We really aren't on the same team yet. I talked to our Swiss competitors, German competitors and others. They just don't understand why there seems to be this adversary relationship between American exporting businesses and their government. They just don't have it abroad. They don't understand it. They sort of like it because it helps them. So really we have put our businesses in an ongoing relationship that makes it sound as if, if we treat business well in the foreign area, it is somehow a disservice to the Nation.

Chairman RIBICOFF. Outside of the generalities, do any of you other men who work in this field have any specific examples of the problems your members encounter in the export field.

Mr. WEARLY. Let me mention an order that we didn't get in South America. This was an order that we had negotiated in Brazil about 2 years ago for a few million dollars' worth of equipment for their oil industry.

About that time, representatives of the new administration went to Brazil and began talking to them on human rights. The Brazilians then said to us, "You don't look like good people to do business with," and the order was stopped. Now you could say, "Well, how do you know you were going to get the order anyhow?" I will tell you how I know in this case, because our British company went over and, under the aegis of the British Government, our company got the order to be built out of our British plant. But it didn't come to our American plant.

Chairman RIBICOFF. In other words, the same merchandise came out of your British plant instead of coming out of the American plant.

Mr. WEARLY. Yes. The same price. They just decided we were possibly an undesirable supplier and they didn't really associate the company in Britain with the administration in America.

Chairman RIBICOFF. Maybe they did associate it but felt there would be fewer restrictions if they gave the contract to your British subsidiary.

Mr. WEARLY. Precisely. Really, sir, I don't know that I can call them off the top of my head, but there are hundreds and hundreds of examples of this sort of thing where we inadvertently do these things that hinder our business ability.

I think I would ask if we might submit a list to you.

Chairman RIBICOFF. Yes; you could. I think it is important for us as we start to put together our framework over August, to know the problem areas that you, as an American exporter, run into. By giving us the problems we can perhaps understand better the organizational bottleneck.

I am sure that Senator Roth agrees with me. Because it is one thing to be general, but when we are specific, we can highlight where we might have to give some emphasis or change. I don't expect you to have them for us off the top of your head, but if you could give it to us in the next week or so we would appreciate it.

Mr. WEARLY. We will do it very soon.

[The information referred to follows:]

AUGUST 17, 1979.

Hon. ABRAHAM A. RIBICOFF,
U.S. Senate,
Washington, D.C.

DEAR SENATOR RIBICOFF: When I testified before your Committee on Governmental Affairs on July 25, 1979, regarding the matter of government's trade functions, you requested that I send you specific examples of business that had been lost to American companies because of either governmental interference or a lack of government support.

On the attached list you will find specific examples taken from three companies—Ingersoll-Rand, J. Ray McDermott and FMC. I know that you can get similar information from other companies. Mr. Reginald H. Jones, Chairman of General Electric, stated recently at a government conference that he felt the loss to General Electric was in the billions of dollars. From the standpoint of Ingersoll-Rand specifically, I feel that our loss over a five year period would be in the range of $200–$300 million.

Also, I would like to take this opportunity to clarify one point raised during the question and answer period following my testimony on July 25. The NAM proposal as it relates to the Export-Import Bank does not contemplate any change in the Eximbank Board of Directors, or its independent status. I certainly agree that Eximbank is one of the few U.S. government organizations which currently is doing a good job with respect to trade policy. The relationship described in NAM's recommendations simply is aimed at strengthening the support given Eximbank within the Executive Branch. We believe that Eximbank deserves better support, for instance by a Trade Department, in matters such as the recent controversy over environmental restrictions on overseas projects, periodic Congressional budget deliberations and the negotiation of multilateral agreements on export credit financing.

For your information, in case you missed it, I am attaching a copy of a recent story out of the Washington Star emphasizing the confusion that exists in government agencies relating to international trade.

Finally, I would like to re-emphasize the importance of improved productivity in American industry to our overall position in world trade. It is difficult to evaluate the insidious effect of a multitude of government programs and constraints which ultimately sap the will of corporations and of "people" to move ahead to greater achievements and improved productivity. Too many priorities have been placed ahead of this. I, personally, don't like to ask for government incentives. Rather, I would prefer to see government disincentives removed.

In conclusion, I again emphasize my personal support and that of the NAM for a Department of International Trade and Investment, as proposed in the Roth-Ribicoff Bill, with certain modifications, as outlined in my testimony. I cannot support the two-headed approach proposed by the Administration, as I feel that it typifies and continues the conflicting approach we now follow.

Very truly yours,

W. L. WEARLY, *Chairman.*

Attachment.

EXAMPLES OF U.S. EXPORT OBSTACLES

The following examples represent a cross-section of obstacles faced by U.S. firms in the export market. The illustrations can be classified generally as either (1) self-imposed government restrictions, or (2) inadequate government support. Items from both categories can be traced to an underlying cause of neglect—the low government priority given to export expansion. There has been no firm commitment nor strong trade leader to either challenge policies adversly impacting U.S. exports, or initiate programs to offset the government support given to foreign competitors. The U.S. government's structure has short-changed international business objectives. No mainline department is charged with the principal

policy mission of strengthening U.S. competitiveness in world markets. As a result, the give-and-take between competing and at times conflicting policy objectives, U.S. export policy has suffered from lack of a strong organisational advocate.

1. In early 1978 Ingersoll-Rand lost $8 million worth of compressors for Acominas in Brazil to a Japanese firm. A major reason for the loss of the sale was that the Japanese government allows the development of country marketing strategies by consortiums of manufacturers. U.S. antitrust regulations would prohibit any similar joint planning between major U.S. companies to decide, for example, which firms would supply components for which plant on a rotating basis.

2. Ingersoll-Rand was offered an order from a Swedish international distributor for several compressors for use in hospitals in Vietnam. The order was eventually filled by a Swedish manufacturer when Ingersoll-Rand was turned down in its request to U.S. government for permission to ship this equipment.

3. In mid-1977 Ingersoll-Rand was negotiating with a European company, with whom they had previously done business, for $1 million worth of Rock Drills for Iraq. Because of restrictions relating to U.S. anti-boycott policy Iraq instructed the European buyer not to purchase from a U.S. company and the order was placed with a Swedish manufacturer.

4. In 1977 J. Ray McDermott Co., Inc., submitted a bid of approximately $25 million to Argentina for a gas pipeline. The contract was awarded to a French contractor for approximately $51 million. J. Ray McDermott Co., Inc's judgment is that work was awarded to their French competitor because of payments which would have been illegal under U.S. law.

5. In mid-1977 Ingersoll-Rand was negotiating for $6 million worth of pumps and compressors with Fluor Corporation for Sasol plant expansion including substantial technology and product duplication furnished by Ingersoll-Rand for the original coal conversion plant) in South Africa. Because of human rights considerations, Sasol decided not to consider U.S. manufactured equipment in view of the undependability of suppliers to obtain government authorizations to meet commitments. The U.S. government also refused financial support and South Africa then obtained loans from Japan and France. Although some equipment furnished by American-Japanese/French licensees, no major equipment was purchased from direct American sources.

6. In mid-1978 FMC Corporation had an order for fire trucks from South Africa. But since these were being ordered by the South African military, they could not accept the order under U.S. law. The only difference between these units and some they were already supplying to municipalities in South Africa was the color of the paint. In a state of emergency, the municipal units certainly could be preempted by the South African military. Thus, the U.S. government's regulations, in effect, excluded them from a significant volume of export business, with doubtful policy results. The real result was that the South African government ordered the units—$7 million worth of U.S. jobs and profits—from a German firm.

7. In early 1977 Ingersoll-Rand lost $3 million worth of compressors from Pemex in Mexico to Italian competitors. The Italian government and the Mexican government agreed upon a low interest loan partially repayable by barter which was more favorable than the Export-Import Bank was prepared to grant.

8. Babcock and Wilcox Division of J. Ray McDermott & Co. were negotiating with a Mexican company for $18 million worth of equipment for a power project. The Eximbank refused to offer financing unless the Mexican customer changed the specifications for the precipitator efficiency from the specified 97 percent to 98 percent as required by U.S. environmental standards. The customer refused to modify the specifications and the business was placed with a Swedish supplier.

9. In the fall of 1978 Ingersoll-Rand planned a private fair in Egypt to exhibit construction equipment. The U.S. Embassy in Egypt was asked to send a letter to the Cairo customs office to guarantee payment of customs duties on machinery not re-exported. The local commercial attache replied that his guidelines did not permit issuing such a letter unless the trade fair was controlled by a U.S. manager and had U.S. government participation. Ingersoll-Rand thus was denied the necessary letter and was unable to exhibit its products. A German competitor was able to get such a letter (a form letter) from the German Embassy in Egypt and therefore was able to exhibit and sell its products to Egypt.

10. The U.S. government has still done little in terms of exhibits, fairs, etc. for the U.S. businessman in the Peoples Republic of China. Last month Ingersoll-Rand, as an American corporation, had an exhibit in a British Energy Show to get our corporate presence advertised in in the PRC. The United States is very late

on this point and for years we have been riding on the coattails of our British and Canadian companies in Peking exhibits.

11. In 1972 Ingersoll-Rand Co. U.S.A. lost $2 million worth of gas engine machinery for Petrabras in Brazil to Ingersoll-Rand Co. Ltd. U.K. Eximbank terms were not competitive with the British terms which also specified that not more than 7 percent of the total job could be sources outside of the United Kingdom. Although it was not a real loss to Ingersoll-Rand Co., job hours in the U.S.A. were lost.

12. In early 1977 Ingersoll-Rand and other American companies were negotiating with the U.S.S.R. for over 200 million dollars worth of equipment for a gas pipeline. Although the negotiations were successful the orders were held up and later placed with a European consortium because of human rights considerations and U.S.A. failure to grant most favored nation status to the U.S.S.R.

Chairman RIBICOFF. In your full statement you emphasize the importance of consolidating the Export-Import Bank with other trade associations in the Department. Yesterday the administration said, and they make a good point, that the Export-Import Bank does very well, and as long as it is doing well, why change it? Well, that is always a good argument. If you have a function that is successful, you don't want to try to move it around and make it have problems. Do you have any comment on your experience with the Export-Import Bank and whether it should be a part of the reorganization, or kept out?

Mr. WEARLY. I think they do very well and they have done even better in recent times. I see this semiautonomous relationship merely as not putting them as a full part of this department. It would not be our recommendation. We would rather see them on a dotted line relationship, if I can put it that way, where they are acquainted with American export policy, where DITI and the Export-Import Bank talk to each other, but I would not recommend that they be embraced as an integral part of the Department.

Chairman RIBICOFF. You want a separate trade department. I think that is the thinking of the three of us here. Let us say that is not feasible. We don't like the administration's approach. Do you envisage the possibility of centering as many of the trade functions in the STR on a policy basis and some of the other functions like the commercial attaches and promotion with the Commerce Department? Do you think that would seem to be a feasible alternative?

Mr. WEARLY. I believe it is a weaker alternative. I just made a note for myself that said this: Suppose that the Senate or any other governmental agency finds our export business of the Nation lagging. Suppose we are not doing it effectively. Who do you hold responsible for this? I can quickly see that the people over in the administrative end will say, "Well, we have the wrong policies." The policy people will say, "Well, we have good policies but they are not carrying it out." Any time things are split, it tends to bring on that sort of a situation. It happens in my company, and, unfortunately, it does happen sometimes when we get a little bit of a split responsibility.

I would like to be able to see a strong man that we and you can look to to be responsible for this.

Chairman RIBICOFF. Of course, the STR would be if you have a man like Bob Strauss. I doubt whether the administrative will find someone like that.

In most countries that are successful exporters the person involved in international trade is probably the man closest to the head of

government. He always has access to the head because they realize how important export business is to the country.

Now, of course, it looks to me like the members of the Cabinet here aren't going to be very close to the President of the United States.

Mr. WEARLY. Yes. [Laughter.]

Chairman RIBICOFF. An STR that is in the executive branch with access to the President, will he be in a position to pull the levers or have the accessibility to the President? I recall when Bob Strauss came into the picture as STR. I know the conditions that he laid down before coming—that he would always have access to the President, that he wouldn't have to funnel his thinking through State, Treasury, Commerce, any other bureaucracy. That was effective, because everyone doing business with him knew he was talking for the President.

Now the question comes, do you take an STR and give him many policy functions with a hard-hitting policy group to be the spokesman on the basic issues and a close connection with somebody in Commerce carrying out the proposals? I don't know. I mean, I am just trying to figure this out.

Evidently there is no intention to reorganize Commerce, so we have Commerce with all its other functions that have nothing to do with trade, nothing to do with business. I am just trying to figure out if there is an alternative in a strong, beefed up STR that would be meaningful to the business community.

Mr. WEARLY. I think one could say that a beefed up STR could take on the appearance of a Department of International Trade. And if it did embrace everything, it might be just the same as what you are proposing. But I don't like to see first an STR with the responsibility for policy that is proposed, and then Commerce with a second level person responsible for international trade in Commerce. It isn't even the prime responsibility for the Secretary.

Chairman RIBICOFF. Let me ask you, being the head of a major company, one of our great problems in the world is our lack of competitiveness, the low rate of productivity in this country as against, let us say, the West Germans and the Japanese whose productivity far exceeds ours. Is there anything in this reorganization that we could do in the field of technology, research, to increase productivity, or is this something that would have to come from other sources?

Do you foresee anything that we could do to strike a blow for increased productivity in this reorganization?

Mr. WEARLY. Unfortunately, you have hit upon one of the serious aspects of American business, and that is that we do not have the technological leadership that we did have 15 years ago, nor do we have the improvements in productivity which happened for many years after World War II.

Now we must acknowledge the Japanese are riding today on their own technology. It isn't borrowed technology. Twenty years ago they were working on borrowed technology. Today they have developed their own. They are putting a greater proportion of their gross national product into research and development and they are putting a greater proportion of it in capital investments, in new capital investment.

Mr. Chairman, it is complex to know why American capital investment has dropped down. I am not really sure. I believe it is a result of

many of the constraints we have put on ourselves. For example, the environmental protection part of our expenditures has been more than half of the expenditures of many businesses, just to protect themselves. Well, that probably inhibits productivity rather than helping it. Now I am not here to tell you what the tradeoffs should be, but the fact is that today Government-mandated requirements are putting a greater and greater proportion of the available capital into nonproductive areas. And I think this hinders our ability to compete in the world market.

Chairman RIBICOFF. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Mr. Wearly, I think your statement is one of the strongest, most comprehensive I have heard in support of a Department of International Trade and Investment.

A couple of points you made in your testimony I would like to mention. I agree with you that there needs to be an intergovernmental coordinating mechanism. We had thought that the Trade Policy Committee would continue after the creation of DITI. But I think you have spelled out with some particularity how it should function.

I also agree with you on the need for adjustment assistance. The coordination of that, which is in STR, should be in DITI.

I guess, as you well know, the chances of creating a new department today are not encouraging. The President and the administration, for what they believe to be sufficient reasons, are not supportive. I suspect and fear that this means that there is not a recognition in Government of the importance of trade in the coming years. I think too much we are concerned with our problems of today and tomorrow and not concerned with moving this country in new directions. I think the trade prospects are probably one of the most exciting encouraging opportunities facing this country.

For that reason, I agree very much with what you say about attitude. I think we have really got to change the attitude of the entire country. I think this is true of Government. You are absolutely right that it has been characterized in the past by an attitude of confrontation rather than cooperation. It is time that we recognize that we have some very able but tough, mean competition abroad. You have business organizations abroad, every bit as large as ours, the principal difference being that they have the cooperation and active assistance—too much in my judgment, and I think you probably would agree with me on that—of their foreign governments. So we have to change the attitude not only of the top people of government but all the way down in the bureaucracies. We have to work together to promote trade.

I think the reason I feel so strongly about some kind of a lead organization is that you have to change the attitude not only of government but business as well. As I have said several times, I don't think American business, with some exceptions, understandably so, has been as active in promoting trade as the foreigners. We have a lot to learn so we have to change the attitude of business.

I hope that we can do the same with labor, who has somewhat changed its attitude since the early 1960's, again for understandable reasons. But I think when you look at the prospect of $4 trillion worth of world trade by 1990, it is more promising of jobs than any other program or area I can think of. But the fact remains that on

the short range it doesn't look very encouraging to create a new department.

I would like to say I think one of the reasons we are even in the ball game, is that one of the few people who recognized the importance of the problem is not only you but the chairman of this committee.

So that I guess in a way, to expand on what Senator Ribicoff has already asked, if we cannot reach our ideal immediately, what is the most important step we can take in moving in the direction that we think is necessary for an active trade policy?

That brings me to STR. STR does have a number of assets. He is already a member of the Cabinet so you are not creating a new Cabinet officer. We already have, I don't know whether we should call it an agency or what, but we have the institution anyway. So do you feel that if we can consolidate much of this around the STR that would be a sizable step forward in the direction we want to go?

Mr. WEARLY. We always must look at what is politically possible, I guess. If the STR had the staff and the functions embraced within it to a much greater extent than it has today, that certainly would be much better than what we have now. I think it depends on the attitude that the administration takes toward just what they are going to expect out of whatever post they finally bring up as the No. 1 post to reflect the foreign trade situation for us.

I worry about the part that is of secondary importance in Commerce because I think it will get lost there. If we had a great deal of clout in the STR and all the functions put together there, or more of the functions put together there, it would be much better than it is now.

Senator ROTH. One of my concerns, as you point out, with the President's proposal is that you really have a two-headed monster.

Mr. WEARLY. Right.

Senator ROTH. We need both a lead agency and a leadman. I think one of the reasons for Bob Strauss' success is that he had the ear of the President, which I think is real essential. I don't know how we resolve that immediate problem, Senator Ribicoff. But I do think that it is important that our trade leader, if you call him such, can reach the President and those who speak for him.

Let me play the devil's advocate for a moment. Some people have argued that without industry sectors, which are in Commerce, a DITI would be divorced from domestic industrial policy. Would you advocate the inclusion of domestic industrial policy in DITI?

Mr. WEARLY. Of course, as you probably know, the Japanese equivalent embraces all industrial policy, both foreign and domestic.

I think that is a possible way to do it. We have not advocated that in this situation because I think again it might just be politically unpalatable to try to go that far. It has certainly been very effective insofar as the Japanese are concerned.

Senator ROTH. Do you think the transfer of countervailing and antidumping duties, factfinding, and administration of Treasury by putting at least discretionary aspects in STR or the Trade Policy Committee makes any sense?

Mr. WEARLY. I would like to call on Mr. Fox to comment on that.

Mr. FOX. It seems to me that the divided responsibility aspect is a definite disadvantage. I think the Commerce Department on the investigation side could be more effective than the Treasury, par-

ticularly if it used its knowledge of the industry sector competitive problems and perhaps could be more responsive to the needs.

It seems to me, though, that the essential point that we are making is not to divide up the responsibilities between the negotiating agency and the administering agency. It seems to me that the only way to do that is to put the antidumping and countervailing duties responsibility in a new Department.

The proposal that the administration has made starts off immediately with two separate power centers, and then you constantly have to ask the question, which one takes the lead? How do you divide up these responsibilities?

In my opinion there is no answer to that except to consolidate the responsibilities in one place. It seems to me the Department of International Trade and Investment is the way to do that. If that is considered politically infeasible, an alternative would be to put it all in the Commerce Department. But to continue to divide it seems to me to be the least desirable.

Senator ROTH. I assume when you say we consolidate, you disagree with Mr. Wearly's answer, do we do this in STR?

Mr. FOX. If in effect you are going to make the STR a Cabinet Department but not call it a Cabinet Department but call it a trade office that has all the attributes of a department with very extensive staff to accomplish all of the objectives, that is an alternative. Under those circumstances, it would be a Cabinet Department without the name "department." I think under those circumstances it would be a step in the right direction. It would take a much bigger staff. You can't do it with 50 or 60 people.

Senator ROTH. If we create a Department of Energy—both Senator Ribicoff and I were rather active in that—it becomes a very large bureaucracy. I agree there may be some need of some more staff, but, frankly, what I think we need is a lean, mean agency rather than a fat, bloated bureaucracy. I think the President has some merit in being concerned about creating another large bureaucracy.

Could you spell out with a little more particularity what you think about that, either one of you?

Mr. WEARLY. I will start by saying something you might not like to hear, but if we could set the Government up so that they just didn't hamper or interfere with our ability to do business, we won't need very much of a staff in the foreign trade area to help the major companies.

I see the staff as being more one to handle Government interaction and to help small companies in the export field. I really believe I am not being foolish in making the suggestion that there are 500 American companies that can very effectively compete in the world if we are just not hampered by various strings that the Government ties to us.

Chairman RIBICOFF. If the Senator would yield, that is exactly what I want from you, a list of areas where you consider you are hampered by Government actions and activities.

Mr. WEARLY. Right.

Chairman RIBICOFF. I would like to take a look at that because that would give us some assistance in where we go with this program.

Senator ROTH. Might I suggest that that be as specific as possible. If there is any example that you want to be held confidential, I would

50-490 O - 79 - 5

assume that could be done. In fact, I think the chairman makes a very valid point. We do need specifics.

Mr. WEARLY. Very good.

I see the staff as being more to handle the intergovernmental situations that probably you know much more about than I. I am going to ask Mr. Fox to comment on what he sees the staff doing.

Mr. FOX. I think basically you would use the staffs that now exist in Commerce, Treasury, STR, and in the State Department. The only area that I see that is substantially insufficient to carry out the responsibilities is the area of implementation of the various nontariff barrier codes negotiated in the multilateral trade agreements. That calls for staff to monitor the compliance with the agreements abroad and to work with American industry to bring any of the shortcomings of foreign performance to the attention of American authorities so that they can lodge protests in the GATT. I would think some buildup of staff would be required there, with perhaps some reallocation of staff abroad, so that the foreign service or the commercial service function abroad would also take on the responsibility of monitoring foreign government compliance.

But that is the only area that I would see as calling for significantly increased staff resources. I just don't see this as a Department of Energy type bureaucracy.

Senator ROTH. I think it would be a very serious mistake, and I think it would make it very difficult getting any kind of reorganization through. I agree with you, Mr. Fox, that there are some areas, and I think the implementation of nontariff barriers should be an area where we are going to have to have professionally trained people to administer those codes if they are going to be meaningful.

Frankly, one of my concerns, when you have these functions divided, as we do not, is that they become competing in many ways. I think that is where you get the growth of the bureaucracies. Would you agree?

Mr. FOX. Yes.

Mr. WEARLY. I think that is a point that you will get differing opinions from different businessmen. My perspective is mainly as an exporter. I don't have that much competition from imports from foreign companies into America. Now if we were in a different kind of business, in the consumer business or chemical business or so forth, I think there would be much more interest in the trade aspects of imports and things of that sort which I am not dealing with. Mr. Fox is dealing more with those aspects.

Senator ROTH. Thank you, gentlemen, for your very helpful testimony.

Chairman RIBICOFF. Senator Durenberger?

Senator DURENBERGER. Thank you, Mr. Chairman.

Before I start my questioning, I wanted to make one recommendation to solve this problem in the event that Senator Jackson and other Democrats are wrong and Jimmy Carter is reelected President of the United States. I am going to recommend that Bob Strauss get even with this committee by recommending that you be the STR in 1981. [Laughter.]

Chairman RIBICOFF. All I could say, if I wanted to stay in government, I would stay in the U.S. Senate. I would much rather be

asking the questions than answering them. [Laughter.] And I want to be the boss. I don't want you fellows to be the boss.

Senator DURENBERGER. Mr. Wearly, Mr. Brown told me at the swim meet last night I could expect you to be a very insightful person on the issue. From what I heard, you haven't disappointed anybody here today.

I have two questions and I think they are related. The first is your opinion as to whether it is reorganization that is needed or it is basic policy change that is needed the most. I suppose part of that response is, both are needed in some way. But in your mind, should we be spending as much or more time looking at trade policy and necessary legislative changes in trade policy in this country as we spend on trying to reorganize the executive branch as it relates to trade policy implementation?

Mr. WEARLY. I am going to repeat a thing I already said, and that is we certainly need firmly to establish a better attitude toward the foreign trade area so that it is looked upon as a good thing to do. If I may make a comment, about 5 years ago, I made an appointment to see Mr. Meany, and the day I was supposed to see him he was ill and so I wound up speaking to Mr. Kirkland, or I wound up with an appointment with Mr. Kirkland. When he found out I wanted to talk about exports, he said, "I don't want to talk to you." He said, "That is bad. I just won't talk to you. There is the door."

Now, when we have an attitude of that sort which in his case I am sure was misguided, because later I sent delegations of workers out of our factory to go down and tell him, "This is good, this is what our jobs are comprised of." But in his mind, anything that helped exports was a ripoff for business.

Now those attitudes must be displaced. We have to finally decide that America is no longer an island that can exist unto itself. We have to be a part of the world training pattern. You look at the fact that 10 years ago we had 18 percent of the world's exports and today we have 12 percent of the world's exports, and several industrialized nations have been rising all through this period, taking our share of the market. If any of you were in a business that had lost a market share from 18 percent down to 12, you would think it is about time we fired the management. They are really getting in bad shape. This is the position America finds itself in today.

I think we must decide, first of all, since we are becoming no longer an asset-rich nation in the sense of natural resources, we have to bring in natural resources, so we have to be a trading nation and we have to export manufactured goods and we must make that a top priority in my judgment.

Now our policies then need to be formulated around that understanding, that exports are a vital part of our overall business.

Senator DURENBERGER. Thank you.

The second question deals also with this policy function. It comes obviously from someone who has been part of this process a mere 6½ months. But let me give you just three illustrations of my job. I am arguing for the sake of argument with your basic conclusion, which is that policy and implementation functions are split between the White House, the trade representative's office and the renamed Trade and Commerce Department, that "we must have one strong policy leader

who has the full implementation resources of a unified cabinet department, including the negotiating authority to both reward and punish."

Let me give you three quick illustrations. I just came from the hearing in the Finance Committee on the President's nomination of Patricia Harris to be Secretary of HEW. She was asked a question about her independence as a secretary of a department, vis-a-vis the President of the United States. She responded, and I think probably appropriately, that her job is to recommend policy changes to the President of the United States and then to recommend his policy to the Congress of the United States. She commented on the fact that he is the only elected official in the executive branch and therefore it is her function to carry out his policy recommendations.

Yesterday in this committee we heard from the General Accounting Office on its analysis primarily of the failures of DOE in the policy planning process, and the failures, as I could see them, are total and complete. As long as there has been a DOE and since 1975 in its predecessor organization, none of the legislatively mandated policy planning had been done by that agency. I would allow that it is not the fact that the agency is too large, that there are too many bureaucrats. It is a question of leadership and not only from the agency but from the President.

The third is the whole thing that has been going on in this city the last 2 or 3 weeks—the Camp David outreach, the sermon on the mount, the so-called midsummer massacre, and that sort of thing; the efforts on the part of the President of the United States obviously to reach out beyond an executive structure to get policy advice to lead the Nation. So somehow I come down with some sympathy for the administration's position, that perhaps it is not a bad idea to consider some degree of split between policymaking and policy recommending in the STR, and a strengthened Department of Commerce which has a combination of policy recommending and policy execution goals.

I would appreciate, in effect, your restating your support for this position in light of the three events that I have just outlined.

Mr. WEARLY. The position of STR, as it has been, has been rather what I call a nonpermanent position. It assumes importance only when we have trade negotiations to take part in. Then it lapses and is not maintained at a high level.

Now Mr. Strauss was persuaded to come in and take this job, which I think he did very ably, because we did have the trade negotiations and they had to be carried out. I think he almost feels that job has now been done.

Now if we are going to strengthen the STR, it has to have an ongoing function, every day. It has to have people that provide a continuity of policy rather than just one man to come in for a short time and do a good job and then go on to some other post. I think had the President said, "Mr. Strauss, we want you to take this on permanently," he probably would have turned it down and said, "I don't want this job permanently. I can do it as a one-shot thing for you."

Now the international trade function, however it is organized, has to be a 365 day a year job and you have to have staff people who are dedicated to this purpose all the time that will gradually formulate policy based on their own knowledge. I just don't think a man coming in and then going out and another man coming in is going to give us what we need in the international trade field.

I am looking for more permanence, continuity of policy, and purpose.

Senator DURENBERGER. Thank you. My point is if the STR is overstrengthened, it would be more than a periodic appearance on the public scene.

Mr. WEARLY. If it were.

Senator DURENBERGER. And if more policy planning authority were given to the Office of STR, and that office were strengthened so it would carry out that role, would you object to the apparent organizational dichotomy between the STR and the Office of the President?

Mr. WEARLY. I would like to ask Mr. Fox to comment a little bit.

Mr. FOX. What you are really saying is, if for reasons you can't express, a single department isn't possible, is the second best alternative really satisfactory? My conclusion is it is not satisfactory. I think you really need the resources of a full department with analytical power. You know, deterioraton in the U.S. trade position didn't begin in 1975. It has been in the making for 15 years. No analysis in the Government stated clearly what was happening until the Bonn summit. The Government went ahead on the assumption that it was the oil import figures that were really damaging our trade account. They did not realize that the more significant changes were in the manufactured goods area.

That is not the responsibility exclusively of any one department, but it is the responsibility of the system to detect that early enough to bring about changes. I think divided responsibility tends to obscure longer term analytical requirements. That is one of the reasons why in Mr. Wearly's testimony we give emphasis to a combined, sustained analytical function. It seems to me a divided responsibility of the type that you describe, Senator, would perpetuate that division and continue the existing malfunction that has brought us to the point we are now.

Senator DURENBERGER. Thank you very much.

Chairman RIBICOFF. Senator Percy?

Senator PERCY. Mr. Chairman, first I would like to welcome Mr. Wearly very much indeed. I have been highly critical of NAM through the years. I had been a member for over a quarter of a century in NAM. I am no longer a member.

I had the belief that the perception of NAM was that of a right-wing, narrow-gauged, self-serving group of highly reactionary businessmen. [Laughter.] I said that many times while a member. I never resigned my membership, but I have felt that very deeply.

I am very happy, Mr. Chairman, that I was able to say to NAM at their annual board meeting in Chicago earlier this year that my perception of NAM has totally changed. I hope it is not because I have left the membership now and gone into public life. But I think NAM has become progressively one of the most outspoken voices for the American interests in having a strong economy, visualizing manufacturing as an integral part of that goal, but working to strengthen America, along with strengthening American manufacturers.

I think your radio programs are excellent. I don't know whether they are beamed all over the country as much as they are in Washington. I hear them all the time. I think they are good messages which inspire confidence in the American business system. I have deep confidence and reverence for them. I think NAM stands up now for

the finest business organization in the country. Your appearance here to help us with this tough problem is really immensely appreciated.

Mr. Chairman, I would like to use a few minutes of my time to make a statement about the problem that you have been grappling with and to insert it in the record wherever you see appropriate.

First, I would like to commend both you and Senator Roth for the role you have played in focusing our attention on the need for better coordination of U.S. trade policies.

Whether it is the United States Chamber of Commerce that I work with today or last year in Australia with the Australian Chamber of Commerce, businessmen in the Soviet Union, who Senator Javits, Senator Ribicoff and I met with a couple of years ago, or the business community in Spain that I met with this year, all of these groups have been extraordinarily critical of the way this country has organized its efforts with respect to international trade. They really look upon our effort as minuscule compared to the tremendous support governments around the world, particularly in the free world, provide to industry and business. Certainly Japan, Germany, other countries are really prominent in this area. So we really must improve the efficiency.

I pay full tribute to Senator Roth and Senator Ribicoff. Improved management, efficiency and effectiveness in our international trade programs are absolutely essential if we are to bolster this country's competitive position in world trade.

When I came back from the Navy in 1945, one of the earliest assignments was to work in the building of factories around the world, distributing, setting up distribution points all around the world. In all of my years, some 24 years' work in that field, I can't really recall any help from the U.S. Government. We just plowed ahead and did it on our own.

But then other governments weren't nearly as well organized and international trade wasn't nearly as complex as it is today. The OPEC problem did not exist, a problem today that individual companies can't counter. It has to be done on a government-to-government basis for which we have to develop the mechanism.

A distressing pattern has emerged concerning the U.S. position in international markets. From the midsixties through the early seventies our merchandise trade balance has moved gradually from surplus to deficit. With the exception of a slight upswing in 1974 to 1975, this trend has persisted with the merchandise trade balance registering a $31 billion deficit in 1977 and $34 billion deficit in 1978.

In his January 1979 Economic Report, President Carter stated:

> The U.S. share of total manufactured exports of 15 industrialized countries fell from about 30 percent in the late 1950's to 19.2 percent in 1972. It rose to 21.1 percent in 1975 but has declined steadily since then, falling to 18.9 percent by the first quarter of 1978.

Mr. Chairman, this trend must be reversed, and we should do everything possible to increase our exports and our stature in international trade. So long as our imports of oil are going up at an astronomical rate costing the United States approximately $60 billion this year, we simply must increase our exports to offset this experience. Otherwise we are going to have a declining, weak dollar for years and years ahead meaning higher prices for everything we buy abroad. It makes us less competitive, if raw materials and everything coming into this country costs more relative to what other countries have to pay.

For some 30 years I have been a supporter of liberal trade policies. I agree with the President's statement in the 1979 report that the aims of U.S. trade policy are to enable the United States, as well as other economies, to benefit from the most efficient allocation of world resources and to channel U.S. resources into sectors of comprative advantage.

Both the large current account deficits and the merchandise trade deficit stem in part from tariff and nontariff barriers imposed by our trading partners. The MTN agreement will help to resolve this problem by encouraging the progressive dismantling of all barriers to trade. But these deficits are also due to a loss of American vitality in the world market.

I think it would be encouraging to those of us who long fought the battle for freer trade to realize that this policy is becoming increasingly accepted. Yesterday, as Senator Ribicoff managed the bill on the floor, there were four Senators present. Twenty-five years ago it would have been jampacked, filled with the same emotion we have on ERA or on busing or abortion. Today it is almost a nonissue that we are going to be committed to freer trade. In a show of bipartisanship five Presidents have set that policy in successive Congresses. This is tremendously encouraging. We therefore ought to organize ourselves to meet that new policy of this country—new, that is within the last several decades.

Of course, the pressing need for more aggressive trade promotion must be carefully balanced against the need to soften the impact of sudden dislocations in domestic industries and labor markets.

I have never advocated pulling the rug out from under an industry or company or not doing something to help them adjust to international competition.

Unfair trade practices should be speedily dealt with by our Government. Unfortunately, this has not always been the case in the past and some industries feel that they have been victimized by unfair foreign competition. To help ease industry's concerns in this area, I have cosponsored Senator Danforth's bill to streamline the U.S. Antidumping Act so that its penalties are imposed more quickly. I am happy to note that most of the provisions in this bill have been included in the MTN legislation.

Certainly the U.S. Senate has worked very closely with this administration to see that we really move very, very swiftly on the dumping of foreign products. There is no way we can compete with unfair trade practices.

In examining proposals to reorganize international trade functions, the committee must remember that the organization of our trade apparatus is apt to shape trade policy for years to come. Therefore, we should be careful not to choose a reorganization proposal which would replace our commitment to increased trade and negotiated reductions of trade barriers with what could be characterized as the "stick approach" to international trade; that is, threatening tighter quotas, higher tariffs, and other sanctions in a vain effort to reduce our trade deficits. Shutting out competition from overseas when it is fair competition is no way to reduce the trade imbalance. In addition, our exports could become targets for retaliatory action by other nations.

Mr. Chairman, although having gone through the bath in the camera business and seeing imports flood into this country from Japan and Germany, I nevertheless supported such competition so long as it was fair competition and the American consumer reaped the advantages. Year after year I testified against the manufacturers who were proposing protectionist measures before this committee and the Ways and Means Committee, saying a freer trade policy should be the national policy of this country.

To this day I never heard a stockholder say to me I had to support the national interest and subordinate our own. Now it has changed. Today Bell and Howell's sales are $600 million as against $313 million a few years back, 10 percent of which are related to photography and 90 percent to other commodities.

We were the ones who had to adjust, not the country in its policy and position. So I feel very deeply that as we build in safeguards against unfair competition, we should do so in a way to help industry get over a hurdle of precipitous change.

But you can't change the policy of this country. We cannot stand on our own or become a fortress in America in trying to keep everything else out. What may help one particular manufacturer in the short run is a disservice to him in the long run by being shielded from the economic facts of life. That is not our job, to shield U.S. firms from the economic laws of the free market, which we all deeply believe in.

What reorganization can do is change the focus and attitude of the U.S. Government toward exporters and productive investment to provide an aggressive export policy. Many of our trading partners are far more active in aiding their exporters than we are. An overhauled structure for trade policy could help to invigorate American industries' competitiveness in international commerce and win back a large share of foreign markets which we have lost.

The President began this process last September in announcing a national export policy. A reorganized trade machinery would help to carry out the President's goals effectively while promoting an export-oriented constituency, giving more emphasis to trade in national policy objectives, and synchronizing export promotion policies with measures such as incentives for domestic industry to spur investment in plant and equipment.

The Commerce Department has estimated that 20,000 U.S. companies export but that another 20,000 could successfully enter the world marketplace. This is where Government must really help.

We have to broaden the coverage. We have to get as large of a percent of our companies into exporting as Japan and Germany have today. It can't just be the top 500 corporations that do 95 percent of the export business in this country.

I urge the committee to consider carefully during these hearings several specific questions raised by the trade reorganization issue.

The first I have talked over with Senator Ribicoff. I am concerned about just another new Department being imposed. Is it absolutely necessary? Is there some other way to strengthen and bring together the agencies currently responsible for aid programs to achieve greater U.S. competitiveness in world markets and to administer the MTN agreement effectively? I doubt proliferating the bureaucracy during these inflationary times is really the answer?

Second, we should ask ourselves whether trade promotion programs should be housed under the same roof with import relief programs. Although a logical approach to trade reorganization would seem to call for a general consolidation of trade functions, the inherent tension between liberal trade and protectionist interests cannot be overlooked. The struggle between these two differing philosophies on international trade could paralyze U.S. trade policy rather than stimulating it.

Third, should trade negotiation be kept separate from trade policy implementation?

In sum, Mr. Chairman, the complexities of reorganizing the Government's international trade functions are immense, as evidenced by the administration's struggle over the last 2 years to reach consensus on a proposal. No reorganization should be made in haste.

It is my hope that the questions which have been raised and other ramifications of the trade reorganization issue will receive the careful consideration they deserve. The close cooperation of the committee and the administration, as well as private interests, should help to solve the current deficiencies in our trade programs so that the United States can regain its leadership role in promoting international trade and at the same time strengthen our domestic economy.

I commend Senator Ribicoff and Senator Roth particularly for raising this issue, as well Senator Durenberger, and Senator Javits because in a partisan sense he is the chairman of the Economic Committee Subcommittee of the Republican Policy Committee, which I hope the Democrats would have a counter group to. We will be issuing I think a very forthright, aggressive, hard-hitting economic report that will address many of the problems we are struggling with and lay a philosophical foundation with respect to Government policy to really be implemented through a reorganization.

Though I think our process should be a careful one, Mr. Chairman, I certainly pledge to you my full cooperation, with the highest priority on time, to see that we do move forward as rapidly as possible with the structured reorganization that I think is absolutely essential.

Mr. Wearly, I will submit my questions for the record. I appreciate your patience in listening to a statement that I wanted to give at the opening of the hearing, but I am sorry I could not be here earlier.

Chairman RIBICOFF. Thank you, Senator Percy.

Senator JAVITS. Mr. Wearly, I use this time to apologize to the other witnesses. I am deeply involved in SALT II hearings. I wanted to have a word with you and I will try to get back, Mr. Chairman, before Mr. Snead will testify this afternoon.

I had one basic question. If you were at the export, President's Export Expansion Council meeting the other day, you heard me raise the question. I would appreciate your answer.

Mr. WEARLY. I was not there.

Senator JAVITS. That is, what is the relationship of labor to export expansion? We have a big problem with labor—a very dug-in feeling that we are exporting their jobs, notwithstanding the fact that I believe today there is a real preponderance of jobs in exports over those who are even peripherally hurt by imports. Now how do you suggest that we should approach a better tie-in with labor so that it recognizes its stake in the exports of the country?

Mr. WEARLY. That is certainly one of the adversary relationships that has made exports look bad, because labor viewed it that way. I

can speak for what we have done at Ingersoll-Rand to get labor on our side. We have clearly 7,000 or 8,000 jobs that did not exist 10 years ago, and those jobs exist today because of our exports. And on top of that, we can document that our suppliers probably have another equal number of jobs based on their supplying goods to us which we export. So there are 14,000 to 15,000 jobs.

Now we have gone to our main export plants and we make sure that the workers know every order that comes in from a foreign country. We identify the order. They know they are working on it. Possibly you weren't in here, Senator Javits, when I said I tried to get an appointment to talk to Mr. Kirkland on this subject and he didn't even want to talk about it. He just said, "If that is your subject, there is the door." Subsequently, I had 15 or 20 of our workers—and they were dressed like workers, they didn't come down with ties on, they came out of the shop—they came down to talk to the AFL–CIO and they said, "These jobs we have are dependent upon exports and we want your support." They even took the position they supported DISC very strongly.

I think this is a misunderstanding with labor, and business has to work on it. We have to work hard on it. I have brought a few labor district vice presidents, not our local union presidents, but the district vice presidents, into meetings with our workers. I think we came out in a good position on that. So I would say that it is possible to convince labor, but it is a tough job.

Senator JAVITS. Mr Wearly, how do you tie it into the reorganization?

Mr. WEARLY. All right. Here is how I tie it into the reorganization. I will be a little circuitous, if you will forgive me.

In 1968 a delegation from Treasury came in to see me as the chief executive of Ingersoll-Rand and they pinned a button me. That button said something like "20 percent up." It had an arrow that pointed up. We were in a trace imbalance position in 1968, so Treasury said, "Our most important function is to get exports up." They had with them Commerce people and State people. They said, "Now these people will all help you." I might add that out of this Treasury thrust that started in 1968, ultimately DISC was evolved as Treasury's idea for helping exports.

You know it wasn't long until DISC was widely viewed as a ripoff. Labor said, "This is no good." The Treasury even reversed their position on it. So we have lacked what I call a consistent, ongoing policy. It has been brought about by each department pushing what was then its highest priority. At that moment Treasury was all for it. Five years later they were looking for foreign income. They wanted to repatriate foreign earnings. So they were way off of the export thrust.

This is why I feel that if we define the requirement for America to become a trading nation, and exporting nation, and have one department that has that as its top priority, we will not be capricious as we are today with continuously changing priorities.

Chairman RIBICOFF. If Senator Javits would yield for a second, one of the reasons that MTN was so successful in Congress was the 1974 Trade Act. We specifically wrote in the requirement that the STR would establish advisory groups of every segment of American society. Now it wasn't just a question of industry exporters or importers of textiles, but every phase of American society, including Labor.

That should be ongoing. In talking with Senator Roth we have both concluded that we would definitely support reinforcing that requirement in the reorganization. I think in the legislation we write we can reemphasize and reiterate what we wrote in the 1974 Trade Act.

I think Senator Javits makes a very good point. But I think as a result of the consultative process you will find that there was very little labor opposition to this bill when it finally came together. It was a classic example that Government does work, the executive branch and the legislative branch, with continuous consultations, not only with every American interest involved but between the Congress and the executive.

We were involved in frequent trips to Geneva. Our staffs were involved. We knew everything that was going on through Mr. Strauss and the rest of the STR. And then we wrote the legislation together. We weren't handed something. The executive branch and the Ways and Means Committee and Finance Committee sat together and wrote this legislation. It becomes very important in the complex society to make sure that that continues in the future. I think no one understands it better than you, Senator Javits.

While you were away, Mr. Wearly talked about the attitude of Government to sort of punish the exporter instead of encouraging the exporter. I think that when labor realizes its stakes in increased exports and the jobs that are involved, it can be done. But you can't put them aside. They definitely have a role in whatever advisory committees we establish here.

Senator JAVITS. Do you adopt that answer, Mr. Wearly?

Mr. WEARLY. That is certainly a very good answer. I would like to add, just to remind you gentlemen, a few years ago we had a Burke-Hartke bill. I happened to be on a podium when you spoke against that, Senator Javits. But that was another thrust, almost saying, "Foreign business is bad and we have to punitively tax you for doing foreign business."

We need leadership in the foreign trade area that can speak up and keep us on an even keel.

Senator JAVITS. Mr. Wearly, when they lose, it is not a thrust. Now that is one thing business doesn't understand. It better learn. We know it. The art of democracy is 50 plus one; also a close call. The bigger the issue, the closer the vote—except when Ribicoff handles the bill. [Laughter.]

Chairman RIBICOFF. If the Senator would yield, you see, you miss a very sensitive point that Senator Javits brought up. Burke-Hartke failed. I was against the Burke-Hartke bill. Now you said there was a change in views concerning DISC. I took the floor against Senator Kennedy to keep DISC, and DISC did prevail. I think every member of the Finance committee voted for DISC. So the fact that a group in American society proposes something, that doesn't mean the American people or Government or Congress is for it. The points have to be made. There are men who have large labor constituencies like everybody around this table. But yet when we understand what is the national interest, we act accordingly. So don't complain about the failed issues. You ought to take pride that there was a recognition of American interest and that was reflected in the vote of the Congress on DISC.

Senator ROTH. Would the Senator yield for a moment?

Senator JAVITS. Certainly.

Senator ROTH. I think the point that our chairman makes is very much to the point Mr. Durenberger raised earlier, and that is the question of which is more important, reorganization or policy. I think both are of principal importance. The reason I say that—you have the illustration of DISC, you also have the illustration of taxing American nationals abroad. There was no one in the executive branch of government to articulate the trade impact of these proposals. And I have to yield to my chairman because he did lead the fight on the floor to protect it. But what I want is somebody in government to have an effective voice before the Congress as to the implications on trade and exports. What we are trying to develop here is an effective voice that will be not reacting but looking down the road to ways and measures to develop policy and then be able to speak to both the President and the Congress in a responsible manner. I think that voice is lacking.

Thank you, Senator Javits.

Senator JAVITS. I just had a few particular questions.

Chairman RIBICOFF. Go ahead. We have taken your time, Senator Javits.

Senator JAVITS. Thank you.

The first one is this: What do you say about the commercial attaches? The administration plan proposes to move those in the principal industrial countries—they are really saying our principal trading partners, which might mean some developing countries—from State to whatever is the new department. Are you for that? Is the NAM for that?

Mr. WEARLY. I think it doesn't go far enough. They propose to move only some of them.

Senator JAVITS. You want to move them all?

Mr. WEARLY. I would move them all.

Senator JAVITS. Second, trade adjustment assistance is now partly in Labor and partly in Commerce. Do you see the program suffering from a lack of coordination between those two departments?

Mr. WEARLY. Definitely.

Senator JAVITS. So that is one of the reasons for consolidating?

Mr. WEARLY. Right.

Senator JAVITS. But you would leave the labor part of it in Labor? That is, this bill leaves the labor part of it in Labor.

Mr. WEARLY. Labor would administer the labor portion, that is right.

Senator JAVITS. So it is the Commerce part you would move.

Mr. WEARLY. It is the Commerce part.

Senator JAVITS. Lastly, about OPIC, the Overseas Private Investment Corporation, a particular baby of mine. The administration says that they don't object now putting it in the new Department. Do you feel strongly about that?

Mr. WEARLY. That it be in the new Department.

Senator JAVITS. Lastly, because it ties to the OPIC, I know that you get back now for putting the ITC into the new Department, that is something of a quasi-judicial body, or if you agree with that. We have kind of a hangup around here about putting a quasi-judicial body into a policymaking department, on the theory that somehow it could affect its decisions. What do you say about that?

Mr. WEARLY. I am going to ask Mr. Fox to speak on that because that is a technical subject beyond me.

Mr. FOX. Our thought would be that the ITC would be in the Department in a semi-autonomous fashion. There would be no interference with the factfinding or the recommendatory functions of the ITC. The difficulty with the ITC in its present status is that it interferes with the effective negotiation with foreign governments on particular subjects. In the course of the negotiation with Japan to increase their imports from the United States, separate actions were being taken by the Treasury and ITC on import complaint matters that related to important Japanese problems. The inability of our trade negotiator even to hold back the timing of those two unfair trade practice investigations limited his ability to negotiate effectively with the Japanese. So our thought would be that an ITC in this semi-autonomous relationship with the Secretary of International Trade and Investment would improve the ability of the head of that Department, the Secretary, to negotiate our trade interests. Further, he wouldn't be negotiating with respect to trade when it was perfectly obvious he had no responsibilities with respect to that aspect of trade. The existence of the ITC in the Department, it seems to me, would be helpful to the negotiations function, helpful to the implementation of our objectives to improve the fairness of international trade, and should not lessen the objectivity of the analysis and recommendations coming from ITC.

Senator JAVITS. Mr. Chairman, I thank the Chair and my colleagues for their enlargement of my own efforts in this questioning. I thank Senator Percy for his coined references to me. And I apologize, especially to Orville Freeman. I have to go to the Foreign Relations Committee.

Senator PERCY. Mr. Chairman, I would like to put one question to our witness while Senator Javits remains because it is a subject that both of us have worked on extensively ever since we have been together here. NAM has long felt that productivity must increase for American industry. We recognize that is one of the single largest contributors to inflation, together with Government relations, which adds so much cost to the consumer. So that working on the problem of productivity, taking into account the philosophy of NAM, with which I agree, that Government should not intervene where the private sector can do it, what do you think needs to be done by Government?

Chairman RIBICOFF. Senator Percy, if you would yield, one of the disadvantages of coming in late is the failure to understand that the question was asked and answered by the previous witness.

Senator PERCY. On productivity, what this new department could do to help us?

Chairman RIBICOFF. The whole problem of productivity, its role in society.

Senator PERCY. Fine. Very good. I will read the record. I thank you very much for anticipating our concern on the question.

Chairman RIBICOFF. Thank you very much, gentlemen. We took a lot of your time. One of the reasons is we recognize the importance of your group. You represent the people that basically, with agriculture, are responsible for the largest part of our exports. There is a very important role that you have to play. We thank you very much for being with us.

[The prepared statement of Mr. Wearly follows:]

National Association of Manufacturers

TESTIMONY OF
WILLIAM L. WEARLY
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
INGERSOLL-RAND COMPANY
and Chairman,
NAM INTERNATIONAL ECONOMIC AFFAIRS COMMITTEE
on behalf of the
NATIONAL ASSOCIATION OF MANUFACTURERS
before the
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
concerning
INTERNATIONAL TRADE AND INVESTMENT REORGANIZATION
July 25, 1979

1776 F Street, N.W. • Washington, D.C. 20006 • (202) 331-3700

Executive Summary of NAM Testimony on Trade Reorganization

1. Growing U.S. interdependence with the world economy requires that the formulation and implementation of U.S. foreign economic policy be accorded a higher priority in the governmental system. Record annual trade deficits and the dollar's weakness abroad perhaps are the most dramatic examples of the competitive economic challenge facing this country. The currently unfocused U.S. government approach to international economic policy-making and execution is inadequate to these tasks.

2. Basic advantages to be derived from reorganized governmental authority over foreign economic policy lie in: (1) more consistent policy with greater attention to international economic considerations, (2) enhanced international negotiating leverage, (3) increased follow-up on international agreement obligations and opportunities, (4) better analytic economic research, (5) improved business promotion services, and (6) elimination of unnecessary duplication between government departments.

3. Consolidation of currently scattered international trade and investment functions of the government into a new department, coupled with an inter-agency coordinating mechanism, offers the most substantial benefits for recognizing the increased importance of international economics in both governmental policy formulation and implementation.

4. The bill, S. 377, is an innovative and positive response to reorganization needs which contains the necessary basic consolidation proposals to establish an effective international trade and investment department. Several constructive modifications could be made in the bill, including provisions for a specific inter-agency coordination mechanism, the further incorporation of ITC functions, and the clarification of authority over trade adjustment assistance policy and commercial aspects of foreign aid programs.

5. The Administration's recent reorganization proposal falls short of necessary consolidation objectives. Trade authorities and functions still would be split unnecessarily. There would not be a strong trade policy leader, with unified cabinet department resources, whose primary mission is the improvement of U.S. competitivenss in world markets.

6. NAM supports S. 377, with the suggested modifications, and urges positive and timely Committee action on the proposal.

Testimony of
William L. Wearly
on behalf of the
National Association of Manufacturers
concerning
International Trade and Investment Reorganization
July 25, 1979

Mr. Chairman and members of the Committee, I am William L. Wearly, Chairman and Chief Executive Officer of the Ingersoll-Rand Company. I am appearing today on behalf of the National Association of Manufacturers (NAM) as Chairman of the NAM International Economic Affairs Committee. As you know, NAM is a voluntary, non-profit association of some 13,000 business firms, large and small, located in every state of the nation. The Association's member companies account for about 75 percent of American industrial output and provide about the same percentage of the nation's industrial jobs.

My own firm is primarily a producer of heavy capital equipment, along with some consumer products. We have manufacturing plants in 24 states and serve or do business in 119 foreign countries. Our sales amount to over $2.3 billion, of which about $450 million consists of machinery and equipment exported from this country. More than 6,400 of our employees in this country, or nearly 20 percent of our domestic work force, are engaged in export-related jobs, plus nearly an equal number for our suppliers.

NEW INTERNATIONAL CHALLENGE

The stake of my firm in world commerce, as well as that of many NAM member companies, has grown enormously over the last decades. The internationalization of the world economy truly has reached the United States. Administration figures show that one of every nine manufacturing jobs in this country depends on export sales; one out of every three dollars of corporate profits comes from international activities, either exports or foreign investment; and imports supply over one-fourth of U.S. consumption in twelve of fifteen key industrial raw materials. The share of

trade in this nation's GNP has doubled over the last decade or so and, if investment is included, the level of U.S. involvement in the world economy is at least as great as that of Japan or the EEC, taken as a group.

This internationalization of the world economy has brought with it numerous opportunities and challenges requiring new approaches in analytical, structural and organizational terms. Many U.S. companies have reorganized themselves more than once in the past ten years to improve the functions of their international operations. The U.S. Government, on the other hand, which naturally plays a tremendous role as policy-maker, negotiator and energizer in dealing with the consequences of economic interdependence, has failed to organize itself effectively to meet these new tasks. There is a growing perception in business, financial circles, academia, the Congress and elsewhere that there has to be a better way to develop and implement the nation's international economic policy.

The dramatic reversal of the nation's trade balance and the dollar's problems in world markets have spurred consideration of alternative organizational proposals. While government intervention in currency markets since late last year has bolstered the dollar, these are not long-term corrective actions and do not address the fundamental problems which underlie the dollar's weakness. Last year the United States sustained another record trade deficit of over $28 billion -- a figure that would have been unimaginable just a few years ago. This deficit has serious implications for the nation's economy in terms of higher unemployment, dollar problems abroad and growing inflation at home. While most press accounts usually stress the admittedly large role of increasingly costly oil imports in this deficit, it is often overlooked that the decline in our manufactured goods trade balance was more significant last year than oil in accounting for the larger trade deficit. Indeed, our trade position in manufactured goods, which represent two-thirds of the dollar value of U.S. exports, generally has been

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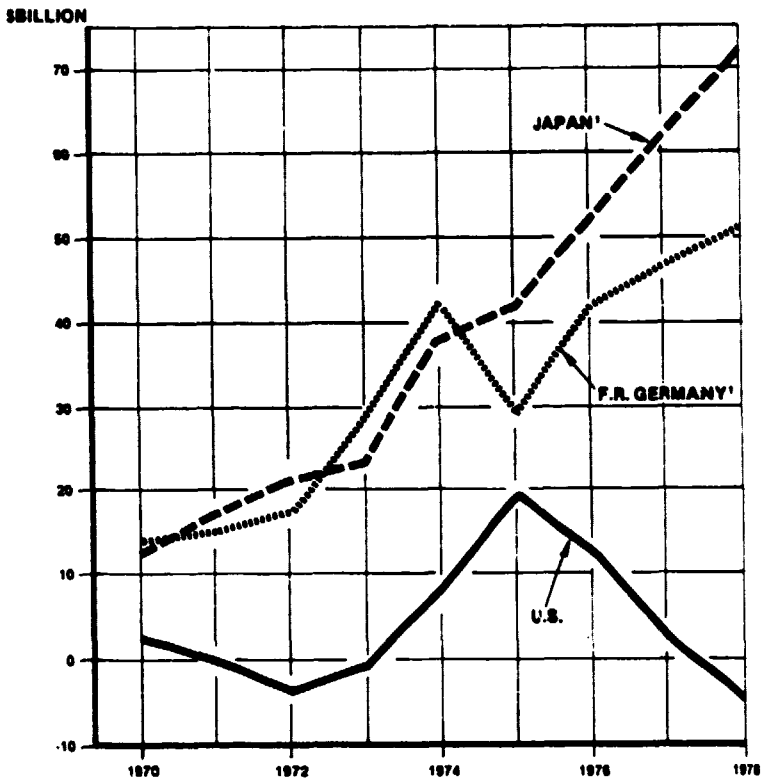
declining rapidly in both absolute terms and relative to major U.S. trading competitors. In just three years, from 1975 to 1978, the U.S. trade account in manufactured goods dropped from roughly a $20 billion surplus to a deficit of over $5.8 billion, while the surplus of Germany and Japan has jumped to over $51 billion and $72 billion, respectively.

BALANCE OF TRADE IN MANUFACTURES, U.S., F.R. GERMANY, AND JAPAN, 1970 - 1978

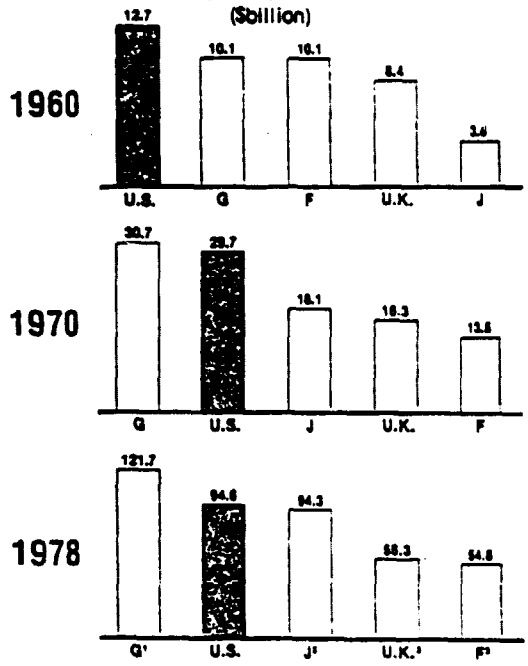


1 1978 figure based on second quarter, annualized

Source: Department of Commerce, International Economic Indicators

The United States has lost its once unchallenged position in world commerce. In 1970 Germany moved ahead of the U.S. as the world's leading exporter of manufactured goods and since has widened its lead. The U.S. share of total world exports has continued to drop from an 18 percent share in 1970 to only 13.7 percent in 1977 -- and bear in mind that every one-tenth of one percentage point represents over $1 billion in trade, or 40,000 jobs, $2 billion in U.S. GNP and $400 million in Federal tax revenue.

EXPORTS OF MANUFACTURED GOODS
U.S., F.R. GERMANY, FRANCE, U.K., AND JAPAN
1960, 1970, AND 1978
($billion)



1. Second quarter, 1978, annual rate
2. Eleven months, 1978, and extrapolated from December figures for exports of all goods
3. First quarter, 1978, annual rate

Source: Department of Commerce, International Economic Indicators; U.S. - Japan Trade Council.

Some will argue that exchange rate developments - further devaluation of the dollar or revaluation of the yen and the mark - will rectify the U.S. trade problem. Others may contend that the current problem is mainly due to the business cycle; i.e., that because the U.S. has grown more rapidly than Japan or Western Europe in the last few years, it is importing more and exporting less than other countries in response to this conjunctural business cycle situation. I believe, however, that reliance on exchange rate developments or business cycle changes to correct the American trade position and improve the U.S. balance of payments position more generally, represents a theoretical view held by some economists, but shared by very few businessmen.

Much of the responsibility for the poor performance of U.S. exports must fall on government, both the U.S. and foreign governments, for their increasingly counterproductive role in international business transactions. The U.S. government, for its part, recently has been succeeding more in discouraging rather than promoting increased exports. The absence of effective export stimulants, the continued growth of bureaucratic red tape and the often counterproductive use of presumed export leverage to pursue non-economic policy objectives, have all served to place a series of self-imposed restraints on U.S. exports. Additionally, the U.S. Government has not been able to act effectively against foreign countries engaging in unfair trade practices which have brought harm to important segments of U.S. industry.

In short, the U.S. Government has not effectively pursued this nation's increased international economic interests, either in supporting U.S. foreign business activities or resisting the unfair practices engaged in by other countries on behalf of their own national industries. We believe that the Government simply has not kept pace with the country's changed economic realities. U.S. interests in the international

economy can no longer be the poor step-child of other national concerns. This policy area deserves high-level attention on a sustained, integrated basis and requires a top policy spokesman and advocate at the cabinet level of government. Today there is no single government department charged with looking after this nation's international trade and investment position. In fact, the currently scattered system of diverse, overlapping or even competing functions and authorities almost guarantees that there will be no adequate guidance in this vital national interest area.

INTERNATIONAL TRADE REORGANIZATION PROPOSALS

Senator Abraham Ribicoff (D-CT), this Committee's Chairman, and Senator William Roth (R-DE), have introduced a bill (S. 377) to consolidate the currently fragmented federal policy-making and execution apparatus into one Department of International Trade and Investment (DITI). The bill does not expand the size of the Cabinet, since it subsumes the Special Representative for Trade Negotiations post, and does not authorize any new bureaucracy nor government regulatory activity. It does, however, provide a consolidated policy Department with a strong mandate and the tools to promote and protect U.S. international trade and investment interests.

Senators Robert Byrd, Adlai Stevenson and others have introduced bills which offer a somewhat different consolidation pattern, but are directed at similar objectives. The Administration outlined its own reorganization proposal last week and testified before the Committee on Monday.

After nearly a full year of study during 1978, NAM's International Economic Affairs Committee voted last November to support a modified version of S. 377. I would like to describe our reasons for that decision, since the rationale underlying the decision constitutes the criteria against which we measure all current reorganization proposals.

REORGANIZATION OBJECTIVES

A reorganization proposal should not be viewed as a panacea for basic economic problems. It does not replace the need for an expansion of productive capital investment or other important economic requirements that relate to domestic as well as international economic policy. However, a reorganization should help improve the U.S. government's ability to respond effectively to at least six identified major problem areas of inconsistent policy, negotiating leverage, international agreement enforcement and follow-up, analytic economic research, business promotion services and eliminating unnecessary duplication. NAM supports a consolidated Department of International Trade and Investment(DITI) as the best reorganization alternative to meet these objectives.

Inconsistent Policy

A DITI Cabinet Officer would be in a strong organizational position to become a needed advocate for broad, international economic views to counter-balance State's diplomatic focus, Treasury's financial outlook and various agencies' self-interest perspectives. This top-level advocacy would be complemented by DITI's staff capability to assume leadership positions on specific inter-agency policy groups. By building such institutionalized international economic advocacy views into the system, new policy initiatives harmful to U.S. international economic interests more likely would be challenged at an early stage, while efforts could be made to alter or clarify presently inconsistent policies. Absent a cabinet department charged with international economic policy responsibility, the current situation is likely to continue with authority scattered in diverse agencies, each pursuing interests more central to their mission than U.S. economic competitiveness in world markets.

For example, export promotion has for many years been promulgated as a national policy goal. Periodically there are special efforts to fashion a new governmental effort to encourage U.S. business, particularly smaller firms, to enter the overseas market. However, the present export programs like trade fairs, embassy commercial officers or the DISC are overwhelmed by the continued proliferation of governmental restraints on exports. Long-standing export controls in security - sensitive areas and antitrust policy inhibitions are now being joined by human rights considerations, environmental impact studies and other self-imposed export disincentives. The bureaucratic requirements of these programs not only conflict with a national export promotion effort, but they are particularly burdensome and restrictive on smaller firms lacking large administrative staffs and unfamilar with the rigors of multinational, cross-cultural marketing. A strong Cabinet-level advocate of international economic goals is needed to challenge the desirability and specific application of proliferating non-economic controls on U.S export promotion efforts.

The Domestic International Sales Corporation (DISC) is another good example of how inconsistency can help undermine a beneficial program. The DISC was established to help promote U.S. exports and partially offset foreign export subsidy measures. The debate ensuing from calls for its termination point to the need for a better coordinated government policy benefiting from a broader overview perspective. The Treasury Department focuses on DISC tax revenue questions, the Commerce Department on export promotion and the STR on negotiating a tr de-off in reducing foreign export subsidies. Governmental policy on DISC seemingly shifts with the ebb and flow of these several departments' interests and fortunes, creating uncertainty as to the future of the program and government's commitment to its objectives. Under these circumstances, companies are understandably reluctant to undertake long-range export expansion efforts which may be undercut by government policy shifts in mid-stream. Other similar examples of negative impact from such inconsistent policies are evident in the recent controversy over calls for foreign environmental impact statements on exports;

extraterritorial enforcements of U.S. antitrust, corrupt payments, and other areas.

NEGOTIATING LEVERAGE

Most other industrialized nations have a centralized, consolidated trade administration organization. The organizationally scattered trade authority in this country means that U.S. negotiating interests can be compromised by uncoordinated actions and positions among the various government agencies involved in international economic activities. Foreign negotiators are able to exploit position differences among U.S. agencies while American officials cannot draw upon all the potential negotiating leverage inherent in this country's central role in international commerce. This point was referred to in hearings before this Committee last year in the presentation by former Deputy Special Trade Representative Harold Malmgren.

A DITI would integrate many of the government's international economic activities into one department, while also providing the incentive and capability to staff a coordinating mechanism to tie other agency functions into the information needs and policy positions of a central negotiating team. For example, Ambassador Strauss might have benefited in his effort to open up the Japanese economy to U.S. imports if he had had some means of taking into account and influencing the course of civil air negotiations with Japan concerning landing rights in the Dallas-Ft. Worth area. U.S. negotiating strategy and tactics can benefit from the coordinated leverage which may be available through knowledge of discussions in such areas as aviation, fisheries, communications, agriculture and others. The DITI role in integrating governmental international economic functions with appropriate inter-agency coordination leadership would enable it to develop over time the type of "institutional memory" currently lacking in the U.S. government which would underpin U.S. negotiating leverage in future international economic discussions.

Another very important application of improved U.S. negotiating leverage concerns the proliferation of foreign governmental involvement in trade flows, particularly regarding subsidization of export promotion drives. A consistent and coordinated U.S. government response is needed to unfair foreign trade practices. The current U.S. system lodges countervailing duty and anti-dumping actions in the Treasury Department, certain investigation and recommendation functions with the International Trade Commission (ITC), negotiating authority for orderly marketing agreements or other arrangments with the Special Trade Representative's (STR) Office, with various other functions falling to the State Department, Agriculture Department or other agencies on specific subjects such as sugar imports quotas, commodity negotiations, etc. The consolidation of most of these functions under the centralized direction of a new DITI structure, while drawing on specific agency expertise where necessary, would give the U.S. a better coordinated and effective mechanism for dealing forcefully with unfair foreign trade practices.

INTERNATIONAL AGREEMENT ENFORCEMENT AND FOLLOW-UP

Closely related to the need for better negotiating leverage is the requirement of effective follow-up mechanisms to implement international trade and investment agreements. The most important example concerns the non-tariff measure agreements just concluded in the Geneva multilateral trade negotiations. Regardless of the substantive merits of these agreements, codes in areas such as subsidies, government procurement and standards, will be meaningless for U.S. interests unless an effective follow-up enforcement mechanism is devised. While full use will have to be made of the GATT Secretariat and other relevant international bodies, the task of vigorously defending U.S. interests in the implementation of the codes must fall primarily

on the U.S. government. The job really will be two-fold: to take full advantage of new U.S. trade opportunities resulting from tariff or non-tariff measure concessions, and to assure proper enforcement of the international rules against unfair foreign trade practices.

First, there should be a systematic attempt to exploit fully the trade or investment opportunities for the U.S. which are achieved in an international trade or investment agreement. Although there are differing opinions as to whether the U.S. successfully negotiated for everything it might have from the "Kennedy Round" of trade talks in the 1960s, there is little dispute that there was incomplete follow-up to exploit the potential trade opportunities which were gained. A similar challenge will arise in translating potential gains from the current round of multilateral trade talks in Geneva into real export gains for U.S. business. The realization of such trade growth requires a coordinated follow-up program to communicate the potential opportunities; encourage the development of new export efforts with adequate commercial information, export credit financing, license approvals, etc; and assure that foreign government actions do not close off the newly negotiated opportunities. This type of practical implementation follow-up would be handled best by an integrated DITI-like structure which has the added advantage of first-hand knowledge of the agreements, since the DITI would handle their negotiation.

Closely related to the above point is the second track of follow-up actions to ensure vigorous enforcement of agreed international and national rules and regulations against unfair foreign trade or investment practices. The U.S. network of Treaties of Friendship, Commerce and Navigation with other countries has been a useful, but seldom fully enforced standard governing bilateral economic relations. Similarly, the U.S. has not effectively utilized GATT procedures nor other accords, like the OECD agreement on the liberalization of capital movements, to protect the nation's interests in international commerce. This problem of effective enforce-

ment follow-up will be even more important with regard to the various codes negotiated in the multilateral trade negotiations. There is widespread recognition that non-tariff measures, particularly subsidies, customs regulations, licensing practices, government procurement and product standards, have surpassed tariff rates in terms of their impact on world trade. Negotiated codes to constrain governmental intervention in these areas will seek to prevent or reduce such trade distorting tactics. However, any satisfactory international agreements on these topics will require a sophisticated U.S. implementation capability to ensure that the agreed rules are enforced. The same conclusion holds regarding utilization of the less detailed but still important 1976 OECD agreements on national treatment of foreign enterprises and international investment incentives and disincentives. An integrated U.S. trade and investment department offers the greatest potential for providing the continuing enforcement and implementation attention needed to achieve U.S. economic objectives.

In the past the U.S. too often has let potential new trade opportunities slip away and been unable or reluctant to seek redress against unfair foreign actions. A unified cabinet department such as DITI, which has responsibility for negotiating the agreements and which also incorporates the government's trade promotion mechanisms, would be ideally situated to follow-up effectively on agreements coming out of multilateral trade talks or in relation to other areas, as for example the national treatment or capital movement agreements in the OECD.

Analytic Economic Research

The current scattering of agencies with some involvement in international economic functions has dispersed the government's data-collecting and analytic research capabilities. Despite the government's collection of massive amounts of raw information, there is little long-term or in-depth analysis done by the federal government on fundamental international economic issues. The integration

of information-gathering and analysis staffs in a DITI would enhance the capability to identify and encourage future areas of national economic strength as well as provide the earlier warnings necessary to help avoid domestic dislocations arising from international economic forces.

During the periods of a large U.S. surplus, American industrial competitiveness was taken for granted and little attention was paid to component elements which provided the surplus position. Now that the trade account has dramatically reversed into the deficit category, there is some concern about injured domestic industries, but still little evaluation of economic strength areas. Many foreign governments target export growth industries and encourage their expansion. The U.S. system does not and should not allow for the same measure of governmental planning as is carried out abroad, but U.S. policy-makers should be more aware of the elements of the country's economic strength when developing negotiating strategy and follow-up programs to maximize U.S. export opportunities in future years. A centralized analytic staff also could provide more accurate assessments regarding the effectiveness of various government programs, such as the DISC. One of the problems regarding the DISC is the absence of an authoritative professional study which can draw on consolidated government information to evaluate properly the program's effectiveness in terms of its full international economic implications.

There has been a recent increase of concern regarding the adverse impact on a number of domestic industries due to international economic factors. Import competition, particularly resulting from subsidized or otherwise unfair foreign practices, has highlighted this development. However, other domestic dislocations can result from longer-term shifts in the relative competitiveness of economic factors in various countries. There has been much discussion about the desirability of some form of "early warning" system for such dislocations, especially to key appropriate adjustment actions. However, early identification of economic trends or foreign government actions likely to affect adversely U.S. domestic

interests are unlikely without a professional economic analysis drawing upon consolidated government data. The growing interdependence of the U.S. with the world economy makes it imperative that the U.S. Government develop an analytic research capability which can underpin informed and timely decision-making on foreign economic policy issues.

One further illustration of the disadvantages of the current information gathering and analysis system arises from this country's experience in conducting multilateral trade negotiations. The governmental specialists who are to study and evaluate the international competitiveness of thousands of particular products are dispersed in at least four major department and agencies: Commerce, STR, ITC and Agriculture. The U.S. approach to negotiations essentially has been to begin from scratch each time, attempting to use the STR Office to forge the necessary coordination links between the various staffs to provide a thorough and coherent analysis. Without denigrating the enormous efforts of the involved individuals, this approach has had obvious problems and does not serve the country well. The relevant analytical staffs should be consolidated into one internationally-oriented department. There they can formulate the best integrated positions and also develop over time the institutional memory from one negotiation to the next which has so benefited our foreign trading partners.

Business Promotion Services

Business promotion services such as export expansion efforts and Eximbank financing could be aided by closer coordination within a single departmental framework. Certainly for smaller companies new to the overseas market, an integrated international trade and investment department would be a less confusing

and more reliable ally than the current array of agencies which offers various facets of business facilitation services. A new exporter or smaller firm is especially inhibited from taking advantage of government business facilitation services because they are scattered in a Washington bureaucratic maze nearly indecipherable to someone new to the area.

Consolidation of business facilitation services such as Commerce trade fairs and buyer information, Eximbank, State commercial opportunity programs, OPIC and other related areas should improve coordination among the services. A smaller firm seeking to enter the overseas market could be directed to one central contact point in a consolidated department which could in turn draw upon the full range of integrated inhouse facilities to construct the package of services appropriate to the firm's needs. Additionally, the presence of the analytic research capability in DITI would complement the facilitation services and improve the ability of the government to work with U.S. business to meet increasingly sophisticated foreign competition in world markets. Foreign government-business "combinations" often out-class even the largest American firms in their efforts respecting major foreign projects. Larger firms thus also could work more closely with the U.S. Government in overcoming efforts by foreign firms supported by their governments.

The U.S. Export-Import Bank exists to serve U.S. exporters in financing, insuring or guaranteeing export transactions. However, the fractionalization in oversight and direction of Eximbank policies and programs limits the Bank in terms of customer services as well as reduces its ability to achieve an international reduction of export financing support levels. As a completely separate agency, Eximbank has lacked departmental support to uphold its mission objectives in both interagency and Congressional reviews of its policies. This relative institutional weakness inhibits the ability of the Bank to advance its programs

as an integral part of U.S. foreign economic policy objectives. In recent years this problem led to a cutback in Eximbank support of U.S. export financing needs and the imposition on Eximbank programs of various restrictive non-economic constraints. Additionally, the relatively poor results obtained thus far in U.S. efforts to achieve an internationally-agreed lowering of export financing support levels may be due in part to the absence of an integrated international economic department with adequate incentive and negotiating leverage to accomplish such an agreement. Consolidation of Eximbank within a DITI structure would more closely align Eximbank policies with overall national economic objectives and provide the agency with the departmental support to help accomplish its mission to facilitate U.S. exports through offering American exports financing arrangements competitive with those offered by our major foreign competitors.

Unnecessary Duplication

A counterpart benefit to the improved analytic and service capabilities of a DITI would be the elimination of unnecessary and costly duplication of activities which currently exists in many international economic policy areas. Information-gathering functions of Commerce, Treasury, the International Trade Commission and other agencies could be combined in a way that reduced the reporting burden placed on companies while providing a centralized collection point so that policy-makers are aware of all the data which is available to them. Currently, despite some good efforts by the OMB to regulate governmental survey efforts, there is still a great deal of overlap and duplication in information being sought and a general ignorance, both public and private, of the data which are already available. One basic problem is that many different agencies are authorized by various statutes to conduct studies in ambiguous international economic areas. Better control over

these broad investigatory and survey powers could be managed through a consolidation of the government's information-gathering and evaluation staffs into a centralized unit in one department. This integration would also provide a more accurate and readily accessible assessment of what data already is available to policy-makers. Many functional or regional department sections also could be consolidated -- for example, the numerous East-West trade and Middle East bureaus -- to effect a cost-savings while providing for more centralized data evaluation and policy follow-up. Major departments such as State and Treasury would need to retain some broad international economic staff capability since these issues can impact heavily on their principal policy missions. However, specialized staff functions should be transferred to a new department and statutory restrictions placed on the reestablishment of duplicative activities.

POSSIBLE COUNTER ARGUMENTS

There are several counter arguments to a DITI-type organizational approach. Two concerns reflect nearly polar opposite expectations--that DITI would be a weak, redundant agency or that DITI would be a powerful government mechanism subject to "capture" by a narrow, single-minded trade philosophy. The first objection anticipates that departments and agencies currently involved in international economic affairs would somehow either retain their supposedly transferred functions or would build them up again after a short period of time. In this view, creation of a DITI would simply add a redundant layer of bureaucracy with duplicating sections being maintained in the other major departments. One way to safeguard against this possibility would be enactment of legislative provisions strictly limiting staff expansion in the departments from which functions were transferred.

The other fear of an excessively strong department rests on two bases. First, support for a powerful government department seemingly runs counter to general business opposition to greater government intervention and control in the economy. A well-organized, coordinated department eventually could develop planning and regulatory functions which might add further controls and restrictions on private enterprise. Partially offsetting this fear is the recognition that some degree of government involvement is unavoidable and, in the international arena, private companies often will need active U.S. Government involvement to gain removal of foreign government restrictions or unfair practices. In fact, the new multilateral trade agreements presume such governmental involvement.

The other factor underlying a fear of a strong department is its possible capture by a single, doctrinaire trade philosophy, either protectionist or totally free trade in outlook. The broad international economic scope of DITI's mandate might enable it to disrupt or override current organizational checks and balances between competing policy interests. However, a DITI in the U.S. would not be comparable to the unitary policy control sometimes exercised abroad, such as by MITI in Japan. Potential counter-weights would still be present in the U.S. system through, for instance, the broader economic policy-making role of Treasury and the integration of domestic with international economic policy concerns in councils such as the Economic Policy Group. What DITI would seek to do is provide a stronger international spokesman and negotiator at the top, while integrating lower-level policy-making and implementation into a more identifiable and therefore presumably more effective and responsible organizational unit. It should be recognized, however, that business should not expect a DITI necessarily to be a spokesman for business interests per se, but rather for general U.S. international economic policy interests which bring the broadest benefit to all economic sectors.

A third major objection to the DITI proposal concerns its feasibility. The current sentiment in the Executive Branch to a DITI proposal appears to range from hostility to cautious interest. Some key Administration figures have expressed initial opposition to a separate international economic department, while a few have suggested that the idea merits consideration in light of the seriousness of current international economic problems. It should be anticipated, however, that departments which would lose functions and personnel to DITI could constitute a major political obstacle to Administrative support for and final Congressional passage of such a bill.

Summary Arguments

The following summary outlines major pro and con arguments which generally are raised with regard to the proposal to create a new consolidated international trade and investment department, particularly as it relates to U.S. business interests.

CON	PRO
1. Most problems stem from differences in the economic systems used by different countries, and U.S. government organizational changes won't affect such basic differences.	While not a cure-all, a strong Cabinet advocate would strengthen international economic interests in top Administration policy councils and help restrain agencies whose own particular interests may conflict with foreign economic policy goals.
2. Companies have learned to work with the status quo, using diverse contact points. Some may have no particular reason to be dissatisfied with the current structure.	All companies could benefit from less fragmented authority where resolution of U.S. policy problems requires identification of responsibility. Smaller companies especially would be better served by a "one-stop" integrated department than the current confused scattering of programs in many agencies.

CON	PRO
3. Support for DITI would be supporting greater government intervention and control in the economy rather than opposing such a trend.	Government involvement is a fact which will not change, especially in the international area. It is better to try to improve government policy than to fight against any governmental role.
4. A better organized, coordinated government department could become a powerful opponent and seriously inhibit company operations.	An effective international trade department is necessary to pursue U.S. interests. For example, implementation of NTB agreements arising from GATT negotiations will require constant follow-up that fragmented agencies are unlikely to provide. In areas such as government procurement, industry needs U.S. government involvement to gain removal of foreign government restrictions.
5. On many international issues, competing interests need to be brought to a head in the White House for decision and could not be resolved by a new department.	A small White House council could handle particular policy issues requiring direct Presidential involvement, while maintaining the advocacy and operational integration functions of a new international economic department.
6. Individual personalities rather than government structure make the most practical differences in government action.	It would be easier to attract good people to lead a better organized, more powerful international economic department.
7. A new Department would inevitably mean more staff and governmental expenditures, adding new tax burdens without necessarily eliminating international economic functions in some of the currently involved agencies.	Costs could be constrained in a new department, especially through statutory limitations on staffing in other agencies where functions have been transferred to the new department.
8. A new Department is not politically saleable. It cuts across Congressional jurisdictions, would be opposed by agencies losing functions and does not have Administration support.	Now may be a good time to press for a new department because of the public recognition given to the trade deficit and dollar problems abroad. Any reorganization proposal encounters Congressional jurisdiction difficulties, while the longer-range Administration position on the issue cannot be predicted.

RECOMMENDED CHANGES TO S. 377

We believe that the bottom line to this analysis regarding an International Trade and Investment Department proposal comes out clearly on the positive side. There is now better recognition of the serious international trade problems facing this country and a growing consensus that strong steps must be taken to help correct the continuing prospect of a large national trade deficit. Government reorganization is not a panacea, but it is a necessary step to complement other policy actions. It is NAM's position that the consolidation of current international trade and investment functions into one department is the best alternative approach to this problem. We support passage of the bill (S. 377) before this Committee, but we would like to suggest a few modifications in it.

The major change which we would recommend for S.377 is the addition of a specific inter-agency coordination mechanism. It must be recognized that even with the formation of DITI, the State and Treasury Departments would still retain limited basic staffs to deal with major international economic issues, where their basic governmental role requires that they deal with foreign governments on questions related to such issues. Other agencies whose role is basically domestic also are involved in policy matters affecting business abroad. Some examples of such overlap are the Environmental Protection Agency, the Civil Aeronautics Board, the Nuclear Regulatory Commission, the Federal Trade Commission, the Federal Communications Commission, the Antitrust Division of the Justice Department, etc. An inter-agency policy coordination mechanism seems desirable to tie these agencies into the policy process, as well as to make certain that DITI takes into account the viewpoints of the mainline Departments of State, Treasury, Commerce, Labor, Agriculture, Energy and Defense.

The inter-agency coordination mechanism could have two levels. First, a coordinating body could be set up in DITI with standing committees in major issue areas such as international commodity policy, export promotion, trade and investment negotiations, etc. The regulations governing this inter-agency body should give clear policy

leadership to DITI, whose staff would act as its Secretariat, thereby enabling the coordination mechanism to achieve better policy consistency and effective international negotiating leverage.

Some issues, of course, will ultimately need a focal point for White House decisions. This need seems most likely to arise where the issues involve particularly complex interrelationships between domestic and international economic policy and in regard to policy items with a high domestic or foreign political content. Therefore, the second coordination level should involve an International Trade and Investment Group (ITIG) created in the White House, with appropriate Cabinet-level membership, but chaired by the DITI Secretary. This Group, with a small staff to handle meeting mechanics and the preparation of papers for the President when necessary, would be designed to insure top-level inter-agency consideration of major policy issues with an over-all or government-wide focal point that can best be achieved at the White House.

Some issues obviously still would be susceptible to bureaucratic pulling and hauling, especially as to whether the decision-making body should be ITIG or the Economic Policy Group (EPG). However, such conflict probably would be unavoidable under any circumstances and the ITIG mechanism at least gives the DITI Secretary a better advocacy position and a higher degree of expertise regarding international economic concerns than currently exist in White House councils. In contrast to a CIEP-type alternative, the ITIG would not be expected to handle the broad range of mid-level inter-agency issue coordination (this function would be performed by the DITI-based mechanism). Thus, the narrower mandate of ITIG, focusing on only important issues unresolved at lower official levels, should allow sufficient attention to key issue without resort to a large White House staff. This approach also recognizes that active direct Presidential involvement is a factor which cannot be assumed on a continuing basis. Therefore, the Group's chairmanship is delegated to the DITI Secretary, allowing for discretionary Presidental participation as warranted, yet

giving the Group Chairman more stature than if the position were held by a sub-Cabinet level appointee.

A second modification to the bill would be to incorporate the International Trade Commission (ITC) fully into the new department. The ITC could function in the same semi-autonomous manner as provided in the bill for Eximbank and OPIC. We recognize the legislative history behind a fully independent ITC, but we question if the rationale would be as valid in the light of a broad reorganization giving one Cabinet Secretary clear responsibility in the international trade area and specifying strong Congressional oversight authority of that department's work. We do not believe it necessary to retain some parts of the ITC's international trade functions in a fragmented manner outside of a consolidated departmental structure.

Finally, we suggest some further broadening and/or clarification of the proposed department's authority, specifically in the areas of trade adjustment assistance and foreign aid. A DITI should have overall responsibility for and authority over trade adjustment assistance policy. This change is especially desirable given the probable relationship of trade adjustment assistance programs to any final agreement on a multilateral safeguards code. Provision should be made, however, for a delegation of program implementation authority to other departments, if appropriate. For example, the Labor Department logically should administer the worker adjustment assistance programs, but DITI should have full authority over the program's policy aspects to assure that it fits within a coherent national trade policy. A good model for this approach is provided in the bill already, where DITI is given authority over international agreements on agriculture, but many Foreign Agriculture Service implementation functions are retained by the Agriculture Department. We believe that the agriculture and trade adjustment assistance programs are sufficiently specialized that they would benefit from administration within one of the other Departments, but DITI should have general international policy authority over both areas.

In regard to foreign aid, we suggest a limited role for DITI concerning the use of mixed credits. This is an area where the U.S. is being placed at a disadvantage by other governments which are able to offer a trade financing package with concessional aid components in it. Perhaps the best way to handle this issue in the bill would be to add in Section 4 a function specifying that DITI should coordinate the use of mixed credit arrangements until such time as some effective international harmonization standards on this practice are established.

COMMENTS ON OTHER REORGANIZATION PROPOSALS

The preceding discussion has covered the benefits of consolidating the government's trade and investment functions and authorities into a Department of International Trade and Investment, as well as suggesting some possible improvements to S. 377. We believe that such a modified proposal represents the best reorganization option and urge its serious consideration by this Committee.

Sponsors of the other alternative reorganization proposals should be commended highly for their recognition of the pressing need for trade reorganization. NAM's relative enthusiasm or lack thereof regarding these other options can be measured against the objectives of the preferred best alternative option outlined above.

Before closing, I would like to make a few comments specifically on the proposal outlined by the Administration last week. Many of the details of that proposal, of course, still are unclear and we will look forward to studying them closely as they are developed more fully. However, at least the following assessment can be made.

ADMINISTRATION PROPOSAL

The Administration's proposal recognizes many important problem areas and takes several steps toward their resolution. We would support elements of the proposal

which consolidate some of the currently scattered trade functions. In particular, we support: (1) the consolidation into one office of negotiating authority over a broad range of international economic subjects, (2) upgrading of the Commerce Department's sectoral analysis capability for trade expansion purposes, and (3) the transfers of most import relief and unfair trade response functions.

The Administration proposal, however, fails to go far enough in meeting the necessary objectives of reorganization. The proposal puts two agencies in charge of trade rather than consolidating all responsibilities in a single cabinet department. As a result, policy and implementation functions are split between a White House Trade Representative Office and the renamed Trade and Commerce Department. An even further division of authority occurs when Commerce trade responsibilities are delegated to an Under Secretary, thereby adding a new actor to the process and meaning that the Secretary will continue to be occupied by a variety of traditional non-trade matters.

Vitally important MTN follow-up responsibilities are also split between the Trade Representative and Commerce, so that the negotiators are separated organizationally from investigators, analysts and other staff support functions. The Trade Representative is given broader new negotiating responsibilities, but no additional staff to carry them out. Either these issues will not receive the attention they deserve, or else there will again be an awkward reliance on staff controlled by other organizations. One gets the impression that the reason for separating the trade personnel in this manner may have more to do with considerations regarding the size of the White House staff rather than economic or good management criteria. We believe that these trade areas are too important to artificially split policy and negotiations from analysis and implementation in this manner. Such a division will only be detrimental to the objectives of sustained, coherent international trade programs.

Several important policy areas also appear to be short-changed in the Administration's proposal. Export expansion is not given priority attention in the new organizational arrangement. International investment policy is fitted within a broadened agenda for the Trade Policy Committee, but no practical consolidation of authority or functions is accomplished. Even the transfer of overseas commercial officers to the Trade and Commerce Department is a partial measure, since it affects only those officers located in certain foreign countries.

In summary, we believe that the Administration's proposal falls short of the prompt, forceful action needed to address the country's urgent trade problems. In the end, trade authorities and functions still would be split unnecessarily. We need one strong trade policy leader, who has the full implementation resources of a unified cabinet department, including the negotiating authority to both "reward" and "punish." The Administration's proposal does not meet this standard and therefore is significantly weaker than S. 377.

Conclusion

Mr. Chairman, I would like to commend you and Senator Roth, along with your colleagues who are co-sponsors of S. 377, for perceiving the urgent and serious task facing this country in the international marketplace, and for taking the initiative to begin steps aimed at meeting this challenge. Certainly a reorganization of governmental functions by itself is not a complete answer to our problems, but it is a necessary if not fully sufficient step toward their solution.

Better national trade and investment policies are needed, but we will stand a better chance of achieving those policies with a forceful, full time international trade advocate at the department level than we do now when both authority and responsibility are spread throughout the government. Better implementation of policies also is needed, but again, effective implementation is more likely to come from a consolidated, integrated government trade department than from scattered agencies and offices which at times even seem to operate at odds with each other. NAM supports the consolidation of current government functions into a Department of International Trade and Investment. The bill before this Committee, S. 377, is a constructive proposal to accomplish this consolidation. With the few modifications we have suggested, NAM supports passage of S. 377.

Chairman RIBICOFF. Mr. Freeman, we are a little bit on the spot here. What I would like to do, if it is all right with you, is to have your entire statement go in the record as if read, and for you to give us some remarks. I don't want to lose the remainder of the Senators here. We all have questions. I would hope, because of the time restraints, from now on we will confine ourselves to 10 minutes apiece the first go-around. Is that all right with you?

TESTIMONY OF ORVILLE FREEMAN, FORMER SECRETARY OF AGRICULTURE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUSINESS INTERNATIONAL CORP.

Mr. FREEMAN. I appreciate that very much, Mr. Chairman, because I am in a little difficult position. I have to catch a 12:45 plane. I have to get back to Minneapolis.

Chairman RIBICOFF. Would you rather for us to go right into questions?

Mr. FREEMAN. I think perhaps that might be good.

Chairman RIBICOFF. I think we will cover everything. I think we will confine ourselves to 10 minutes.

You were a very effective Secretary of Agriculture. You were involved in the problems of international business. Why do you think that agriculture sector analysis and export promotion efforts have been more successful than similar efforts by the Department of Commerce?

Mr. FREEMAN. I wish I could answer that question directly and specifically. I do think, and it is implicit in the testimony that is now in the record, that the responsibility has not been clearly focused anywhere within the Government, where trade is concerned, as it is in the case of agriculture. This is where I find myself in support of your recommendations, those of Mr. Roth, and generally of the bills pending before this committee, as distinguished from the recommendations of the administration, where I feel separating the responsibilities for ongoing operations with policy formation is going to continue a confusion which has made impossible the kind of concentrated effort that I think is called for.

Chairman RIBICOFF. Has your working with foreign countries given you specific insights about the way other foreign governments organize their international trade functions which might be put to good use in our reorganization?

You have seen them all now. How do you react to what we can learn from other countries?

Mr. FREEMAN. I would support what Mr. Wearly said by and large and what Senator Percy said, that until very recently our Government simply has not concentrated support of our exports and our involvement economically in other countries. Our foreign economic policy has been clearly secondary to our international political policy. The road to advancement and progress within the Government for career people was not on the economic side. It was clearly on the political side. As a matter of fact, it still is. But I think that is shifting, and I think that the efforts of this committee and the bills pending and the leadership that you and Mr. Roth particularly have shown are focusing interest on this in a way that makes the Nation under-

stand that it is imperative in light of our position. We have had a domestic market that has been so great that we have been spoiled. American business itself has not been aggressive in the export area. That has to change; and it is, I think, changing. And a reorganization to focus responsibility in a fashion that the bottom line will be clear and apparent and that the support will come from the President himself in getting the job done is what is absolutely necessary.

Chairman RIBICOFF. The Government has to consider a number of conflicting values in making trade policy. In addition to promoting exports themselves, there may be antitrust or environmental laws, tax equity concerns, human rights matters, foreign policy considerations, the interests of the developing world, and other matters involved.

Now the purpose of reorganization is to give trade issues a stronger voice in the Government, but it can't be the final arbiter of all those questions. How do you think your proposal would affect the way Government decisions strike a balance between these issues? Who, short of the President himself, do you think should make these tradeoffs?

Mr. FREEMAN. Nobody short of the President himself can make the basic policy tradeoffs. But the way I directed my prepared testimony is basically this, that we ought to seek throughout the Government to place the power and responsibility in departments that have the major assignment. There is always going to be some overlapping, because there are functions and performances that are collateral to the major missions that have to be organized and coordinated and tradeoffs made. But the primary responsibility needs to rest in one department, and the secretary of that department has to clearly have that responsibility.

Then there is an intergovernmental kind of resolution of conflicts and tradeoffs with which you as a former cabinet officer are well aware. That is accomplished in my judgment not be setting someone up with line responsibility and a big title to become a competitor to ongoing line operations but, rather, someone who is relatively anonymous, who operates within the White House itself, who is the President's designee, who has the credibility and who has the sensitivity in order to deal with Cabinet officers and resolve some of these inevitable tradeoffs and competitions.

But in this area, if I may say, there isn't anybody who has both operational and policy responsibility in this Government, and there hasn't been. I can make a very strong case for a totally separate department As you said yourself and Senator Roth, that perhaps isn't likely in light of the position taken by the President.

My recommendation then would be that virtually everything ought to go into a reinvigorated Department of Commerce, with clear-cut responsibility for trade, for investment, and for commerce, and it ought to lodge there; that the Secretary ought to be chairman of any interdepartmental committees or coordination that takes place. And then, if he is not able to effectuate that—he would clearly have that responsibility to chair that committee—and if there are irreconcilable conflicts, shall we say, that has to be resolved only one place, and that is by the President through the medium of people working for him who can help to resolve those difficulties; and in the final analysis the President himself.

Chairman RIBICOFF. Your answer to me really argues for a strengthened STR in the White House, in the executive branch, who could be the President's right hand to make these tradeoffs. This is I think what we are wrestling with. Agriculture argues that we must continue a powerful STR to be an honest broker to balance agriculture and nonagriculture interests. They fear if you put it in Commerce, then Commerce would be interested in industry and selling agriculture short. This is one of the problems we have to wrestle with. You know what you are up against if the Congress feels you are shortchanging agriculture.

Mr. FREEMAN. I don't think that is a very sound objection, Mr. Chairman.

Chairman RIBICOFF. Would you like to argue it with your former agricultural constituents?

Mr. FREEMAN. I would be very willing to do that. I would accept that argument and consider it valid where the negotiations and the tradeoffs are concerned like something in the Tokyo Round. Clearly here and even in this negotiation you might know that the failure that took place was negotiating an international wheat agreement. I am of the opinion the negotiator did not give that adequate muscle or adequate attention in the Agriculture Department, in the White House, in the STR. Now that is another story.

But where that is concerned, that is a valid point. We are carrying on the day-to-day operations and leaning for exports and for trade and management to say that you have to have something on the outside to resolve differences between industry and agriculture where exports are concerned? That is just an ephemeral difference. I don't think it is real. And may I say if it has so much political sensitivity to it, the answer then—and it would be resolved very quickly—would be to make somebody who has had a background and the confidence of the agriculture business and agriculture community throughout the Nation the Secretary of the new Department of Trade, Investment, and Commerce. Then I think those objections would quickly dissolve. I don't think those objections, Senator, are very real.

Chairman RIBICOFF. What do you say in response to those opposed to placing the trade functions in Commerce who argue that if you put the problems of international trade in the Commerce Department you would have a protectionist bias for domestic industry as against the exporting part of the industry?

Mr. FREEMAN. You could say the same thing in the Department of Agriculture, and it depends upon who the Secretary is and what his philosophy is. If he had the philosophy that Senator Percy just outlined, with which I am in accord and which I tried to follow as Secretary of Agriculture, that would not take place and it would be incumbent upon the President of the United States, if he subscribes to an open competitive world for trade and investment, to name a Secretary and to back up a Secretary who would carry forward that philosophy. And the tradeoffs between the two would have to take part in that Secretary's office. That is where it has to be done. He would have to take on some of the narrow interest groups, as you did in HEW, and in my case, if I could sight a specific example, where the whole meat and beef import legislation is concerned. I strongly opposed that, as Secretary of Agriculture, even though the cattlemen

around the country supported it, because I don't think it was in their interest or the national interest.

So I don't think there is any way to resolve that. And again to say a good trade export department is then going to be a patsy for an industry or a company which is adversely affected by certain policies, I think that kind of a Secretary ought to be removed by the President forthwith.

Chairman RIBICOFF. Senator Roth?

Senator ROTH. Governor Freeman, it is a pleasure to welcome you here and to applaud the leadership you have been providing in the area of trying to make this a trading Nation. I would try to skim through your testimony. Let me ask you this question: We are in agreement that there should be a consolidation of the trade function somewhere in Government, that that is absolutely essential if we are going to change the direction of our trade policies, if we are going to develop strong, new vehicles for promoting the American side. Is that correct? There is no disagreement?

Mr. FREEMAN. No disagreement.

Senator ROTH. It seems to me we have three choices, none of which are the administration's proposal, which is really to continue a divided trade apparatus or mechanism. Do you agree with me that that is ineffective and won't make the necessary changes?

Mr. FREEMAN. Yes. I think the separation of operations policy would make it unworkable.

Senator ROTH. So that we could do, as I see it, one of three things. Senator Ribicoff and I initially, to get the debate started, introduced DITI or a new department. There are a number of people that have proposed that we put it in the Department of Commerce. Or third, to try to consolidate around the STR to meet the President's objections that he doesn't want a new cabinet position. He doesn't want a new agency of any type created.

I think you can make some strong arguments that theoretically it would make good sense to have commerce and international trade together. The problem that I find with this and the problem I find on the part of many people who deal with the Government from the private sector is that Commerce is not looked upon as a strong department. I hasten to say, as I have said before, I am not critical of the Secretary who is a very competent and gracious lady. But the fact remains that the Agency itself is considered weak, bureaucratic, and not very effective.

I think the question I have for you is how can you change that malaise from which this large bureaucratic Agency suffers?

Mr. FREEMAN. I think by giving that department, where I think it is logical it should be, the responsibility, the clear delegation and the power to do something about it. I think the problem with the Department of Commerce really has been over the years not that they haven't had excellent Secretaries of Commerce but that the Department itself has been a conglomerate of a great variety of different functions, service functions really, and a clear responsibility in an area which is critical to the Nation's economy has never been given.

If I might just elaborate a little on a fundamental philosophic point here that would be my observation, and that is that we might learn something in Government from international companies; that

is, a move to organizing in product groups and operating accordingly globally, because they become so large they have found operating through an international division is no longer practical, that the domestic is dominating and they can't meet and respond to global needs. Now that is the pattern of the organization of most international companies today.

We are not organized that way and our Government in my judgment is not organized responsive to the realities of interdependence, which I tried to make that point in my formal testimony. Now we need, I think, to reorganize fundamentally accordingly, and then we need to have in each of our line operating agencies the responsibility to carry forward their function, not only domestically but internationally, because they cannot come up with the right answers and directions without considering those international factors.

A specific illustration, when I was Secretary of Agriculture, I came to the conclusion that agricultural technical assistance was important to the well-being of the United States. I had a Department that was tremendously rich in resources of knowledge, technology, science, and the rest. The responsibility for that function was over in an agency that had just a handful, very limited resources. Yet I was unable to function in that area because of the way the Government was organized.

Finally, I went to Congress and got a special law and tried to utilize those resources, which is still in the books but not used.

Now I draw on that experience and make the illustration by saying we ought to place them in Agriculture, in HEW, and in this case somewhere in Commerce these primary responsibilities. And if they were there, they could be carried forward there. The fact that the Commerce Department itself has not been a pillar of strength in the past I think has been because there has not been that kind of focus and delegation and held responsibility.

Senator ROTH. Inherent in what you are saying, though, aren't you saying we should strip the Department of Commerce of many of its other functions, noncommercial ones?

Mr. FREEMAN. I don't address myself to that. I don't think any of the other responsibilities are overwhelming or making enormous management demands on the Secretary of Commerce. I have not been the Secretary of Commerce, but they are rather specialized agencies in the main where they don't relate to the Nation's economy, and, as such, they pretty well operate under a general aegis in responsibility. I see no need necessarily to change those things to focus within that Department clear-cut responsibility for U.S. foreign economic policy.

Senator ROTH. I guess my problem is that I do want the top trade person's time to be devoted exclusively to trade because I think it is of that primary importance. While I think we can say that he or she, whatever it may be, as Secretary of Commerce should basically divorce herself from the other functions, I don't think she can. I think she is responsible for it and will necessarily have to devote a substantial amount of time on these other areas, because if anything goes wrong, the Secretary is to blame.

It is for that reason, or one of the reasons, I feel it is rather impractical to consolidate at least in this stage in the Department of Commerce.

Do you agree with me that this is a full-time job if we really are going to change the thrust of this country as a trading Nation?

Mr. FREEMAN. What I would say is it is more than a full-time job really, but I think every Cabinet officer in this Government has more than a full-time job.

Senator ROTH. Sure.

Mr. FREEMAN. I think to try to set up some kind of independent agency that would be duplicative of the line operating agency would be counterproductive. I think you want to use those resources that are in line. One of the problems of setting up some of these separate groups is you create competitions and conflicts and jurisdictional wrangles, and you end up not using the resources you really have. There are a lot of resources in the economic front within the Department of Commerce that can be mobilized. Pulling these others out would make this the primary responsibility.

I think that if there are some other responsibilities, that this will have to be adjusted by that Cabinet officer, and that it is not something that can't be done. All of our Departments today in this Government carry enormous management burdens.

Senator ROTH. My time is up, Mr. Chairman, Thank you, Governor Freeman.

Chairman RIBICOFF. Thank you very much.

Senator Durenberger?

Senator DURENBERGER. Thank you.

Governor, I am sorry we are running out of time, too, because I wanted to remind the committee that my very first political involvement after I got out of law school was trying to make sure you were only a three-term, not a four-term, Governor of Minnesota. Of course, that was before I was elected to the U.S. Senate and got an insight into the value of Democratic officeholders to the political process. [Laughter.]

I also wanted to find time to remind everybody that if we were to design a witness to serve our purposes here today, we would be hard-pressed to surpass your qualifications, the qualifications that you bring to this hearing. I also wanted to find time to remind everyone that you have been extremely successful in applying the principles that you are preaching here, both in Government and outside of Government.

I would like to have found the time to remind everyone here of the fact that a three-term Governor of Minnesota ends up dedicating his professional life to expanding the role of Americans in world trade, which is evidence of the importance of the legislation we are considering for the people of the State that both of us represent, and that you are anxious to get back to.

Unfortunately, I don't have time to say all of those things. [Laughter.]

My basic question gets back to one of the first things you said, which is the President is really responsible, not only for changing policy but changing public attitude, which is part of the problem. I just have to ask myself and you the question, can a Secretary of Commerce, can a Secretary of something called the Department of DITI, or whatever, really have the kind of impact that we need in this country? Is it satisfactory just to deal, as we are dealing here, with reorganization to accomplish some of the objectives that need to take place?

Mr. FREEMAN. The relationship between Cabinet officers and the President is sometimes one of chemistry, not to pass judgment on it,

and certainly not on this administration nor Republican administrations that preceded this one. But I certainly agree with you a commitment and a matter of high possibility of determination is critical to get action by the Nation and mobilize support behind him, and in the process to designate as his key officials in the Cabinet and throughout the Government the kind of people that will get the kinds of results he wants. As Harry Truman says, "the buck stops on the President's desk."

Senator DURENBERGER. My question basically is, is it then the person or is it the organization? How much time do you think, frankly, we should be spending either with the chairman and Senator Roth's proposal or the administration's proposal in redesigning the department? Or should our efforts mainly be placed in finding the right people to put in charge of this process?

Mr. FREEMAN. Of course, it is both. But I certainly think the efforts that you have and will make to design and reorganize and focus responsibility clearly are very, very important. You can get bogged down and frustrated and misdirected in a large government with confusing lines of relationship very easily.

Of course, the person is of tremendous importance to carry these things forward. But one of the reasons, to repeat myself, that I think the Department of Commerce is considered a weak department is because it really hasn't had a clear, sharp responsibility assigned, the clear kind of backing that it needs.

I am no particular advocate for the Department of Commerce, but I just think that happens to be a logical place to clear the air. With the need for trade and foreign economic policy so clearly apparent, Presidential support will I am sure be forthcoming.

Senator DURENBERGER. Have you had time along the lines of your functional thesis, have you had time to look at the present Department of Commerce and to suggest those responsibilities that should be taken out of that department and placed somewhere else?

Mr. FREEMAN. No; I really haven't. I think if the committee moves in that direction it might want to do that.

Senator DURENBERGER. Would it be helpful?

Mr. FREEMAN. Yes; I wasn't prepared to do that at this time.

Senator DURENBERGER. Thank you.

Chairman RIBICOFF. Thank you. Senator Percy?

Senator PERCY. Just a couple of questions. We are pleased to welcome you back, Mr. Freeman.

Mr. FREEMAN. Chuck, I have a 12:45 plane to catch, so if I hurry, I hope you will forgive me.

Senator PERCY. No; I think you are all right. Is 5 minutes all right with you?

Mr. FREEMAN. Fine, sure.

Senator PERCY. I feel that agricultural exports is one of the great ways we have now of offsetting trade imbalance. Do you think it is possible to double our agricultural exports by 1985 if we really set out to do so?

Mr. FREEMAN. We have more than doubled our agricultural exports since I left as Secretary of Agriculture. So I guess I would say that the answer is "Yes." And if you wish me to, I would try to respond more exactly by looking at some numbers.

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Senator PERCY. Could you give us your judgment as to when you think we could double it? Would it be possible by 1983 or 1984? If so, in what areas? Your judgment would be very valuable. I do happen to think that agricultural production is one of the best assets we have. Then obviously we would need to know what can the Government do to increase agricultural exports because individual farmers really can't do this.

Also, what would we have to do from the standpoint of agricultural policy? Would we have a restricted, controlled policy or do we have to plan a fencepost-to-fencepost policy, in a sense, if that potential exists?

Farmers don't want to overproduce if they don't have the markets. They are dependent to a certain extent upon the Government for the market in the Soviet Union.

Mr. FREEMAN. Market access is not going to be much of a problem. We are going to face, generally speaking, world food shortages and sharply expanded markets, and off the top of my head a doubling within a 5-year period is not at all unlikely.

Senator PERCY. I would like to ask how you would internally reorganize Commerce to absorb the trade functions in light of your comment that giving the new responsibility to an Under Secretary of Trade would dilute the Secretary's responsibilities for trade and investment.

Mr. FREEMAN. This was merely in way of saying that the responsibility should be clearly on the Secretary and the organization internationally ought to be subsidiary to that. If you say here is an Under Secretary or Deputy Secretary with this particular responsibility, as a matter of law, then you have set someone up who has an independent position almost and you create internal problems of organization, management, direction and responsibility. I think it would be much better to have a very strong statement on the purpose of a piece of legislation in terms of the results expected from it rather than trying to get into specifying titles and responsibilities with the department.

Senator PERCY. Finally, since you are not too concerned about the Special Trade Representative remaining in the Executive Office, how would you react to the U.S. Chamber of Commerce's suggestion that a special assistant be created to the President for international economic policy? Do you think that would be more beneficial?

Mr. FREEMAN. Generally speaking it has been my experience the more anonymous the Presidential assistant is, the more effective he is. When he gets into a position of having a special title, getting special attention, being an operator, so to speak, rather than being one who quietly seeks to get results and bring together harmony and direction, you are creating more problems than you are solving.

In the Presidential systems I have seen those which have been most effective are those who operate the most quietly but who command respect and it is known really can speak for the President but also who never say or hint that access to the President is always available to a Cabinet officer and never hint "Look, if you don't go along with me, look out, because I see the President more often than you do." I mean, this kind of fairness is absolutely essential.

But that is the way to resolve jurisdictional differences, not to put up a title and then get somebody out there and say, "You go and coordinate" when the newspaper is looking over his shoulder. That is no way to get the job done.

Senator PERCY. On the basis of your experience, do you feel your comments should have special application to Ham Jordan?

Mr. FREEMAN. I didn't say that.

Senator PERCY. But would they apply?

Mr. FREEMAN. I have watched him on "Meet the Press," with all fairness, and I watched him the other morning or last night, and that guy handles it very well. He said explicitly he would not in any circumstances stand in the way of the access of every Cabinet officer to the President. I hope he performs in that manner.

Senator PERCY. Thank you very much.

Chairman RIBICOFF. Thank you very much, Governor. We appreciate your being here.

[The prepared statement of Mr. Freeman follows:]

STATEMENT OF ORVILLE L. FREEMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUSINESS INTERNATIONAL CORPORATION

Mr. Chairman, with your permission, before making my recommendations on reorganizing the U.S. Government's trade and investment functions, I would like to lay a foundation, by outlining the principles or organization upon which my recommendations rest.

I have arrived at these principles, both as a student of administration and government organization, and through my own personal experience involving three terms as Governor of the State of Minnesota, eight years as a Cabinet officer under two great American Presidents—John Kennedy and Lyndon Johnson—and finally, during the last ten years as president and chief executive officer of Business International Corporation. The last ten years have been particularly challenging, for with my extensive background in government I have been able to test these principles in my own company and also observe the organization patterns of some 180 multinational companies following a great variety of organizational management systems practices. My exposure to those companies has been very instructive. Business International is basically an information company, operating a global management information system—it publishes and has research capabilities worldwide. In addition, we organize roundtable conferences where the chiefs of state and senior ministers in governments throughout the world meet with the senior executives of multinational companies who participate in the BI system. Our primary focus is information per se, seeking to measure the environment, including the economic, social and political forces worldwide that affect international companies but we also counsel and consult with these companies on functional operational matters, particularly global organization and management of a company that has subsidiaries in countries on every continent. This has been a rich experience, with in depth exposure to both governments and companies, and has given me the chance to observe intimately how both are organized, how they operate and how they interact.

Permit me, Mr. Chairman, to state certain principles and then to apply those principles to the issues before this distinguished Committee.

1. The world in which we live today is a highly interdependent one. Whether we direct our attention to our economy, to our ecology, to our life-style, to our communications, to our business enterprises, to our labor organizations—it makes no difference. There are few answers and few responses in these areas, and in many others that I have not mentioned, that are relevant without a significant global input. Although we acknowledge the fact of interdependence, most frequently we do not act that way. Instead we think, plan, act and organize on a national rather than an international basis. The organization of the US Government is no different.

The Government of the United States, in my opinion, is not organized or oriented at any level, from the White House and Department of State to the

Department of Agriculture and Environmental Protection Agency, to cope effectively with interdependence. Every government agency today must deal with problems that have worldwide ramifications and must make decisions that can advance the well-being of the people of the United States. Yet the government of this nation is not organized so that its agencies can be internationally responsible. In this regard there is much to be learned from the experience of multinational companies.

The typical international company began as an exporter. As it built markets in a foreign country, it soon learned that it needed to manufacture in that market if it was to grow and prosper. Substantial foreign investment resulted and as the process went forward, exports grew and the international company prospered.

Organizationally, the company started out with an international division, usually headed by an international vice president. All foreign investments and sales were under the direction of that division. However, as international business grew, the international division found it more and more difficult to get adequate cooperation from the producing divisions within the home country. The interest and concern of these divisions were primarily domestic, and the international demand, although it had grown very large, still remained secondary. As a result, a totally new organizational approach was developed. The result was to organize various products into separate groups on a product line basis. Each group has global responsibility for group policy and for group operations.

The international division continues to carry out an information and service function for the entire company, and in each country where the company does business it performs a coordinating function among the various product groups. To put it in government language, the international division provides "political" guidance to the operating groups. The US government should be organized along similar lines.

My first principle, Mr. Chairman, is that the U.S. Government, like international companies around the world should be organized on a functional basis, responsive to the realities of interdependence, with clearly understood responsibility fixed in each operating department. Departments or agencies of the government that have a functional responsibility, such as Agriculture, Commerce, Labor, HEW and others should have responsibility, both domestic and international, for its areas of expertise. The State Department—the "international division" of the government—should continue to provide international political guidance while giving up policy responsibility to the functional departments.

The principle which I have just outlined is set forth with considerable detail in a study prepared for the Aspen Institute for Humanistic Studies by Adam Yarmolinsky. I do not necessarily subscribe to every conclusion reached in this study, but I am convinced that the primary thrust is correct. I would recommend that this Committee give serious consideration to holding hearings to examine the need for reorganization of the U.S. Government in light of the realities of interdependence as pointed out in the Yarmolinsky paper.

2. The second principle I wish to bring to the attention of this Committee is that the U.S. Government should be organized in such a fashion that responsibility and power go together. Each department should have authority over both policy and policy implementation and the two should not be separated. It is true, of course, that departments and agencies inevitably will have collateral activities, spinoffs as it were, from their primary responsibility, that logically are the basic responsibility of another department or agency. There can never be a completely "clean" organization, with the various subject areas totally assigned to the lead department or agency. Nonetheless, every effort should be made to place, as far as possible, similar functional activities and responsibilities in the appropriate lead department or agency.

I would now like, Mr. Chairman, to apply the two basic principles of overall government reorganization to the recommendations pending before this Committee. I would support the principle that all trade and investment functions of the U.S. Government, both domestic and international be placed in one department. The international commercial policy and administrative responsibilities of the Department of State and Treasury as well as the Special Trade Representative should be shifted to a new Department of Trade and Commerce.

Policy and implementation must go together. I would not designate by law a Deputy Secretary or Under Secretary of Trade. It appears to me that tends to dilute the responsibility for trade and investment results where the Secretary is concerned. Congress would do better to make it clear that the primary responsibility of the Secretary of Commerce of the United States is the balance of trade.

The responsibility for trade policy coordination should rest with the Secretary of Commerce, who would chair a Trade Policy Committee, composed of the Secretary of State and all other line departments and agency heads who become involved collaterally to their primary mission, with trade and investment matters. There is one place and one place only that should have responsibility for U.S. trade policy and that clearly is a new Department of Trade and Commerce. Trade policy must be made at the Secretary level and the new Secretary of Trade and Commerce should chair the interagency trade policy committee. Separating out the trade policy functions and placing policy responsibility in the Special Trade Representative's office would emasculate a new department. It would create jurisdictional problems and make it extremely difficult to enlist a competent and effective leader to head up the new department.

A major concern has been that the Department of Commerce has not been effective in the past and adding new responsibilities would only worsen the problem. Commerce has not been effective because it lacked a direction or purpose. Responsibility for trade and investment policy and administration would provide the needed direction for Commerce. The Secretary would be easily graded by the overall U.S. trade balance and the department would have a clear incentive to perform effectively.

As for the future of the STR, I do not see that it is a matter of overwhelming concern whether the STR's negotiating functions remain in the executive offices or are transferred to the new department, as long as the policy for the negotiations is made in the principal departments concerned. When policy coordination between departments with overlapping jurisdiction proves necessary it should be performed by a presidential assistant who is able to maintain anonymity.

These recommendations are based on the premise that the government could work more effectively if the organization changed to reflect the trend toward the interdependence of the United States with the rest of the world. No issue should be decided in a vacuum and government decisions must not be made on the basis of solely domestic considerations. I believe a strong Department of Trade and Commerce would go far in improving the effectiveness of U.S. Trade and investment policy.

Thank you, Mr. Chairman, I am ready to answer any questions you may have.

Chairman RIBICOFF. Mr. Gould? We welcome you, Mr. Gould. You have been very patient. The committee is running out of time. I would like to put your statement in the record as if read, as I did with Governor Freeman. We could go right to the questions that we have for you. I think you could make your points that way, if you have no objection.

TESTIMONY OF HARRY GOULD, ON BEHALF OF THE PRESIDENT'S EXPORT COUNCIL

Mr. GOULD. If there are some uncovered points, I would like to have the opportunity to speak to that.

Senator PERCY. Mr. Chairman, I would like to leave my questions for the record. I have been called out. I appreciate very much, Mr. Gould, your taking them along with you for answering for the record. We are very sorry to have detained you so long.

Mr. GOULD. OK. You can take the position of asking me questions.

Chairman RIBICOFF. I am just here myself. Since I have read your statement, there is nothing to be gained by you reading it.

Mr. GOULD. But there are some points from a personal viewpoint. The statement deals mostly with the Export Council's considered position.

Chairman RIBICOFF. Then you go ahead.

Mr. GOULD. From a personal viewpoint, I would like to suggest the possibility of adding the head of the Export-Import bank to the proposed Trade Policy Committee. I think weight should be given also

to Treasury representation on the new Trade Negotiating Committee. And a question that Senator Javits brought up, the question of OPIC, I again personally would like to see some closer cooperation between OPIC and the Eximbank to try to get the so-called financing functions under a one-umbrella approach.

I am in favor, again speaking for myself, of moving all the commercial attachés into the reorganized Commerce Department.

Senator Stevenson, who is a member of our Executive Committee on the Export Council, did make the statement that he felt his proposal as far as it relates to technology being dovetailed into the reorganized Commerce Department should be seriously considered. I probably would be in favor of it. That relates to this whole productivity question.

The foundation from which our export program has to grow must be in the productivity area, as a first step. It is a domestic problem. It involves capital formation. It involves incentives for capital investment and research and development incentives. That is the first step in making us competitive in the world markets.

The other main problem, as I see it, and I would like at this point to maybe speak as the head of a medium-sized corporation, as opposed to Mr. Wearly or other people who may have testified before you. There is a large perceptual problem in this country concerning exports—a perception that it is a very complicated, very frustrating process. If I were to give a specific example, because my company has picked up small manufacturers, originally entrepreneur type of operations; first of all they would not think about the amount of exporting. Usually what happens is, that a small corporation, a small company, either through advertisements and trade journals that are read overseas or visitations by overseas potential end-users to trade fairs and so on, contact the company. The company does not go out and market on an export basis. He does consider it after somebody has approached him. Should he export? Then it is a question of: Does the man want terms? If he wants terms, how is he going to finance it? If he finances it, does that mean he is going to get paid? If he has to carry receivable loans to his bank, will he in fact still get paid?

The concept of "irrevocable letter credit" is possibly another language to most small business entrepreneurs. You will find most plants, small plants, located in small communities, go to the local bank for advice and the local banker will tend to be ignorant of what is involved and how you go about it. He will have to call up either the parent branch someplace, if he is part of a bank holding company, or correspondent bank relationships to find out what is involved.

Now assuming that the man can get the financing from his bank, then he gets into the massive paperwork. When he sees the amount of documentation required, forget about license problems—and maybe he is lucky and they send him to a freight forwarding agent or they will perform some of the services of a freight forwarding company.

Now he faces possibly other regulatory hurdles. It could be OSHA or environmental regulations which might affect the export of his product, antitrust considerations if he tries to join with another small company, a various list of impediments. If the local bank will not take on the financing but somehow gets him to go to the Eximbank, possibly AID or OPIC, maybe the Small Business Administration, there is a whole new area of impediments, confusion, a lack of under-

standing of that small company's problems, and the end result probably in the majority of cases has to be for that small individual to throw up his hands and say, "What is the point of all this? I am going to concentrate on doing what I have been doing, and that is selling domestically without all of these headaches."

For companies that export, which we also do, for example, as a middleman, there is another problem that reigns in this country, and that is one of a lack of consistent export policy on the part of a lot of major corporations. This is a conversation I have had with a major corporation head who serves on my committee, John Brooks, the chairman of Celanese. Even he is complaining about some of his fellow corporations, in that size category, in other words, looking upon the export market as simply a dumping ground; that is, a place to sell products when business is soft and a place to withdraw from when business is good here at home.

I think that is another side of the marketing problem we have. Because if I were the customer in the foreign country, I would reverse it and just take the attitude of doing business with the American corporation on the same basis; that is, I will buy from them when I can get the price down and when I can't, then I will go search on a local basis.

I might just add; "What do other countries do?" had been a question that has been asked here. It is my understanding that in Japan, for example, the industrial and banking complex work pretty much in a hand-in-glove situation. That doesn't happen here. One of the things we will be dealing with in the Export Promotional Subcommittee on the Council, which I also serve on, will be how to foster that kind of close cooperation between banking, between industry, and obviously, with government as a whole picture.

The so-called one-stop concept is one approach we want to examine; where the small, individual company, with no parent company to go to for help, who has the capability of exporting, to go to one place, his local bank, or a regional bank, and get all of his problems taken care of, as well as information feedback, that the Government will help feed into that bank. That would take a big load off the mind of the average small businessman.

Senator Javits or Senator Percy mentioned that 20,000 companies that should export currently don't. My guess is it is at least that number. Part of the problem has been the diverse spread of authority in government, various agencies competing with each other, and the problem that the small entrepreneur has in dealing with that question.

The bottom line when it comes to that problem is the potential exporter, the company that is new to the export market, will be turned off and walk away.

Finally, in the reorganization that has been proposed, there is still some confusion from the outsider's point of view, taking myself as a lay businessman, not small, not large, but a medium-sized corporation, there still seem to be some overlaps, some vague areas as to where policy ends and implementation begins. That I think has to be more clearly defined. I would reiterate that I would agree with the rest of the Executive Committee on the Council that the President's proposal is a significant first step in getting the show on the road.

The immediacy is here. The improvement in our export picture is necessary to reduce the balance of payments problem. I think the immediate counterweight to the OPEC increases and other problems is an increase in our exports. If there is ever a time where it is necessary, it is now.

The point you made early on here this morning, however, is a very valid one. It may be the key one. The success, whether it is a super agency concept or the President's proposal, which is kind of a compromise position, the success of the whole program is only as good as the players carrying it out.

Your comment about the necessity for the President's ear to help carry out this program is well founded.

Chairman RIBICOFF. Thank you, Mr. Gould.

I think the key as far as I am concerned with your testimony is on page 3 where you talk about export disincentives, which are many, and about improving and expanding export incentives. You list 20 of the disincentives and 10 incentives. I wonder if you could supply the committee with the details on that statement, because I think that becomes very important in how we restructure this reorganization to help eliminate the disincentives, and increase the incentives. So if you would get that to us, it would be in furtherance of the question we asked Mr. Wearly of the National Manufacturers Association. We want the details from him, too.

Mr. GOULD. Certainly.

[The information follows:]

THE PRESIDENT'S EXPORT COUNCIL
WASHINGTON, D.C. 20230

August 17, 1979

GOVERNMENTAL AFFAIRS COMM.
RECEIVED
AUG 21 1979
WASHINGTON, D.C. 20510

Hon. Abraham A. Ribicoff, Chairman
Subcommittee on International Trade,
Committee on Finance
United States Senate
Room 337, Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Ribicoff:

At the hearing held July 25, 1979 by the Governmental Affairs Committee on the reorganization of governmental international trade functions, you expressed an interest as to the possible impact of any governmental reorganization on the President's Export Council. It was also arranged that I would prepare and submit to the Committee a list of principal U.S. governmental disincentives to exports and of desirable export incentives.

Government Reorganization

As you know, the President's Export Council is a committee of persons - from Congress, the Executive Branch, and the private sector - knowledgeable about U.S. international trade and representing a cross section of groups and interests (industry, labor, agriculture, consumers, etc.) whom the President has appointed to advise him concerning U.S. export policies.

We realize that under the Federal Advisory Committee Act, the Executive Order establishing the Council, and the Council's charter, the Council's functions are solely advisory and that any action to be taken or policy to be expressed by the Government with respect to the matters upon which the Council reports or makes recommendations to the President shall be made solely by the President or other appropriate governmental agencies or officials.

We further realize that, except in unusual circumstances provided for by law, Council meetings, studies, reports and recommendations will all be public. Therefore, once our advice to the President has been given on any particular subject or question, I assume it will normally be available to all other interested groups and persons.

I can assure you the Council will operate as the members judge appropriate; we will consult with whatever government department or agency we think has helpful information or experience; and we will advise the President of our views and recommendations with full independence, regardless of what agency functions as our secretariat. I have complete confidence that the President and the Cabinet members on the Council fully share this view. So I see no problem arising for the Council in connection with the government reorganization proposals currently under consideration or any present need to reconsider the current administrative arrangements for the Council which involve primarily the Department of Commerce. In the event an organizational problem did arise, I am sure it would be effectively and promptly resolved with the full cooperation of all concerned.

Incentives - Disincentives

As arranged, I have prepared and enclose lists of export incentives and of disincentives.

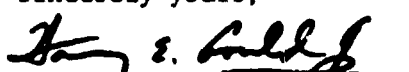
I know you fully share the basic point with respect to the list of disincentives; namely, that as a nation we should try to do what is in the best overall interest of our country and avoid laws or regulations that are counter-productive. With the need so clearly established for a strong and vigorous national export program, we should revise or repeal those laws and regulations that serve mainly to divert business to our foreign competitors. My list of disincentives indicates the U.S. legislative and regulatory areas where there is a general agreement, I believe, that the Congress should act to make our laws more realistic. There also of course are foreign disincentives to U.S. exports (tariff and non-tariff trade barriers of various kinds). Hopefully, the recently-concluded Tokyo-Round trade agreements on such subjects as

subsidies, government procurement, technical product standards, etc. and the continuing negotiations on such subjects as "safeguards" will significantly reduce these barriers.

The enclosed list of incentives sets forth desirable U.S. governmental programs to help U.S. exporters compete in the increasingly competitive world markets. The need and justification for such incentives is that they would partially match what foreign governments are doing to assist their exporters and would thereby help redress the present unfair competitive conditions confronting U.S. exporters.

I would of course be glad to furnish any additional information you or the Committee may desire. I know I speak for all the members in expressing appreciation for your interest in the work of the Council and for your desire that it be effective. We will take the liberty of looking to you for continued encouragement and assistance as we move ahead with our assignment.

Sincerely yours,



Harry E. Gould, Jr.
Chairman, Subcommittee on
Export Expansion,
President's Export Council
Chairman of the Board
Gould Paper Corporation
145 East 32nd Street
New York, N.Y. 10016

cc: Reginald H. Jones
Chairman, President's
Export Council

INCENTIVES NEEDED BY U.S. EXPORTERS TO MATCH INCENTIVES GIVEN FOREIGN COMPETITORS

1. Tax Incentives

- Maintain - consider improving - DISC

  -- represents partial offset to European border tax adjustments, waivers, rebates
  -- provides working capital to finance longer-term accounts receivable customary in foreign countries
  -- encourages risky long-term market development in new foreign growth areas

- Maintain tax programs that encourage U.S. foreign investment, since foreign affiliates pull-through U.S. exports which otherwise would not be made

  -- maintain "deferral" (the principle that earnings of foreign subsidiaries will not be taxed to the U.S. parent corporation until remitted)
  -- maintain the foreign tax credit; avoid unduly narrow regulations as to its application
  -- provide for more equitable "911" tax treatment for U.S. taxpayers working overseas

- Study feasibility of other tax incentives, such as accelerated depreciation of capital investment in productive assets, tax credits for R&D expenses, liberalization of deductions for bad debts and other losses, etc.. In this connection, consider extent to which U.S. tax system is unfairly disadvantaged by distinction in new GATT subsidies code between "direct" and "indirect" taxes which permits waiver or remission of VAT-type ("indirect") taxes but prohibits waiver or remission of income ("direct") taxes.

2. Export Financing

Increasingly, especially in developing country markets, business is awarded to suppliers who offer the most advantageous financing terms. The so-called "gentlemen's agreement" with our major trading partners is only of limited effect in restraining their concessionary financing practices. Our trading country partners have resisted U.S. efforts to strengthen and broaden the "gentlemen's agreement" and U.S. exporters continuously have to confront foreign competitors whose governments

are providing very liberal financing terms. Though the Export-Import Bank has recently been strengthened and is strongly supportive of U.S. exporters, the Bank's annual funding authorizations should be substantially increased and Congress should expressly grant the Bank greater flexibility to meet foreign competition. Other U.S. financing programs (Commodity Credit Corporation, AID, etc.) should also be expanded.

Programs such as OPIC should also be reviewed to determine whether they should be strengthened and broadened.

3. Export promotion

The forthcoming reorganization of governmental international trade functions, regardless of the specific form taken, will presumably provide for a significantly broadened and more effective export promotion program. This is badly needed, as is generally recognized.

4. Other Export Incentives

During our history, U.S. business has evolved and U.S. laws have been fashioned almost entirely in terms of domestic needs and interests. Congress now has the responsibility to determine the extent to which changes are necessary to adapt to the facts that the U.S. economy has become increasingly interdependent with the world economy and that a strong U.S. export program is vitally needed. The experience of other countries that have had long histories of being successfully export-oriented should be examined. In this connection, foreign trading practices such as the trading company and the foreign selling company should be examined.

5. "Export Consciousness"

Finally, there is a need to make the U.S. public generally more conscious of the importance of U.S. exports. Any governmental policy or program that restricts or hampers exports should be subjected to a realistic export-impact cost/benefit analysis to determine whether, on balance, the negative impact on exports is in the overall national interest. The President's National

Export Policy, announced by President Carter on September 26, 1978, included a directive to the heads of all Executive departments and agencies "to take into account and weigh as a factor, the possible adverse effects on our trade balance of their major administrative and regulatory actions that have significant export consequences". Congress, in turn, should impose on itself a similar test. And, most importantly, both Congress and the Executive Branch should promote a general policy of "export consciousness".

U.S. EXPORT DISINCENTIVES

Broadly speaking, the U.S. has two kinds of legislative/regulatory export restrictions which operate as restraints or controls on exports: (1) controls to protect domestic needs and interests - e.g., to maintain military security, to prevent export of products in short supply, to protect domestic jobs (cargo preference laws), etc; and (2) controls that are really foreign-policy motivated and that seek to influence the behavior of other countries or to express our disagreement with them. In addition, we have some laws of general applicability - such as the antitrust laws - which also impact on exports and overseas business activities.

Controls to protect domestic needs are of course necessary. But there is a tendency for these laws to be administered without adequate consideration of the effect on exports. Congress, in the Export Administration Act and elsewhere, should provide for standards and procedures that will appropriately balance the conflicting domestic needs.

The controls that are in the foreign policy area are now of dubious value so far as the overall national interest is concerned. Whatever may have been past wisdom, the grim current realities facing the U.S. economy in its economic relations with the rest of the world require that Congress reexamine export restrictions whose justification is not domestic need but a desire to influence the internal policies of other countries or simply to voice displeasure and disagreement. These types of export restrictions are usually counterproductive; their main result is often simply the diversion of business to our foreign competitors. Congress should therefore impose a cost/benefit analysis to these types of export restrictions and repeal or appropriately amend those laws that, as a practical matter, are little more than self-inflicted wounds.

The export controls that warrant Congressional review are as follows:

1. Controls for military security

   - In extending the Export Administration Act, which expires September 30 of this year, Congress should avoid amendments whose practical effect would be to curtail exports even where military security is not involved.

- EAA should recognize that exports are desirable so that export license should be denied only on cost/benefit determination as to what is best in overall national interest.

- EAA should maintain and improve efficient and timely administration of licensing applications. Should preserve confidentiality of proprietary information in licensing requests.

2. Controls to prevent foreign adverse environmental effects by U.S. exports

The Administration has interpreted the National Environment Policy Act as not applying to foreign environmental effects except in certain limited types of cases. But the President has issued, under his Constitutional authority, an Executive Order directing federal agencies to consider foreign adverse environmental effects in specified types of situations. The principal impact on exports will be in terms of possible restrictions on the Export-Import Bank.

National concern in this area should be implemented through international negotiations and agreements, not through unilateral - and probably unwelcome - U.S. imposition of its views on foreign customers.

3. Controls re "human rights"

There is a generally-recognized need for a consistent and realistic new approach in this area. In general, national concerns in this area should be implemented through diplomatic negotiations and international agreements. Where Congress judges that unilateral U.S. action is desirable in the overall national interest, Congress should generalize the standard it imposed on the Export-Import Bank when the Bank's charter was renewed last year; namely, that Eximbank credits can be denied for non-financial or non-commercial considerations only in cases where the President determines that denial would be in the national interest and would clearly and importantly advance U.S. policy.

4. Denials of export credits and MFN treatment to Communist countries that restrict emigration unless they provide "assurances" re free emigration ("Jackson-Vanik"); limitation on total credits

Under all present circumstances, it is now reasonable that these restrictions be changed and the total limit on Export-Import Bank credits be substantially increased, so as to facilitate freer trade with the Soviet Union, Communist China, and other Communist countries.

5. Prohibition of foreign questionable payments (Foreign Corrupt Practices Act)

In principle, no one can disagree with the Foreign Corrupt Practices Act. Commercial bribery is immoral and destructive of the proper operation of free markets. The fact that no other country has an effective similar law is not, in principle, a reason against ours. The practical difficulties faced by U.S. exporters as a result of the law, however, are in the areas of interpretation and application. The law has created a fear of absolute liability, regardless of reasonable efforts to comply. This is an area where - while the principle is carefully preserved - the administrative regulations should make clear that compliance will be sufficient if the U.S. exporter has acted reasonably and in good faith in avoiding bribes and will not be held to a standard of absolute liability.

At the same time, it is desirable that similar effective legal obligations be placed upon our foreign competitors. To this end, the U.S. efforts for an international antibribery treaty will presumably continue to be vigorously pursued.

6. Prohibitions against compliance with or participation in foreign boycotts against friendly countries

The principal needs in this area are to harmonize the two different statutes that apply: the "Ribicoff Amendment" in our tax laws with the anti-boycott provisions of the Export Administration Act.

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7. Antitrust restrictions

There is controversy and uncertainty as to the extent to which U.S. antitrust laws, as presently administered, constitute an unreasonable restraint on U.S. exports. It appears clear that the Webb-Pomerene Act should be retained and broadened to include services. There is growing discussion that U.S. law should be amended to permit certain types of trading companies whose legality under present laws is not clear. In general, Congress should review the antitrust laws and remove any restraints on exports or overseas business operations that, in view of the vital need for exports, are, on balance, no longer in the overall national interest.

8. U.S. export controls to prevent nuclear non-proliferation

Experience indicates that diplomatic negotiations and international agreements should be the means used to implement U.S. concerns in this area, rather than the present unilateral U.S. approach.

9. Other types of disincentives

- Exporting to a large extent is long-range in nature. To develop new markets, the U.S. exporter has to be confident that the ground rules on which he is basing his market development, his cost estimates, etc. will remain relatively stable. Continuing threats such as the proposal to repeal DISC and "deferral" or the proposal to narrow the scope of foreign tax credits create an atmosphere of uncertainty that is hostile to the national "export consciousness" that is needed.

- Public disclosures of confidential or proprietary business information can unfairly benefit foreign competitors. The administration of U.S. trade laws should carefully safeguard the confidentiality of such business information.

Chairman RIBICOFF. If a trade reorganization is achieved, what do you see as the continued need for a unit like the President's Export Council on which you serve? What role should that play in a reorganization?

Mr. GOULD. I would think that the reconstituted Export Council—there was a prior one in existence which phased out I think in 1976 or 1977, but it was basically made up of members, if you want to call it, of the business roundtable, of the top 200 corporations. That is not America. The mere fact that 80 percent of our manufactured goods in the export field are done by those 200 corporations amplifies the problems that I was referring to before.

I think the best thing that the President did with this new Export Council is to get a broad base of representation. Yes; we have members of the top 200 corporations on this Council—it is being chaired by Reg Jones, head of General Electric. But in addition we have companies of medium size, of $50 million to $100 million, such as ourselves. We also have representation from small industry, agriculture, and labor. So we have a pretty broad base that would reflect on the problems; and, therefore, the synthesis and consensus solutions, or recommendations we will come up with, will have a more effective role. Speaking again personally, as we have not discussed this, in either the executive committee or with the full Council, I would hope that we could maybe have a more formal voice.

As it stands now, the Council is to advise the President through the Secretary of Commerce. A more formal voice, however, might be structured. I would have to give some more thought to that and maybe put it in my recommendations.

Chairman RIBICOFF. If we went the route the President has gone, so that there is divided responsibility, would you put the Council with STR or with Commerce? Where do you think that Export Council should go?

Mr. GOULD. I think necessarily we are going to be touching both the areas of policy and implementation. I think we lean more in the direction of the policy areas because we are making recommendations for changes in policy, or additions to or amendments thereto. However, the followup, as with MTN, of the agreements or the policy is almost as vital as the policy itself. I think the Council, again speaking personally, would want to make sure that, whatever recommendations are adopted, the followup is there and they are implemented, because otherwise obviously it is an exercise in futility. So that we want to see both sides of that particular coin as an area where we would want to have input and observance.

Chairman RIBICOFF. All the other questions I had for you, as a matter of fact, were answered in your opening statement. I had a number of questions and you touched on every one of them—the incentives, the question of small business, the question of OPIC. You have touched on them all so you anticipated my questions.

Thank you very much for your valued remarks and statement. Your statement will be in the permanent record for the other members to see.

[The prepared statement of Mr. Gould, Jr., follows:]

REPORT TO THE SENATE SUBCOMMITTEE ON TRADE

BY HARRY E. GOULD, JR.,

MEMBER OF THE EXECUTIVE COMMITTEE OF THE PRESIDENT'S

EXPORT COUNCIL AND CHAIRMAN OF THE

COUNCIL'S SUBCOMMITTEE ON EXPORT EXPANSION

MISTER CHAIRMAN: On behalf of the President's Export Council, I wish to thank you for inviting me to have the opportunity to express the Council's viewpoint on the subject of trade reorganization.

Last Thursday morning (July 19), Secretary of Commerce Juanita Kreps and Special Trade Representative Robert Strauss informed the Executive Committee of the Council of the Administration's proposal for trade reorganization. After an extended discussion, led by Chairman Reg Jones and Vice Chairman Paul Hall, the Executive Committee, by voice vote, unanimously approved the Administration's proposal. As we understand it, the main thrust of the President's proposal is in the area of consolidation of trade functions and more facile implementation of trade regulations. The Executive Committee felt that these recommendations by the Administration went far enough in the directions of consolidation and implementation to warrant full approval by Congress.

While the members of the Committee are not in full agreement with all of the decisions made on the various issues involved, the

Committee welcomes the overall proposal as a desirable and constructive first step in consolidating and strengthening the federal governmental machinery involved in formulating and carrying out U. S. international trade policies and programs and, in particular, monitoring and enforcing the new Tokyo-Round trade agreements.

The Committee noted with approval that the independence of the Export-Import Bank was preserved and that our well-functioning agricultural export programs will be maintained. The reorganization announcement ("Fact Sheet") was silent on the point, but we assume that provision will be included for effective continuation of the private sector advisory system that worked so successfully during the Tokyo-Round negotiations. It is also assumed that possible overlaps in assigned responsibilities suggested by the public announcement of the reorganization proposal will be clarified.

In proposing the vesting of the Department of Commerce with the leadership in the implementation of trade policy, I, as a member of the Executive Committee, feel that the Administration has chosen the appropriate center of focus. Also, I believe that the proposed Trade Policy Committee is likewise an improved forum for ironing out trade-policy viewpoints. Too often in the past the exporter has been buffeted from seemingly divergent interests of the Departments of Commerce, State, Treasury, Defense, and Justice.

Having the office of U. S. Trade Representative serve as chairman of a new inter-agency committee will, we think, serve to foster the vital expansion needed in this country's exports.

With back-to-back trade deficits substantially in excess of the $20-billion mark, the need for substantial improvement in our export performance is abundantly clear. The recent moves by OPEC only serve to reinforce this need. In addition, 8 million jobs in this country are related to foreign trade. Our loss of market share in the world markets over the last 15 years is well documented and can be traced, in large part, to two fundamental areas: (1) years of export "neglect," and (2) the stagnant productivity levels on the domestic front. Certainly, inflation, and its effect on the dollar, and foreign-trade barriers have helped to exacerbate the situation; but the first two areas are, I think, the key to reversing the trade-deficit problem.

The President's Export Council will be addressing itself to many of these problems. Currently, the Council has been segregated into subcommittee work groups which will be making recommendations in 6 main areas. As Chairman of the Export Expansion Subcommittee, for example, I have been asked to study and make proposals in the area of export disincentives (of which there are, by my count, just under 20 such disincentives) and proposals for retaining, improving, and/or expanding export incentives (which number close to 10 at last count). The proliferation of the current varying, and at times opposed,

agency and departmental regulations, viewpoints, and impediments can only serve to frustrate current exporters and bewilder the vast majority of companies that would be new to export. Therefore, from my own subcommittee's standpoint, the President's proposal for trade reorganization is a major first step in assisting export expansion.

The current other Export Council subcommittees will also benefit from the new, concentrated focus on implementation and policy that the proposed reorganization envisions. The Export Promotion Subcommittee will be concentrating on marketing the concept of exports at home and the improvement in marketing our products abroad. The fact that 80% of our exported manufactured goods are shipped by just 200 companies is, I think, symptomatic of the lack of concentrated coordination in implementing the various tools of exporting for the tens of thousands of companies that do not export currently, and yet have those capabilities. These small and medium-size companies must be "turned on" to doing so in the near future.

The Council's subcommittee on Export Administration will be dealing with the procedures and standards governing export business. Without question, this is an area where competing departmental and agency interests have long fostered confusion and frustration in the minds of current and/or potential exporters.

The Council's subcommittee on GATT and the Multilateral Trade Agreements and the subcommittee on East/West Trade Agreements will also be aided by the proposed focus of policy in the U. S. Trade Representative's office--since that will be the point of synthesis through which the various departmental concerns will flow.

Lastly, the subcommittee on Agriculture will hopefully benefit from the Department of Agriculture's inclusion on the new inter-agency policy committee. Since the contribution in the plus column from our agricultural exports exceeds $12 billion, the Administration's proposal will, it seems, serve to lessen any temptation to tamper with a "good thing".

To sum up, then, this country's massive trade deficits can only get worse, thanks to OPEC, unless substantial export expansion takes place. For too long a period of time, the history of bureaucratic red tape and unnecessary regulatory costs (including legal fees) have served to frustrate current and potential exporters--in addition to adding to the costs of the products, which, in turn, makes us less competitive in world markets. The future outlook only bodes more intensified competition in world markets--both from our major trading partners and developing nations. The former have long had, and the latter currently have, highly centralized trade authorities which remove impediments and, in a number of cases, help subsidize export activity. Here, at home, we also have to coordinate the domestic

foundation which is an integral part of the export formula. The broad base represented on the President's Export Council will also be making recommendations concerning the domestic needs and requirements in the areas of capital formation, tax incentives for capital investment, and research and development incentives—all necessary to reverse the very serious productivity trend in this country. The reversal of this trend is vital to the expansion of our export base. As a microcosm of the full Council, the Executive Committee supports the President's proposal for trade reorganization as a significant first step in the direction of coordination and improved implementation of trade policy. The nation's future economic well-being is dependent on the success of this program; for the time and need for export expansion is NOW!

7-25-79

Mr. GOULD. If I might, Senator, if I could think overnight when I supply you with the details of the disincentives and incentives, I might want to propose where the Export Council might play a more expanded role.[1]

Chairman RIBICOFF. All right. It doesn't have to be tomorrow. I would say if you could get this to us in a week or 10 days, that would be fine, because both of these problems are important to us. So if you have to give it some more thought, I don't expect you to come up with it in 24 hours.

Thank you very much.

The committee will stand in recess until 1:30.

[Whereupon, the committee was recessed, to reconvene at 1:30 p.m., this same day.]

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[1] See p. 120.

REORGANIZING THE GOVERNMENT'S INTERNATIONAL TRADE AND INVESTMENT FUNCTIONS

WEDNESDAY, JULY 25, 1979

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 1:45 p.m., pursuant to call, in room 3302, Dirksen Senate Office Building, Hon. William V. Roth presiding.

Present: Senator Roth.

Senator ROTH. The committee will come to order.

We are pleased at this time to welcome Mr. Hart, who is vice president, public affairs of Union Carbide.

Gentlemen, it will be the practice this afternoon to enter your statement in its entirety. If possible, we would appreciate your summarizing your testimony, as we do have a number of witnesses this afternoon.

Mr. Hart, you may proceed.

TESTIMONY OF A. SHERBURNE HART, VICE PRESIDENT, PUBLIC AFFAIRS, UNION CARBIDE CORP., ON BEHALF OF THE BUSINESS ROUNDTABLE, ACCOMPANIED BY R. M. BRENNAN AND T. R. GATES

Mr. HART. Thank you, Mr. Chairman.

I am Sherburne Hart, vice president of Union Carbide. I am appearing today on behalf of Mr. William S. Sneath, who is chairman of Union Carbide and, also, chairman of the business roundtable task force on international trade. Unfortunately, he is unable to appear today.

I am here to present the views of the roundtable on the proposed reorganization of the trade functions and responsibilities within the executive branch.

With me on my left is Mr. R. M. Brennan of Union Carbide. And on my right is Mr. T. R. Gates, who has acted as consultant to our roundtable task force.

The roundtable is an association established in 1972 of business executives of approximately 190 companies, practically all of which are publicly held.

There are several reasons for giving urgent attention to trade reorganization.

First is the need to reverse the steady decline in our international trade position.

Second, it is necessary to move swiftly to cope with the substantial challenge presented by the need to implement the MTN agreement. The United States and its major trading partners will soon be operating under new rules.

Third, the reason for moving quickly is the need to reorganize the trade function to make certain the Nation's interest in restoring our competitive position in world markets is reflected in every Government policy that bears on trade. For that to happen, we feel that trade needs a permanent advocate in the executive branch, one strong enough to have his views heard at the highest policymaking level.

Let me point out at this time that we do not regard reorganization as a panacea. Even a perfect plan must be seen only as one necessary step toward improving our trade performance.

Certainly, the administration's proposal is not perfect. Indeed, I think it would be naive to feel that any plan could possibly merge all the diverse and competing interests with a stake in the trade issue.

But I would like to explain briefly why we believe the administration's plan is one that can manage the diverse competing interest in the trade area and, at the same time, move us toward an increased influence in the world economy.

I should note here, we are reacting to the administration's general proposal, outlined last week by Ambassador Strauss and OMB Director McIntyre.

And, with the chairman's permission, we would like to submit a further statement after more details of the administration's proposal are available, if that is in order.

To help in assessing the various reorganization proposals, we developed a number of criteria we believe must be met by any successful plan. I would like to list them briefly for you, indicating after each one our judgment of how well the administration's proposal measures up.

First and foremost, we believe the overriding test of any reorganization proposal is the priority it attaches to the trade issue itself. We deem it essential that the component groups of any new trade organization must be backed by an unmistakable mandate from the President to improve our trade performance. The President must be clear about the high priority he attaches to increasing U.S. exports, to developing effective trade policy, and to strengthening the Nation's influence in international economic affairs.

This message must be heard in every branch and every level of government.

Our understanding of the President's personal interest in the administration's trade reorganization proposal leads us to believe that the restructured trade organization will, indeed, have such a mandate.

Second, we believe that the trade representative must be within the Executive Office of the President, serving as a focal point for the development and administration of all trade policies. This office should be directly responsible to the President, answerable to the Congress, to assure that the trade policies truly reflect the national interest.

In other words, it must be—and it must be seen to be—an impartial mediator among competing interests on trade matters. This function

should not and probably cannot be performed by any line or constituency department or agency.

We believe a truly national perspective on trade policy is possible at the White House level. We believe that this test is met by the administration's proposal.

Our principal reservation, frankly, is on the question of import relief policy and enforcement. In this area, there is a proposed division of responsibilities between the U.S. trade representative and the Department of Trade and Commerce. And this is of some concern to us.

To reduce the possibility of conflict in implementation of the MTN agreements and enforcement of U.S. laws, we believe it is essential that the respective roles and responsibilities of the trade representative and the Trade and Commerce Department be defined at the outset with clarity and precision. This is especially important in the area of discretionary enforcement.

Our third test deals with the STR function itself.

We believe the STR, backed by adequate staff resources, should have the following responsibilities. I will summarize them quickly.

One, it should chair the policy deliberations of any policy formulation mechanism.

It should be responsible for all trade negotiations and should supervise the work of U.S. representatives in international trade forums and disputes.

It should have final policy responsibility on matters of enforcement of our domestic trade statutes.

It should have the authority and responsibility on behalf of the President for developing and assuring implementation of all trade policies and related policy matters, such as international investment.

The administration's proposal seems to comprehend the need for a single preeminent voice that can reflect the national interests on trade matters to domestic interests as well as to our trading partners. However, we feel that it may have underestimated the size of the job.

Certainly, implementing the MTN agreement is sure to create a very heavy work load in the office of the U.S. trade representative. Therefore, we are concerned that the administration's proposal to maintain the STR's office at its current staffing level may prove to be unrealistic.

Since questions affecting international trade and economic relations will become increasingly important to the health of our economy, we should not risk failure in this area for lack of adequate staffing.

As you know, the business community is not very often heard to advocate enlarging the Federal payroll. But we think this exception is warranted if we mean to make a truly long-term commitment to improving the Nation's trade performance.

Our fourth test underscores the need for a permanent mechanism, preferably supported by statute, to insure the development of broad national trade policies. This should be a Cabinet level coordinating and formulating group with the responsibility for developing U.S. policy. It should serve as a single permanent forum where all of our diverse national interests are fully considered and balanced.

To make certain that the national policy and practice are consistent, the mechanism should be chaired by the principal trade official in his capacity as the President's chief assistant for trade. We see no other practical way to consolidate the many special trade interests now scattered throughout Government.

The only viable arrangement, in our view, is to define precisely the functions and responsibilities of each component of Government dealing with trade to establish a policymaking group to coordinate their efforts. Again, the administration's plan meets the test with its proposal to revitalize the mandate and the role of the Trade Policy Committee.

Our fifth test considers the trade-related activities of the Department of Commerce.

We believe steps should be taken to give commerce the long overdue attention it warrants and to expand its role in improving the Nation's trade performance.

The administration's proposal includes a useful first step in this direction. In our view, placing the State Department's commercial attaches under Commerce's jurisdiction could prove to be extremely helpful in enhancing our U.S. export position.

We endorse the idea of doing this gradually. That is, those attaches for our major trading partners in both developed and developing countries moving first, with the remainder following.

Our early deliberations now led us to our sixth—and final—test, the relationship of the Export-Import Bank to the total trade effort.

In our view, the performance and potential of the Export-Import Bank would not be enhanced by consolidating the Bank with any other agency. Its independence should be preserved, although its policies could almost certainly be better integrated with the line agencies directly responsible for our export expansion efforts.

We believe the administration's proposal to make the Secretary of Trade and Commerce an ex officio, nonvoting member of the Ex-Im Board of Directors is an excellent way to improve the policy coordination and communications between these two departments.

The roundtable task force has been working on the trade issue and associated reorganization issues for some time. We started our work in earnest last fall. We have had a long opportunity to look at various proposals, and our judgment is based upon this deep involvement on this issue.

To sum up, Mr. Chairman, the roundtable's position is one of general support of the objectives of the administration's trade reorganization proposal. To its credit, it avoids reliance on yet another new bureaucracy.

We believe that creating one would be at this time unnecessary and probably disruptive of the trade policy process.

As I said at the outset, we need a viable and effective organization in place as soon as possible, and one that secures for trade its rightful place in the policy process.

Looking to the future—and that is the area we are most concerned with—and not into the very far future at that—we see international economic relationships becoming increasingly competitive, complex, and controversial.

Foreign governments will become more and more aggressive in advancing their national interests. Only if the U.S. Government has an adequate, well conceived trade organization in place can we cope with these pressures.

We believe the administration's proposal can create an organization that is both purposeful and effective. And we look forward to continuing our work with members of this committee and your staff along with the executive branch personnel on this important task.

Thank you very much for your courtesy.

That concludes my remarks.

Senator ROTH. Thank you, Mr. Hart.

To be perfectly candid, your group is the first one to come out in support of the administration's proposal. We had testimony this morning, for example, from others—the National Association of Manufacturers—who feel, as both the chairman of this committee and myself do, that the reorganization is inadequate.

I notice that at the end, you said something about a new bureaucracy. I don't think anyone is proposing a new bureaucracy. I think what we do want to create is a consolidation and, as I have said many times here, a lean and mean agency as the lead agency. Some of our witnesses this morning also testified, as you have, with respect to the need for additional personnel.

I wonder if you could spell out a little more what you think should be given to the STR in the way of personnel. What kind of people? How many?

Mr. HART. I don't think I can give you any numbers.

I think the principal areas would be, No. 1, in the enforcement of the codes—the interpretations and the work that will be associated with the enforcement of the codes, both with our trading partners and developing agreements with them as to the meaning of those codes.

Another point would deal with the question of disputes under the procedures, the GATT procedures, which take a tremendous amount of time and effort, particularly in the early stages, inasmuch as the codes have not been interpreted, will require a lot of discussion and negotiation.

The third area, of course, is to take over some of the negotiations in the areas of bilateral agreements and the like, which have previously been handled by the State Department.

We do not have a number in mind, as I said. I certainly think 55 or 60 people is probably not enough.

Senator ROTH. At the end you mentioned the importance of trade.

What do you foresee as the developments in the trade area for this country in the next, say, 10 years? Has your organization made any study of that?

Mr. HART. Well, I can't speak for the roundtable, per se. But, certainly, my perception—and I think, the perception of our company—is, we are losing our competitiveness. We—the U.S. economy is losing its competitiveness vis-a-vis our trading partners. We need some policies in this country which will make us more competitive.

There was talk this morning about productivity.

Certainly, domestic economic policy which would enable us to become more productive and more competitive covers such things as

capital formation, investment incentives, environmental and other regulatory activities which do not produce goods but do produce costs.

So, from our point of view, we feel, in order to improve our trade position, we need to start here. The trade reorganization isn't going to solve that. But it certainly would help in focusing on those issues, as it affects the international scene.

Senator ROTH. Would you agree with me that one of the important things is to get an active man or woman to head our trade policy? We need a "can do" type of personality?

Mr. HART. There is no question that Ambassador Strauss fits the bill perfectly.

Senator ROTH. I assume that you are aware that Amassador Strauss and a number of others are leaving.

Mr HART. I am well aware, yes.

Senator ROTH. What in this reorganization will attract the same kind of personality to head up the agency?

Do you think, for example, the head of Union Carbide would consider this an attractive job?

It is a very serious question, because I happen to think future growth and opportunity of this country depend very strongly on expanding our trade, that we have to have someone in the executive branch who will be a fighter to move us in that direction.

And I think the history of the STR, as has been pointed out this morning, is that once you get through these multinational trade negotiations, everybody flees the ship and you get nice people on the job but not the kind of person that's going to change the direction of our trade activity.

The question I really have is: Do you seriously believe that this reorganization, this restructuring, is going to attract the kind of professional leaders we need if we are going to move in that direction?

Mr. HART. It all gets back, I think, to the priority given by the President. If, whoever he or she may be, can come in and have access to the President and actually be able——

Senator ROTH. The President has created a Chief of Staff now.

Mr. HART. That may complicate the problem.

Certainly, the need for his clout, his backing, is essential for the Trade Representative to be effective.

I think those are the terms under which Ambassador Strauss took the job initially and, certainly contributed to his effectiveness.

So, as far as an individual in business, yes, I think it would be attractive to a businessman. Again, he would want to feel he would have that mandate and clout behind him.

I think the question, sir, is an attitudinal one in the sense that if the mandate is there, and we are interested in improving our position in the international trade area, then the reorganization question will follow.

Senator ROTH. You are really going to: Which comes first? The chicken or the egg?

There is some element of truth in what you say.

Very candidly, it seems to me this particular proposal is about as inept as any. You are creating a two-headed agency. I really don't know who is going to be the chief. You are going to have a great rivalry between the Commerce Department and the STR.

While there have been differences as to where we should put it, most people I have talked to have been in support of some kind of consolidation, much more so than we have here. There have been differences as to whether that consolidation should be around the STR, the Commerce, or a new Department.

My real concern—and I will be candid—I am somewhat surprised at the Business Roundtable on this particular approach, because I just don't see where this is going to result in any development of an aggressive trade policy which I think this Nation had.

Mr. Hart, I appreciate your coming and the roundtable making that possible.

We would, of course, like to continue to work with you during the coming months.

Mr. HART. Thank you very much for your courtesy.

[The prepared statement of Mr. Sneath follows:]

PREPARED STATEMENT OF WILLIAM S. SNEATH, CHAIRMAN, UNION CARBIDE CORP., ON BEHALF OF THE BUSINESS ROUNDTABLE

Mr. Chairman, members of the committee, I am William S. Sneath, chairman of Union Carbide Corp. and chairman of the Business Roundtable task force on international trade and investment. I am here today to present the views of the roundtable on the proposed reorganization of the trade functions and responsibilities within the executive branch.

The Business Roundtable is an association, established in 1972, of business executives of 192 companies, practically all of which are publicly held. These executives examine selected public issues, develop positions on such issues which seek to reflect sound economic, social and legal principles, and make those positions known to the public and its representatives in Government.

There are clear reasons for giving urgent attention to trade reorganization. First is the need to reverse the steady decline in our international trade position.

The second reason to move swiftly is to cope with the substantial challenge presented by the need to implement the MTN agreement. The United States and its major trading partners will soon be operating under new rules.

We must have a mechanism in place very quickly that can deal with the disputes that are bound to arise under a treaty of such wide scope. And we should view the reorganization as a timely opportunity to create one.

A third reason for moving quickly to reorganize the trade function is to make sure that the Nation's interest in restoring our competitive position in world markets is reflected in every government policy that bears on trade. For that to happen, trade needs a permanent advocate in the executive branch, one strong enough to have his views heard at the highest policymaking level.

Let me add that we do not regard reorganization as a panacea. Even a perfect plan must be seen only as one necessary step toward improving our trade performance. And the Administration proposal is not perfect. Indeed, it would be naive to think that any plan could possibly merge all the diverse and competing interests with a stake in the trade issue. But I would like to explain why we believe the Administration plan is one that can manage them, and also move us toward a position of increased influence in the world economy.

I should note here that we are reacting to the Administration's general proposal, outlined last week by Ambassador Strauss and OMB director McIntyre. With the chairman's permission, we would like to submit a further statement after the details of the Administration's proposal are available.

To help in assessing the various reorganization proposals, we developed six criteria which we believe must be met by any successful plan. I would like to list them for you, indicating after each our judgment of how well the Administration proposal measures up.

First, we believe the overriding test of any reorganization proposal is the priority it attaches to the trade issue itself. We deem it essential that the component groups of any new trade organization must be backed by an unmistakable mandate from the President to improve our trade performance. The President must be clear about the high priority he attaches to increasing U.S. exports, to developing effective

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trade policy, and to strengthening the Nation's influence in international economic affairs. And the message must be heard in every branch and at every level of the government.

Our understanding of the President's personal interest in the Administration's trade reorganization proposal leads us to believe that the restructured trade organization will have such a mandate.

Second, we believe the Trade Representative must be within the Executive Office of the President, serving as a focal point for the development and administration of all trade policy. This office should be directly responsible to the President—and answerable to the Congress —to assure that trade policies truly reflect the national interest. In other words, it must be, and must be seen to be, an impartial mediator among competing interests on trade matters. This function should not, and probably cannot, be performed by any line or constituency Department or agency. We believe that a truly national perspective on trade policy is possible only at the White House level. This was the principle accepted by the Congress in 1962 when it created the Office of the Special Trade Representative. We believe that experience since then has confirmed the wisdom of that decision, and in our judgment, the STR should continue as the focus of these policy responsibilities.

We believe that this test is well met by the Administration's proposal. Our only reservation is on the question of import relief policy and enforcement. The proposed division of responsibilities in this area between the U.S. Trade Representative and the Department of Trade and Commerce is of some concern.

To reduce the possibility of conflict in implementation of the MTN agreements and enforcement of U.S. laws, we believe it is essential that respective roles and responsibilities of STR and TAC be defined at the outset with clarity and precision. This is especially important in the area of discretionary enforcement. Our further submission will comment on the details involved when they become available.

Our third test, which follows from the second, deals with the STR function. We believe the STR, backed by adequate staff resources, should have the following responsibilities:

It should chair the policy deliberations of any policy formulation mechanism, and should do so at all levels.

It should be responsible for all trade negotiations, and should supervise the work of U.S. representatives in international trade forums and disputes (with authority to delegate specialized issues).

It should have final policy responsibility on matters of enforcement of our domestic trade statutes (including those that bear on the granting of import relief and the implementation of the MTN negotiations).

It should have authority and responsibility on behalf of the President for developing and assuring the implementation of all trade policies and related policy matters such as international investment.

The Administration's proposal seems to comprehend the need for a single preeminent voice that can reflect the national interest on trade matters to domestic interests as well as to our trading partners. However, we feel that it may have underestimated the size of the job.

Implementing the MTN agreement is sure to create a very heavy workload in the Office of the U.S. Trade Representative. Therefore, we are concerned that the Administration proposal to maintain the STR's office at its current staffing level may prove to be unrealistic. Since questions affecting international trade and economic relations will become increasingly important to the health of our economy, we should not risk failure in this area for lack of adequate staffing.

As you know, the business community is not very often heard to advocate enlarging the Federal payroll. But we think this exception is warranted if we mean to make a truly long-term commitment to improving the Nation's trade performance.

Our fourth test underscores the need for a permanent mechanism, preferably supported by statute, to insure the development of broad national trade policies. This should be a cabinet-level coordinating and formulating group with the responsibility for developing U.S. policy. It should serve as a single permanent forum where all of our diverse, national interests are fully considered and balanced. To make sure that national policy and practice are in consonance, the mechanism should be chaired by the principal trade official in his capacity as the President's principal assistant for trade. We see no other practical way to consolidate the many special trade interests now scattered throughout government. The only viable arrangement, in our view, is to define precisely the functions and responsibilities

of each component of government dealing with trade and to establish a policy-making group to coordinate their efforts. Here again, the Administration's plan meets the test with its proposal to revitalize the mandate and the role of the Trade Policy Committee.

Our fifth test considers the trade-related activities of the Department of Commerce. We believe steps should be taken to give Commerce the long overdue attention it warrants, and to expand its role in improving the Nation's trade performance.

The administration's proposal includes a useful first step in this direction. In our view, placing the State Department's Commercial Attaches under Commerce's jurisdiction could prove to be extremely helpful in enhancing our U.S. export position. We endorse the idea of doing this gradually; that is, those attaches for our major trading partners in both developed and developing countries move first, with the rest to follow.

Our early deliberations lead us now to our sixth and final test, the relationship of the Export-Import Bank to the total trade effort. In our view, the performance and potential of the Export-Import Bank would not be enhanced by consoldating the bank with another agency. Its independence should be preserved, although its policies could almost certainly be better integrated with the line agencies directly responsible for our export expansion efforts.

We believe the Administration's proposal to make the Secretary of Trade and Commerce an ex-officio, non-voting member of the EX/IM Board of Directors is an excellent way to improve the policy coordination and communications between these two departments.

In summary, Mr. Chairman, the Business Roundtable's position is one of general support of the objectives of the Administration's trade reorganization proposal. To its great credit, it avoids reliance on yet another new bureaucracy. We believe that creating one would be unwise, unnecessary, and probably disruptive of the trade policy process—what the United States needs least at this critical point in its trade relations. As I said at the outset, we need a viable and effective organization in place as soon as possible—one that secures for trade its rightful place in the policy process.

Looking to the future, and not very far into the future at that, we see international economic relationships becoming increasingly competitive, complex, and controversial.

Foreign governments will become more and more aggressive in advancing their national interests. Only if the U.S. Government has an adequate and well-conceived trade organization in place can we cope with these pressures.

We believe the Administration's proposal can create an organization that is both purposeful and effective. And we look forward to continuing our work with members of this committee and your staff, along with Executive Branch personnel, on this important task.

Thank you.

Senator ROTH. Mr. Carlisle?

Mr. Carlisle is vice president, St. Joe Minerals Corp. He is appearing on behalf of 33 industrial labor organizations.

Mr. Carlisle, welcome. I appreciate very much your being here today, and, as I said earlier, we will be happy if you summarize.

In any event, we want to include your statement in its entirety.

TESTIMONY OF CHARLES R. CARLISLE, VICE PRESIDENT, ST. JOE MINERALS CORP., ON BEHALF OF AN AD HOC COALITION OF 33 INDUSTRIAL AND LABOR ORGANIZATIONS, ACCOMPANIED BY STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, AND DONALD DE KIEFFER OF THE LAW FIRM OF COLLIER, SHANNON, RILL, EDWARDS & SCOTT

Mr. CARLISLE. Thank you, Mr. Chairman; good afternoon.

With me on my right, Mr, Chairman, are Mr. Stanley Nehmer, president of Economic Consulting Services, and on my left, Mr. Donald deKieffer of the Washington Law firm of Collier, Shannon, Rill, Edwards & Scott.

Both of these gentlemen have had a lot of experience with the trade statutes.

My statement itself is quite short, sir. I will paraphrase it a bit, summarize it a bit, and maybe add a word or two here or there.

As you well know, Mr. Chairman, there are several major proposals before the Congress on this subject, including the proposal submitted by the White House and these proposals obviously cover a wide range of matters. I might say at the outset, it is unclear to us whether procedurally the administration will submit its proposal in the form of a bill or as a reorganization plan, although we are picking up some rumors that perhaps it might be in the form of a reorganization plan.

If it is, we would hope that the committee would make our views known on this issue to the administration.

Candidly, Mr. Chairman, I am not in a position to express a preference for one proposal over the others. Ours is a broad coalition. Our coalition was formed to work on one issue, the subsidy/countervailing duty issue. But there is, however, agreement within our coalition on a few key points regarding the administration of the countervailing duty and on antidumping statutes.

I can make these points quite briefly.

First, we are gratified that you and other members of this committee and of the Congress have taken a strong interest in the subject of trade reorganization and have pressed the administration vigorously on this subject.

In our view, the administration of America's trade laws and policies is as important as the amendments to the trade statutes contained in the new Trade Agreements Act.

Delay in dealing with trade reorganization could, in our judgment, jeopardize the effective implementation of the recently completed MTN. We hope, therefore, Mr. Chairman, that you will be able to deal expeditiously with this subject in this session of the Congress.

I emphasize this point because we believe that there cannot be truly effective implementation of U.S. rights and obligations stemming from the MTN until there has been an effective restructuring of the trade functions within the U.S. Government.

Second, we are happy to see that none of the proposals call for the Treasury Department to continue its administration of the countervailing and antidumping statutes.

It seems to us, at least at times, that Treasury regards these statutes as protectionist. Certainly in my judgment and that of my colleagues, subsidies and dumping are forms of protectionism.

Our group was among the first to call attention to the Treasury's ineffective administration of the unfair trade statutes. We continue to believe that this matter needs new and vigorous direction and, frankly, we hope that there won't be any changing of minds, either on Capitol Hill or downtown, on this fundamentally important point.

At this point, Mr. Chairman, I would like to introduce into the record—if there is no objection—an 11-page document which we have previously submitted for the record in testimony before the Finance Committee which recounts, in our judgment, instances of ineffective administration of the antidumping and countervailing duty statutes.

I have this document with me and can give it to the staff immediately after our testimony.

Senator ROTH. It will be included as part of the record.

[The document referred to follows:]

ADMINISTRATION OF THE COUNTERVAILING DUTY STATUTE BY THE TREASURY DEPARTMENT

The Treasury Department has:

1. missed statutory deadlines;
2. reduced the calculated amount of a subsidy, and hence the countervailing duty, in questionable ways;
3. accepted unverified information from foreign representatives as a basis for its determinations.
4. changed rulings without adequate opportunity for interested parties to comment;
5. stretched the authority of the Trade Act of 1974 with regard to the granting of waivers.

These charges are detailed in the following sections.

1. Treasury Has Missed Statutory Deadlines

One of the important changes intended to strengthen the countervailing duty statute as incorporated in the Trade Act of 1974 was the 12-month time limit established for the Treasury Department's consideration of countervailing duty petitions.

This time limit was established as part of the legislative "deal" which gave the Secretary of the Treasury authority to waive countervailing duties under certain circumstances. Under the amendment, the Treasury Department has six months from the time of receipt of a valid petition to make a preliminary determination with respect to the existence of foreign countervailable practices and then it has an additional six months in which to make a final determination. Notwithstanding the statutory time limits, Treasury has missed deadlines, particularly for preliminary determinations which deadlines are consistently missed as in the case of Swedish rayon staple where the preliminary determination came three months after the six-month deadline.

Two cases in particular come to mind, one involving Argentine leather apparel where the statutory deadline for a final determination was January 21, 1978 and the other involving Argentine footwear, where the deadline was February 11, 1978. The decisions on both products were finally issued on January 17, 1979; that for leather apparel was negative and the decision on Argentine footwear was affirmative. Thus, Treasury took twelve months and eleven months longer, respectively, than mandated in the statute to make its determinations in these two cases.

The effect of failing to make determinations within the statutory deadline is to deny petitioners due process, particularly where considerable time has elapsed since the deadline. Thus, when an affirmative decision is finally made, petitioners have suffered from Treasury's failure to institute

countervailing duties earlier. When a negative determination is finally made, a petitioner has been denied the opportunity to challenge such determinations at an earlier date, in accordance with Section 516 of the Tariff Act of 1930, as amended.

Even a simple publication in the Federal Register of a notice of appeal of Treasury's countervailing duty determinations encounters unnecessary delay despite the provision in Section 516(d) of the Tariff Act of 1930 that such publication be made upon receipt. On December 15, 1978 the Amalgamated Clothing & Textile Workers Union filed with Treasury notice of its intent to appeal six such determinations. Treasury did not publish notice to this effect in the Federal Register until February 27, 1979. The appeal process cannot move forward without such notice. Once again due process has been delayed by Treasury.

2. Treasury Has Reduced the Calculated Amount of a Subsidy, and Hence the Countervailing Duty, in Questionable Ways.

Treasury has pursued a policy which they justify as provided for in the countervailing duty statute of reducing the gross amount of subsidy by various offsets. Although in most cases the reductions are in the form of indirect taxes related to the product which receives the subsidy, Treasury has found some rather exotic items with which to reduce the subsidy. These include, in the case of the waiver on handbags from Colombia, the effects of the devaluation of the foreign currency on the grounds that the Colombian Government allows as much as nine months to elapse before subsidies are paid. In this case Treasury even reduced the subsidy by the cost of the

interest on the money not received by Colombian handbag producers and exporters during this nine-month period. Treasury describes this offset in the Federal Register of May 2, 1978 as "the present value effect of the (exporter's tax certificates) resulting from the inflationary impact on delayed payment." Furthermore, since these exporter's tax certificates are sold in the Bogota Stock Exchange, Treasury also allowed a "discount paid by holders of (exporter's tax certificates) in the stock exchange, thus effectively not providing full value of the (exporter's tax certificates) once sold." It is interesting to note that several of these offsets were disallowed in a more recent case involving Colombian textiles and apparel, but Treasury has not bothered to go back to its earlier decision to recompute the countervailing duties on Colombian handbags. The Colombian handbag case is not untypical.

It is so important to recognize that the reductions which Treasury makes in the subsidy through subtracting the indirect taxes related to the products ignore completely the fact that in virtually all of the foreign countries concerned these indirect taxes would have been borne by the manufacturer even in the absence of the subsidy program, and that the subsidy program clearly is intended to give the foreign manufacturers an edge in selling to the U.S. This is exactly what the countervailing duty statute is aimed at offsetting, but Treasury nevertheless goes on deducting these indirect taxes to the point where many negative or de minimis determinations result or the countervailing duty is significantly smaller than it should be.

3. Treasury Has Accepted Unverified Information From Foreign Representatives as a Basis For Its Determinations.

Treasury makes most of its determinations with regard to the size of a countervailing duty or a waiver of a countervailing duty on the basis of data submitted by foreign governments and by foreign firms or associations of firms. In neither case are the data verified by Treasury. Admittedly, it is difficult for Treasury to verify data submitted by foreign interests, but at least an effort should be made to assure the American petitioner that, indeed, the data on which a determination is made by Treasury are reliable. Treasury says that it must take the word of a foreign government. Yet in a case involving Argentine footwear, the word of a foreign government was not good enough. It reneged on a commitment which had been made to Treasury. In that particular case, Treasury said "but they had a change of governments in Argentina." Unfortunately the new government in power did not bother to advise Treasury that it had reversed the commitment made by its predecessors, and Treasury did not reopen this case for a considerable period of time after the subsidies were reinstated. When Treasury finally acted five and a half years after the initial petition was filed, it imposed a countervailing duty of less than 1 percent.

As the result of a request through the Freedom of Information Act, it has been learned that although Treasury waived countervailing duties on Uruguayan handbags and footwear at the end of January 1978 based on certain assurances from the Uruguayan Government, the factual information on which to base

the waiver was not available to Treasury at the time of the waiver action. On May 15, 1978 the Minister of the Uruguayan Embassy in Washington was told by Treasury that in October 1977 Treasury had requested of the Uruguayan Government "a detailed description...of the laws providing for the various offsets accepted by Treasury...as well as a detailed itemization of how the offsets were calculated for each of the product sectors." That had not yet been furnished by the Uruguayan Government as of mid-May 1978.

Treasury pointed out that the Uruguayan Government had promised in December 1977 to furnish by the following month "a detailed enumeration of the program to eliminate the entire 'reintegro' system by 1983...." That, too, had not been furnished by the Uruguayan Government by mid-May 1978.

Apparently a copy of the December 28, 1977 decree of the Uruguayan Government reducing the "reintegro" was also not submitted in January 1978 before Treasury waived the countervailing duties. At least Treasury was still inquiring about it from the Uruguayan Government in mid-May 1978.

4. Treasury Has Changed Rulings Without Adequate Opportunity For Interested Parties To Comment.

Even when Treasury once announces a net subsidy, taking into account the reduction for indirect taxes, it continues to amend those calculations mostly on the downside based upon new information which it receives from the foreign government. For instance, in the case of Spain, Treasury announced a 4 percent countervailing duty on unwrought zinc in April 1977. In June 1978, Treasury reduced the existing countervailing duty on zinc

and on several other Spanish products subject to U.S. countervailing duties by revising its method for calculating indirect tax subsidy offsets. This action was taken after consultation with Spanish authorities but without consultation with U.S. industries involved. Despite the controversy Treasury aroused over the basis for this reduction, Treasury reduced the countervailing duty but without suspending the liquidation of entries until all views could be heard.

Treasury later realized the views of the U.S. industries had merit and that it had made a mistake on its revised method for calculating the countervailing duties. Six months later Treasury reverted to the basis of calculations it used prior to June 1978 with the effect that the countervailing duty was now raised again, although not quite to the original levels.

In the interim, between June 15, 1978 and January 17, 1979, because Treasury had not suspended the liquidation of entries on Spanish zinc, nonrubber footwear, and bottled olives, importers benefitted from a lower rate of countervailing duty which gave them a windfall they certainly did not merit.

It is of interest to note that the American Footwear Industries Association had requested Treasury to reconsider and revise upward the 3 percent countervailing duty on Spanish footwear some four years ago. It has never received a reply to its request.

While Treasury acted speedily, without consultation with domestic industry, to reduce duties in the Spanish cases, and without suspension of liquidation, it took Treasury almost five months to revoke a waiver and institute a countervailing duty in

a case involving Uruguayan leather apparel and almost eleven months to revoke waivers on Uruguayan footwear and handbags. (The waiver action on leather apparel is discussed more fully below.) But in these cases where Treasury was acting to impose duties, it suspended liquidation of entries to give the Uruguayan Government more time to protest Treasury's action.

Thus, on the downside, Treasury appears to act with haste, but on the upside, Treasury clearly takes its time.

5. Treasury Has Stretched the Authority of the Trade Act of 1974 With Regard to the Granting of Waivers.

The Trade Act and the temporary four-year waiver authority which expired January 3, 1979, provided the Secretary of the Treasury with authority to waive the imposition of countervailing duties when he determines that:

1. adequate steps have been taken to reduce substantially or eliminate the adverse effect of the bounty or grant on domestic producers;

2. that there is a reasonable prospect that trade agreements to reduce or eliminate non-tariff barriers will be entered into; and

3. the imposition of countervailing duties would be likely to seriously jeopardize the satisfactory completion of such negotiations.

Treasury Department officials have consistently interpreted these three criteria -- all of which must exist before a waiver can be issued -- so loosely as to permit them to justify any action administratively decided upon.

In one case, involving the imposition on January 12, 1975 of a 14 percent countervailing duty on Brazilian handbags, the Secretary of the Treasury undertook subsequently to waive this duty as part of a "package agreement" on trade issues which he personally negotiated during a visit to Brazil in May 1976. That waiver on Brazilian handbags was made effective July 1, 1976. Can it be said that at that time there was a "reasonable prospect" that successful trade agreements were to be entered into? Could it have been said in May 1976 that the imposition of the additional duty was "likely to seriously jeopardize the satisfactory completion of such negotiations?" Hardly, on both counts.

A recent glaring example of a new horror story is that related to Treasury's finding that Uruguayan subsidies on leather wearing apparel were equivalent to 12 percent of the f.o.b. price for export to the United States.

In its final determination issued January 30, 1978, Treasury noted an intent to waive the imposition of countervailing duties on the basis that it had received assurances from Uruguay of a phase-down of only one subsidy -- the "reintegro" program of cash rebates which alone amounted to 20 percent or more of the value of the goods exported. However, because leather wearing apparel from Uruguay entered the United States free of duty under the Generalized System of Preferences, the International Trade Commission was called upon (as required by Section 303(b) of the Trade Act) to determine whether Uruguayan subsidies on leather wearing apparel injured the United States industry. Following a comprehensive investigation, the ITC in

April 1978, announced a unanimous injury finding. Nonetheless, even in the face of such a unanimous decision by the Commission with respect to the subsidized Uruguayan leather apparel, the Treasury Department carried out its planned waiver, which was duly announced in the Federal Register of June 30, 1978.

Treasury justified its waiver on the basis of Uruguayan asurances that it would phase out its major "reintegro" subsidy program by January 1, 1979. In agreeing to waive the countervailing duty on this basis, Treasury did not require the Government of Uruguay to reduce or eliminate other countervailable trade practices which the Treasury had determined to exist in Uruguay. Treasury's justification for permitting a waiver while the Uruguayans would leave these subsidies intact, was that they were very small, perhaps in the order of 2 percent, whereas the major subsidy program, which provided a subsidy of at least 20 percent was netted down to around 12 percent.

The domestic industry argued with Treasury officials that they were ignoring an additional subsidy benefitting Uruguayan tanners equal to 8 percent of the value of the leather content in various products exported. Treasury decided differently. However, more recently, Treasury discovered that, indeed, it had made a mistake and that the 8 percent subsidy on the leather content of products exported to the United States was a countervailable duty. Thus, instead of a residual of 2 percent after the scaling down of the major subsidy, Treasury found that the remaining subsidy on Uruguayan leather apparel added up to a

total of 13.3 percent. It decided to impose this subsidy effective November 13, 1978 and revoked its former waiver.

Even after Congress failed to extend the countervailing duty waiver authority last October, Treasury went ahead and waived the countervailing duty of almost 36 percent on Brazilian textiles and apparel on assurances that subsidies would be reduced by half by January 1, 1979 and by the remaining half by January 1, 1980. In the interim of one year, Brazil is being allowed to continue subsidies of a substantial amount without having countervailing duties applied, to the detriment of American firms and workers.

Conclusion

The foregoing documents what our group considers to have been a mismanagement of the countervailing duty program by the Treasury Department. This record does not support the assertion of the Secretary of the Treasury to the Joint Economic Committee on January 31, 1979 that Treasury does its "best to administer the statute fairly and efficiently." It is for these reasons that our group of 33 organizations believes that the administration of the countervailing duty statute should be removed from the Treasury department.

Mr. CARLISLE. Thank you, sir.

At the risk of seeming parochial, let me add one point, Mr. Chairman, why we speak with some feeling on this.

My company is one of the largest zinc producers in the United States. The American zinc industry, a couple of years ago, succeeded in having a countervailing duty put on imports of Spanish zinc.

The way the Spanish tax system worked was, in effect, a Spanish subsidy for zinc production as well as some other Spanish products.

I might say that that duty was cut. The Treasury made a recalculation and cut the duty without even consulting with us.

We learned about it by reading about it in the Federal Register.

Now, just in the last couple of days, we understand that in the closing hours in which they have waiver authority, the Treasury is proposing to waive this duty on Spanish zinc, perhaps for the purpose of getting Spain to sign the subsidies code.

This is the sort of thing that gives a lot of us pause. And there are other products affected, too.

Third, we believe strongly that the administration of the countervailing and antidumping statutes should be certain, predictable and effective, The Trade Agreements Act of 1979 correctly limits the discretion of the administering authority in carrying out the statute's requirements.

In the White House fact sheet on trade reorganization, we assume that the reference to the Cabinet-level trade policy committee having coordinating responsibility for "import remedy policy: For example, antidumping and countervailing duties, to the extent legally permitted," means no more and no less than the words of the White House release.

We note the concern, incidentally, expressed by Mr. McIntyre, the Director of OMB, at the briefing to the effect that the President wishes to guard against protectionist tendencies in the implementation of the statutes.

We are not aware of any evidence over the past few years to indicate that those Government departments which have trade functions have practiced protectionism in any of their procedures.

In fact, so far as countervailing duties are concerned, it would seem to us that proper enforcement of the statute is good business practice, and pro free trade. In other words, subsidies are inconsistent with an open trading system.

We think that it would be most unfortunate if this policy oversight function permitted a repetition of the ineffective implementation of the statutes as has been the case, in our judgment, since the Trade Act of 1974 was enacted.

Fourth, we believe that consideration should be given to augmenting the staff capabilities of both the administering authority, whatever it is, and the International Trade Commission.

This is not intended to reflect adversely on the work of anyone. We suggest this simply because it seems likely that these staffs will have more work to do in the future because more cases may be filed under both the antidumping and countervailing statutes and because the new countervailing statute will now require an injury test in all cases.

We think it is essential that the staffwork should be of high quality and the deadlines should be met.

We don't have any particular numbers in mind. We would suggest, Mr. Chairman, that if the committee has not already arranged to do so, you might want to examine the question of what needs to be done to adequately staff the administering authority and the ITC adequately to assure effective implementation of both statutes.

Let me come just very briefly to the administration's proposal. We recognize that there are many misgivings about the administration's plan, and we know about your own misgivings.

I would say, though, that in our judgment it at least represents the need to do better—much better—in this vital area of international trade than has previously been the case. It is constructive. It is positive.

Finally, I would like to reiterate our concern that, whatever restructuring comes out of the legislative process, this not be allowed to drag on and on to the point of losing the gains represented by the MTN and the Trade Agreements Act.

Thank you very much, Mr. Chairman.

Senator ROTH. Mr. Carlisle, first, let me point out, partly because of your recommendations earlier, the MTN implementing bill did remove much of the administrative discretion from the countervailing duty and antidumping law, which I supported.

I think—except perhaps in the bureaucracy—there is general agreement that the administering authority be removed from Treasury. There is a serious question whether it is a helpful move to put it in Commerce. I wonder if you would care to comment on behalf of your group or if you want to put on your St. Joe Minerals hat, whatever. Tell us what your recommendation in this area would be?

Mr. CARLISLE. I will speak personally because there is disagreement in our group as to where it might go. Perhaps my colleagues would like to address this briefly, too.

I think the Commerce Department could do an effective job. I think there needs to be, perhaps, a little fresh air brought in over there, but I think the Commerce Department could do an effective job.

Putting it in STR does raise some problems. For one thing, I think STR is a good outfit. I do think it is one of the best of the executive branch agencies because it is small and has very good people. If you start building up the staff over there and putting duties like this on them, it might lose some of that very special quality.

Another possibility, and I honestly don't know how I, myself, come out on this, is to put it in the ITC, although there are some objections to that. Of course, under your bill it would go into the new Department of Trade, at least if I remember correctly it would.

We have spoken on behalf of that bill, Senator Roth, in the past. Again, just being utterly candid with you, we gather there is opposition, especially in the House, to creating a new Department.

This is one of the things that concerns us, that this issue will go on and on in a long debate. Perhaps my colleagues would like to comment.

Mr. NEHMER. There is no disagreement among us that this function must be removed from the Treasury Department. If it remains in the Treasury Department, no matter who may be the Secretary of the Treasury or the General Counsel or the Deputy Assistant Secretary of the Treasury, the philosophical bias, as it were, of that Department is such that we can never expect to get the kind of effective implementation of these unfair trade statutes that I think the new legislation calls for.

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Very frankly, in looking at the proposal of the administration as represented by the factsheet in the briefing, I interpreted what the administration was saying, was that in effect there would be a new Department of the Government, although it would build on the existing Commerce Department, the Department of Trade and Commerce.

At the present time, the office in the Treasury Department, the Office of Tariffs and Trade, has only four professional members. Those four people have not been able, obviously, to do the kind of work that is necessary.

I should like to think, no matter where this operation goes, the present staff that has to make the recommendations to the top command, in whatever the organization is, must be augmented.

We are dealing here not with people necessarily existing presently in the Department of Commerce, but people who may move from the Treasury Department, some of those four people from the Office of Tariffs and Trade, but a larger number of people who must be recruited.

It is technically not all that difficult to master, I must say, the intricacies of what these statutes say, even the revised statutes. I don't consider this to be a hurdle. Nor do I consider, in terms of what I have just expressed, putting it into the Department of Trade and Commerce, if that is where it should wind up, as necessarily meaning that there will be a protectionist bent to that approach.

Mr. DEKIEFFER. Mr. Chairman, I must have brief comments. Frankly and speaking personally, I would probably favor your proposal. The only reason for that being I know more about the proposal than I know about the administration proposal.

Senator ROTH. That has been a reason I can think of.

Mr. DEKIEFFER. The administration has submitted a four-page fact sheet which leaves a lot of questions unanswered. For example, we don't even know what would happen to the U.S. Customs Service under the administration's proposal as it stands now.

Senator ROTH. Do you know whether the discretionary power would be put under the administration's——

Mr. DEKIEFFER. It would depend upon the personalities of the people who are put in the two positions at STR and the Under Secretary of Trade. The administration proposal, which apparently was done in response to requests from the Senate and was apparently done in rather of a hurry, leaves more questions unanswered than it answers.

I would rather accept and recommend others to accept the proposal you put forward, than a proposal that leaves so many questions unanswered. Perhaps they will be answered over the next few weeks as you continue your discussions with the administration.

Senator ROTH. Let me answer a comment made by Mr. Carlisle. I agree that action should not be delayed. I know the chairman, Senator Ribicoff, feels very strongly, so that it is the intent of this committee, and I think most people who will be involved, to try to move expeditiously.

As a matter of fact, we are hopeful that during the August recess that the staff can all develop a consensus on our behalf.

As was pointed out this morning, the President has indicated that he doesn't want a new Department, he doesn't want a new member

of his Cabinet. There is also broad consensus this morning we need to consolidate, much more than the administrative proposal does.

You can argue as to where that should go, whether it should go in the Commerce, around the STR, or in a new Department. I think none of us are talking about a new bureaucracy, although there would have to be some additions.

But would you gentlemen agree that a consolidation generally is desirable, the trade functions; would you care to comment on that?

Mr. CARLISLE. Let me start off, my friends can correct me. I think some consolidation certainly is necessary, or would be highly desirable, Mr. Chairman. I do share the views of the previous witness, and I take it your views, too, that what really counts as much as anything is the kind of people we bring into these top-level jobs, whatever we call those top-level jobs. It isn't just a matter of attitude, it certainly isn't a matter of proficiency, and it's not difficult to master the mechanics of the trade laws.

What we really need is political leadership on those questions, political leadership of the highest order.

Senator ROTH. That is basically what concerns me with the administration's proposal. I will be very candid with you, I think in no way is it going to attract the kind of leadership that we need to change this attitude, both in Government and business.

Mr. CARLISLE. We are losing our competitive position. We are losing it in my industry. In industry after industry, we are losing our edge around the world and something has to be done.

We have to get a national consensus on what should be done.

Senator ROTH. That is the reason I feel organization is very important, to attract a topnotch man or woman who has a can-do attitude. You have got to create a job that will provide some incentives, and the history of STR, in all candor, is once you get beyond negotiations, be sure you still have some good people in the organization.

I don't want in any way to downgrade them, but you don't have the strong leadership, you are not going to have a Bob Strauss.

The problem with Commerce is a well-known fact that it is a large bureaucracy and it is very difficult to get much done there. So you are not going to get any change by lumping it in there. So I think in all candor the direction we are going to move is around the STR. This might be an interim step.

Mr. NEHMER. Senator, if consolidation is synonymous with effective implementation of the new legislation, I will be all for it. But if the consolidation and the leadership of that consolidated function is not one attuned to seeing to it that there is effective implementation, then consolidation will not have served that purpose.

I am in favor of consolidation if that is going to bring about effective implementation.

Senator ROTH. Of course, as you point out, and as I have said also many times, how significant the multinational trade agreements just negotiated are depends upon the implementation.

The nontariff codes speak in very broad terms, and I very strongly support the goals and objectives. But what I want to see created is an organization that will make certain that we assert our rights. We have not done that in the Treasury in the past, and I am not optimistic we will in Commerce.

What I am trying to say is we deal within the constraints that the President feel essential, but we must begin taking meaningful steps forward.

Again, I appreciate you gentlemen joining us. I would hope that you would keep in contact with our people as we begin to develop this because I think it is the most critical reorganization that we have before us.

Thank you very much.

Mr. CARLISLE. Thank you very much.

[The prepared statement of Mr. Carlisle follows:]

PREPARED STATEMENT OF CHARLES R. CARLISLE, ON BEHALF OF THE AD HOC SUBSIDIES COALITION

Mr. Chairman, my name is Charles R. Carlisle, vice president of St. Joe Minerals Corp., which has its headquarters in New York City. Today, I am appearing on behalf of an ad hoc coalition of 33 industrial and labor organizations (attachment) that has been working for almost 2 years for an effective implementing bill for the Subsidies Agreement negotiated in Geneva.

With me are Mr. Stanley Nehmer, president of Economic Consulting Services, based in this city, and Mr. Donald deKieffer of the Washington law firm of Collier, Shannon, Rill, Edwards and Scott. Messrs. Nehmer and deKieffer have had extensive experience with the trade statutes, and both have represented a number of clients who have filed cases under the 1974 Trade Act and other statutes.

We appreciate the opportunity to testify on the extremely important issue of trade reorganization. There are several major proposals before the Congress on this subject, including the proposal submitted by the White House, and these proposals cover a wide range of matters.

While Congress will ultimately work its will with respect to trade organization, it is unclear to us whether, procedurally, the Administration will submit its proposal in the form of a bill or as a reorganisation plan. We would hope that, if it is submitted as a reorganization plan, the committee would express our views on this issue to the Administration.

I am not in a position today to express a preference for one proposal over the others. Ours is a broad coalition, covering many interests, a coalition formed to work on the subsidy/countervailing duty issue.

There is, however, agreement within our coalition on a few key points regarding the administration of the countervailing duty and antidumping statutes. I can make these points rather briefly.

First, we are gratified that so many members of the Congress have taken a strong interest in the subject of trade reorganization and have pressed the Administration vigorously on the subject. In our view, the administration of America's trade laws and policies is as important as the amendments to the trade statutes contained in the new Trade Agreements Act.

Delay in dealing with trade reorganization could jeopardize the effective implementation of the recently completed multilateral trade negotiations. We trust, therefore, that it is the intention of this committee and of the Congressional leadership to deal expeditiously with this subject and to send a bill to the President in this session of Congress. I emphasize this point, Mr. Chairman, because we believe that there cannot be effective implementation of U.S. rights and obligations stemming from the multilateral trade negotiations until there has been effective restructuring of the trade functions within the U.S. Government.

Second, we are most happy to see that none of the proposals call for the Treasury Department to continue its administration of the countervailing and antidumping statutes. The Treasury Department appears to regard effective administration of these statutes as "protectionist," although subsidies and dumping are, in fact, forms of protectionism.

Our group was among the first and among the most outspoken in calling attention to Treasury's ineffective administration of the unfair trade statutes. We continue to believe that new and vigorous direction must be given to both statutes, and we hope that there will not be any changing of minds on Capitol Hill, or downtown either, on this fundamentally important point.

Third, we believe strongly that the administration of the countervailing duty and antidumping statutes should be certain, predictable and effective. The Trade Agreements Act of 1979, which will amend both and which has now passed both houses of Congress, correctly limits the discretion of the administering authority in carrying out the statutes' requirements.

In this connection, we assume that the reference in the White House Fact Sheet on trade reorganization to the Trade Policy Committee having coordinating responsibility for "import remedy policy: for example, antidumping and countervailing duties, to the extent legally permitted" means no more and no less than the words of the White House release. We note the concern expressed by the Director of OMB at the trade reorganization briefing to the effect that the President wishes to guard against "protectionist tendencies" in the implementation of the statutes.

We are not aware of any evidence over the past few years to indicate that those government departments which have trade functions have practiced "protectionism" in any of their procedures. In fact, so far as countervailing duties are concerned, it would seem to us that proper enforcement of that statute is good business practice—and pro free trade.

I should add that it would be most unfortunate, and we are sure the Administration would agree, if this oversight function permitted a repetition of the ineffective implementation of these statutes as has been the case since the Trade Act of 1974 was enacted.

Fourth, we believe that consideration should be given to augmenting the staff capabilities of both the administering authority and the International Trade Commission. We suggest this since it seems likely that these staffs will have more work to do in the future because more cases may be filed under the amended antidumping and countervailing duty statutes and because the new countervailing statute will now require an injury test in all cases. And it is essential that the staff work should be of high quality and that deadlines should be met.

We do not have any particular numbers in mind; we simply suggest that this committee, if it has not already arranged to do so, examine the question of what needs to be done to staff the administering authority and the ITC adequately to assure effective implementation of the countervailing duty and antidumping duty statutes.

What has been submitted to you by the Administration may not be the most polished government reorganization proposal to have come before this committee. But it represents a recognition of the need to do better—much better—in this vital area of international trade than has previously been the case. It is constructive. It is positive. Whatever restructuring comes out of the legislative process should not be allowed to drag on and on to the point of losing the gains represented by the Multilateral Trade Negotiations and the Trade Agreements Act.

Thank you.

ENDORSING ORGANIZATIONS

Amalgamated Clothing and Textile Workers Union, AFL-CIO.
American Apparel Manufacturers Association.
American Footwear Industries Association.
American Pipe Fittings Association.
American Textile Manufacturers Institute
American Yarn Spinners Association.
Bicycle Manufacturers Association.
Cast Iron Soil Pipe Institute.
Clothing Manufacturers Association.
Copper and Brass Fabricators Council, Inc.
Industrial Union Department, AFL-CIO.
International Ladies Garment Workers Union, AFL-CIO.
International Leather Goods, Plastics and Novelty Workers Union, AFL-CIO.
Lead-Zinc Producers Committee.
Luggage and Leather Goods Manufacturers of America, Inc.
Man-Made Fiber Producers Association.
Metal Cookware Manufacturers Association.
National Association of Chain Manufacturers.
National Association of Hosiery Manufacturers.
National Cotton Council.
National Federation of Fishermen.
National Handbag Association.
National Knitted Outerwear Association.

ENDORSING ORGANIZATIONS—Continued

National Knitwear Association.
National Outerwear and Sportswear Association.
Northern Textile Association.
Retail Clerks International Union, AFL-CIO-CLC.
Scale Manufacturers Association, Inc.
Synthetic Organic Chemical Manufacturers Association.
Tanners Council of America, Inc.
Textile Distributors Association.
Valve Manufacturers Association.
Work Glove Manufacturers Association.

Senator ROTH. Dr. Weinschel, will you come forward. You were here before. We will include your statement in its entirety and would ask that you, since it is a fairly lengthy statement, summarize the purpose of our hearing.

TESTIMONY OF BRUNO O. WEINSCHEL, VICE PRESIDENT, INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS; ACCOMPANIED BY FRANK CUMMINGS

IEEE INTEREST IN INNOVATION AND PRODUCTIVITY

Mr. WEINSCHEL. Yes. I would like to introduce at my left our counsel, who is Mr. Frank Cummings, of Marshall, Bratter, Greene, Allison & Tucker.

I am the vice president of the Institute of Electronic and Electrical Engineers [IEEE]. We are the largest engineering organization in the world—we have about 190,000 members, of which over 150,000 are in the United States. As vice president for professional affairs, I am IEEE's interface to the Washington scene.

Beginning in 1977, we expanded our interest in the innovation and productivity issue. There are about 7 task forces formed in response to Eizenstat's memo in the White House, and some of our members have been on each of the task forces. The results of those task forces have not yet come out of the White House—they went into the White House on June 1.

IEEE COMMENTS ON PENDING LEGISLATIVE PROPOSALS

First, let me say something about the sketchy administration proposal, which is really quite emasculated compared to information that was available in the President's draft plan for trade reorganization, which was circulated last year. That dealt with technology and productivity and had a lot of meat to it; but what was released this week was very, very meager.

We have studied the various bills, and I would like to give you our opinion about the strong points and weak points, as we see them. We like your bill since it is proposing a new free-standing agency disconnected from Commerce. If we take a look at the Department of Agriculture, it represents the farmer. The Labor Department represents Labor. But nobody could say that Commerce represents industry or business.

And just by reorganizing and consolidating—under the various bills—these functions into the Commerce Department, we would not expect a major improvement.

In each of those bills, with the exception of the Stevenson bill, we see an emphasis on form, not on substance—how to reorganize trade, but not what to trade. The Stevenson bill is the only bill which concerns itself with lagging productivity, our innovation lag, our lack of ability to compete in the export trade.

The Importance of Productivity, Innovation and Competitiveness

You cannot separate success in our export trade from competitiveness in the domestic area—the ability to compete successfully with clever imports, be they Japanese cars or electronics. They cannot be separated.

A Proposed Amendment To Create a National Engineering Foundation

To succeed in both we would envision a free standing agency as shown in your bill, coupled with support of technology, productivity and competitiveness on the domestic scene as well as the export trade as described in the Stevenson bill, coupled with still another Stevenson bill, which came out May 24—S. 1250, which I think was called the Innovation Act of 1979.

Innovations and Applications Compared to Basic Research

In the testimony that I filed with you, figure D shows the distribution of Nobel prizes among the British, the West Germans, and the United States, and we are leading, even in 1976.

Now, I have another figure which I will pass to the table, which is taken from the National Science Board's table, showing the total of major innovations among the United Kingdom, United States, Japan, and West Germany, and you will see that even in 1973, we were still leading in major innovations.

So our inventiveness has not gone down, nor has our success in basic research.

What we have not been able to do is to cash in and apply, create and retain the markets which stem from these innovations.

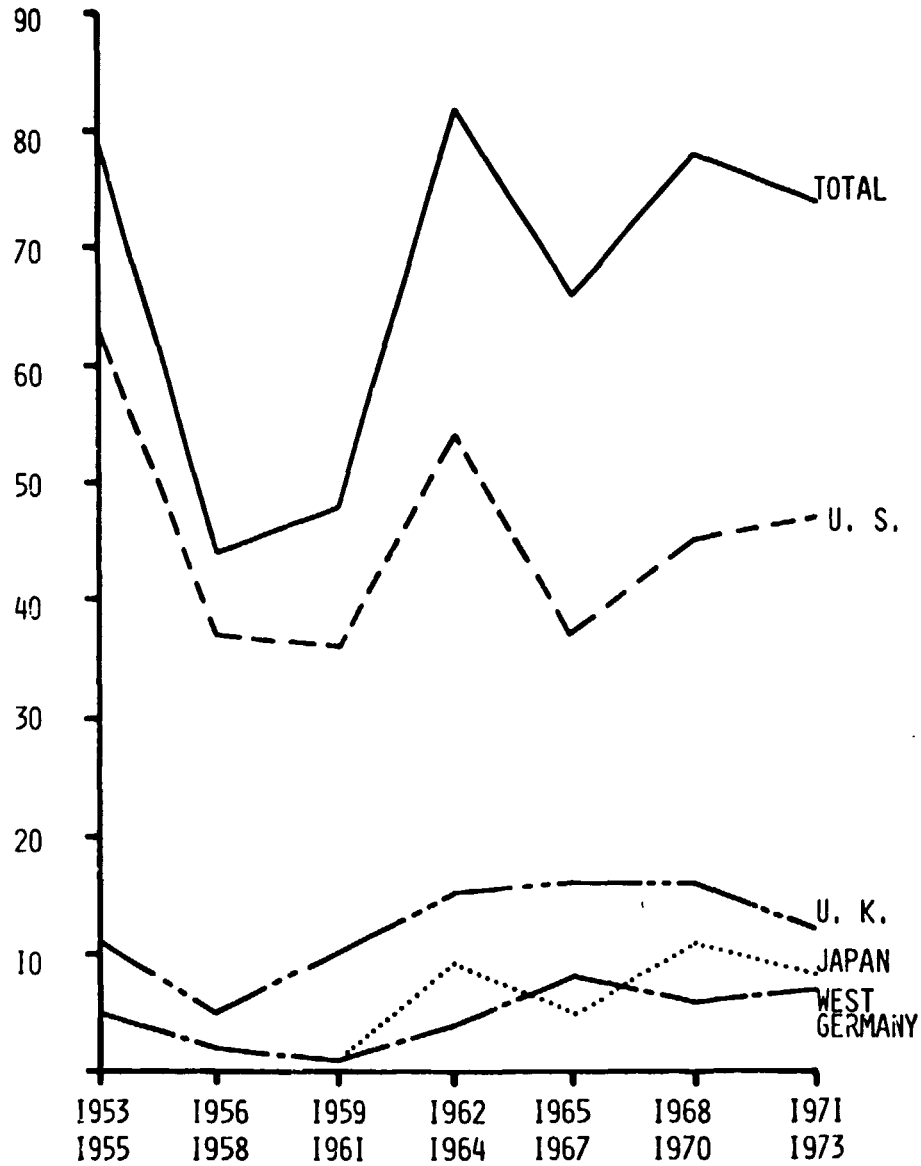
As to most of the technologies that are being imported to this country, the basic research was done in this country. Most of the solid state technology, 19 out of 20 major innovations, came out of this country. We publish it freely. There is no national boundary on publications in journals. And everybody benefits from our basic research.

But we are not able to produce those items competitively, either for domestic competition or for external trade. And it is for that reason that we are advocating the creation of a new agency—or a unit in one of these new agencies—which would be a focal point for applied research, for technology improvement, concerned with improvement of productivity so that we can become more competitive both in domestic competition and in world trade.

I have watched with great sadness how we have lost our color television market within the last 5 or 6 years. When we first were

[Table referred to follows:]

MAJOR TECHNICAL INNOVATIONS FOR U.S., U.K., JAPAN, WEST GERMANY
1953-1973 FOR FOUR NATIONS



encountering Japanese color TV sets, most of our domestic manufacturers went abroad in order to benefit from lower labor cost.

I now see similar things happening on some items which we will probably lose in 1980 to 1983. Let me give you an example.

There is a commitment in both Japan and Germany to put up powerful satellites for local TV distribution directly to the home where everybody has his own Earth station, about one meter in diameter. The Japanese are working feverishly to create the means to produce these receivers. There is nobody in this country who is concerned with this and is working on it. It has not been resolved in our communication

politics. Yet we should have it, even if just from an export market point of view. It should be begun, but nobody is doing it.

We are used to a large domestic market, and this country is not in the same predicament as Japan, which has no raw materials, or even Germany, which has to export in order to stay alive. Our manufactures, on the average, do not know that one must export in order to stay alive.

Mr. Chairman, looking at our trade balance, you will see that we are suffering mainly because of our increasing import of manufactured items. It is there where we lose our market. We ask you to consider our proposal as a way of turning that around.

Thank you.

Senator ROTH. Let me ask you one question in connection with technological development. It is my understanding that today roughly two-thirds of the American patents are issued to foreign inventors.

Mr. WEINSCHEL. The patent balance, if we compare patents filed by U.S. corporations in foreign countries to patents granted to foreign corporations in the United States, has changed in a very lopsided fashion. There is a tremendously increased activity in U.S. patents owned by foreign corporations, and there has been a definite decrease in what we are filing on the outside.

But a patent is only the tip of an iceberg. You need something to sell and the patent is only the beginning. The patent normally represents less than 10 percent of R. & D. investment, while what you need in total tooling and initial marketing effort to get on stream represents the other 90 percent. So the patent is only a forewarning of what is going to happen.

Senator ROTH. But it is a first step.

Mr. WEINSCHEL. It is definitely one of the indicators, but the major ndicator is a much simpler one. It is the merchandise trade balance. Your merchandise trade balance, if you look at it, was negative before OPEC. Most people don't realize that. They blame it all on OPEC, but we were already negative somewhere around 1970, and we were on a negative slope. When the OPEC countries got extra money, there was a short-term infusion of technological sales into OPEC until about 1975, and then eventually we fell down again.

So we were already on a bad course at about 1970. This is a serious ill which has crept up on us over a 20-year period and cannot be healed in 5 years by throwing a lot of money at it.

Senator ROTH. I think you focus on a very serious problem, one that I would hope governmental affairs would devote some time and effort to. It was touched upon this morning. Some people assert that some of our taxes really provide an incentive to American companies to do their research and development abroad.

I am concerned that in many ways we are not creating an environment that promotes and helps small business which, in many ways, are the most creative, innovative and frankly, in most cases, are the ones who create most of the jobs.

So I share your concern there. I would want to study it a lot more carefully. Going through the energy proposal, and it seems to bring the money to Washington and dole it out, I am not sure that is the best approach and I am not sure that would be the most helpful means

of the Government becoming involved, although I do think you make a very powerful argument about applied research in your paper here.

I don't suppose we are really going to, in our reorganization of trade, deal directly with that aspect, although I think it is a very key part of the problem, and I would welcome at a later date continuing this dialog.

Mr. CUMMINGS. Mr. Chairman, it isn't in any of your pending bills.

Senator ROTH. That is correct.

Mr. CUMMINGS. But the references to it are a refrain among your witnesses who have appeared here so far. They tell you that, before you can have a favorable trade balance, you have to have something to trade, something that your trading partners would want to buy, and indeed that your citizens here would want to buy, instead of importing it.

We have thought about what flesh could be put on the bones of those references. We have a preliminary draft bill that can be viewed as a bill, or an amendment to a bill, or a new title of a bill.

With your permission, we would like to insert it in the record here, and, we hope, have your consideration of the possibility that, within whatever agency you have in mind, you would create something modeled in part on what you now have in basic research—the National Science Foundation, but not with that function at all. Instead, this would have the function of a National Engineering Foundation whose focus would be applied technology, applications, whose direction would come from very result-oriented, trade-oriented, markets-oriented business people. And the Government could and should play a role, as it does in some European countries that Dr. Weinschel has described, in fostering and in funding applications that would help develop this kind of technology, so that instead of Americans buying Japanese television sets, they and we will be buying ours.

Senator ROTH. I would welcome receiving this language. We will make it a part of the record so that it can be considered during the deliberations.

[The information referred to follows:]

Draft -- 8/2/79

A BILL

To establish the National Foundation for Technology.

Be it enacted by the Senate and House of Representative of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "National Foundation for Technology Act".

FINDINGS AND PURPOSE

SECTION 2. (a) The Congress finds that -

(1) The nation's rate of productivity growth, essential to combat inflation and improve the U.S. balance of payments, is and has been declining. The vigorous pursuit of technological innovation through research and development is essential to maintain and increase national productivity and trade.

(2) Support and development of applied research, translating basic knowledge into technological applications is essential to promote national productivity growth.

(3) Technological innovation and improvement can be best achieved through coordination of the education sector and the market place.

(4) There is a proper role for government in encouraging, furthering, coordinating and sponsoring applied research and development designed to improve the nation's technological capacity.

(b) It is, therefore, the purpose of this Act to establish a National Foundation for Technology which shall initiate, support and coordinate applied research and engineering projects and programs directed toward increasing the nation's productivity growth.

DEFINITIONS

SECTION 3. For purposes of this Act the term -

(1) "Engineering" includes the disciplines of mechanical, electrical, aeronautical, civil, chemical,

petroleum and mining engineering and their subdivisions.

(2) "institution of higher education" means an educational institution in any State which -

(A) admits as regular students only individuals who have a certificate of graduation from a school providing secondary education or the recognized equivalent of such certificate;

(B) is legally authorized within such State to provide a program of education beyond secondary education;

(C) provides an educational program for which it awards a bachelor's degree or other degree, or provides not less than a two-year program which is acceptable for full credit toward a bachelor's degree;

(D) is a public or other nonprofit institution; and

(E) is accredited by an accrediting organization or association determined by the Foundation to be a

reliable authority as to the quality of training offered;

(3) "Foundation" means the National Foundation for Technology;

(4) "Board" means the Board of the National Foundation for Technology;

(5) "agency" means any Federal executive agency; and

(6) "State" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Trust Territory of the Pacific Islands, or any other territory or possession of the United States.

ESTABLISHMENT

SECTION 4. There is established in the executive branch of the Government an independent foundation to be known as the National Technology Foundation.

FUNCTIONS

SECTION 5. In order to carry out this act, the Foundation shall -

(1) Study and evaluate, with assistance as needed from the Commerce, Treasury and Labor Departments, other agencies as appropriate, and representatives of U.S. Business, U.S. and international technological advances and innovation opportunities and technological needs of American industry; and to use the results of this study to guide its support of applied research and development.

(2) Initiate and support applied research and engineering programs by making contracts or other arrangements (including grants, loans and other forms of assistance) to support such research and engineering activities. The development and support of programs shall take into consideration:

(A) The potential value of the program in the marketplace as evidenced by the interest in and financial support of the research by organizations with the capability to complete the development and to market it;

(B) Potential for increasing export trade and domestic employment;

(C) Potential impact on productivity through innovation;

(D) Benefits to small businesses;

(E) Benefits to industries which are made up of many small companies; and

(F) Potential impact on energy self-sufficiency of the U.S.

(3) Support, by means of grants, scholarships and other forms of assistance to institutions of higher education, educational curricula which emphasize practical engineering skills, including -

(A) Design competence;

(B) Production engineering;

(C) Manufacturing processes, including automation; and

(D) Production and engineering management.

(E) Cost Control

(F) Quality Control

(4) Initiate and support by means of grants, scholarships and other forms of assistance cooperative programs between institutions of higher education and industry involving -

(A) The pursuit, at institutions of higher education, of research which meets specific needs of particular industries and companies, where companies or industries will provide partial support;

(B) Rotation of personnel between industry and research or teaching roles at institutions of higher education; and

(C) Research on industry standards, standardized components and interfaces which are of importance to the continuing development of an industry.

(5) Generally support the competence and prestige of the engineering profession by -

(A) Grants to engineering libraries at institutions of higher education; and

(B) Awards, prizes and other forms of recognition of engineering excellence including awards to be made

50-490 O - 79 - 12

to the alma mater of the individual whose accomplishment is being recognized.

BOARD OF THE NATIONAL ENGINEERING FOUNDATION

SECTION 6. (a)(1) The Board shall be composed of twenty-four members appointed by the President, by and with the advice and consent of the Senate, from persons who are members of any of the engineering professions, from engineering oriented industries and from the academic engineering community and of the Director ex-officio. The Board shall establish the policies of the Foundation.

(2) The President shall make appointments to the Board under Paragraph 1 after considering nominations from the engineering societies, industry and academics. One member of the Board shall be an employee of each of the following departments: Commerce, Treasury and Labor. One member shall be a member of the staff of the President's Science Advisor. At least two members shall be from the faculty or administration of an institution of higher education and at least 12 shall be selected from the U.S. manufacturing community of which at least 7 shall be from technologically oriented businesses employing less than 1,000 persons.

(3) A vacancy on the Board shall be filled in the manner in which the original appointment was made.

(b)(1) Except as provided in Paragraphs (2) and (3), members of the Board shall be appointed for terms of six years.

(2) Of the members first appointed -

(A) Eight shall be appointed for terms of two years;

(B) Eight shall be appointed for terms of four years; and

(C) Eight shall be appointed for terms of six years, as designated by the President at the time of appointment.

(3) Any member appointed to fill a vacancy occurring before the expiration of the term for which his predecessor was appointed shall be appointed only for the remainder of such term. A member may serve after the expiration of his term until his successor has taken office.

(4) No member shall serve more than two consecutive terms.

(c)(1) Except as provided in Paragraph (2), members of the Board shall each be entitled to receive $300 for each day (including travel time) during which they are engaged in the actual performance of duties for the Board or the executive committee.

(2) Members of the Board who are full-time officers or employees of the United States shall receive no additional pay for their service on the Board.

(3) While away from their homes or regular places of business in the performance of services for the Board, members of the Board shall be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in the Government service are allowed expenses pursuant to Section 5703(b) of Title 5, United States Code.

(d) Thirteen members of the Board shall constitute a quorum.

(e) The Chairman and Vice Chairman of the Board shall each be elected by the members of the Board for a term of two years.

(f) The Board shall meet at least quarterly, at such other times as the Chairman may determine, and whenever one-third of the members of the Board request in writing that the Chairman call a meeting.

EXECUTIVE COMMITTEE (42 U.S.C. §1865)

SECTION 7. (a) There shall be an Executive Committee of the Board, (referred to in this Act as the "executive Committee"), which shall be composed of five members and shall exercise such powers and functions as may be delegated to it by the Board. Four of the members shall be elected as provided in subsection (b), and the Director ex-officio shall be the fifth member and the Chairman of the Executive Committee.

(b) At each of its annual meetings occurring in an even-numbered year the Board shall elect four of its members as members of the Executive Committee, and the Executive Committee members so elected shall hold office for two years from the date of their election. Any person, other than the Director, who has been a member of the Executive Committee for six consecutive years shall thereafter be ineligible for service as a member thereof during the two-year period following the expiration of such sixth year.

(c) Any person elected as a member of the Executive Committee to fill a vacancy occurring prior to the expiration of the term for which his predecessor was elected shall be elected for the remainder of such term.

(d) The Executive Committee shall render an annual report to the Board, and such other reports as the Committee may deem necessary, summarizing its activities and making such recommendations as it may deem appropriate. Minority views and recommendations, if any, of members of the Executive Committee shall be included in such reports.

DIRECTOR OF THE FOUNDATION

SECTION 8. (a) The Foundation shall have a Director who shall be appointed by the President with the advice and consent of the Senate for a term of six years unless sooner removed by the President and who shall be paid at a rate not to exceed the rate of basic pay in effect for level II of the Executive Schedule. Before any person is approved as Director, the President shall afford the Board an opportunity to make recommendations to him with respect to such appointment.

(b) Except as otherwise specifically provided in this Act (1) the Director shall exercise all of the authority

granted to the Foundation by this Act (including any powers and functions which may be delegated to him by the Board), and (2) all actions taken by the Director pursuant to the provisions of this Act (or pursuant to the terms of a delegation from the Board) shall be final and binding upon the Foundation.

(c) The Director may from time to time make such provisions as he deems appropriate authorizing the performance by any other officer, agency, or employee of the Foundation of any of his functions under this Act, including functions delegated to him by the Board; except that the Director may not redelegate policy-making functions delegated to him by the Board.

(d) The formulation of programs in conformance with the policies of the Foundation shall be carried out by the Director in consultation with the Board.

(e) The Director shall not make any contract, grant, or other arrangement pursuant to section 11(c) without the prior approval of the Board, except that a grant, contract, or other arrangement involving a total commitment of less than $2,000,000 or less than $500,000 in any one year, or a commitment of such lesser amount or amounts and subject

to such other conditions as the Board in its discretion may from time to time determine to be appropriate and publish in the Federal Register, may be made if such action is taken pursuant to the terms and conditions set forth by the Board, and if each such action is reported to the Board at the Board meeting next following such action.

(f) The Director, in his capacity as ex-officio member of the Board, shall, except with respect to compensation and tenure, be coordinate with the other members of the Board. He shall be a voting member of the Board and shall be eligible for election by the Board as Chairman or Vice Chairman of the Board.

SECTION 9. (a) The Foundation shall have a Deputy Director who shall be appointed by the Board for a term of six years and who shall be paid at a rate not to exceed the rate of basic pay in effect for level ___ of the Executive Schedule.

The Deputy Director shall have primary responsibility, subject to Board approval, for the exercise of the Foundation function designated in Section 5(1) above, and shall have such other duties and exercise such other powers as the Director shall prescribe.

(b) There shall be two Associate Directors of the Foundation who shall be appointed by the Board for a term of six years unless sooner removed and who shall be paid at a rate not to exceed the rate of basic pay in effect for level ___ of the Executive Schedule.

One of the Associate Directors, designated as the Associate Director for Applied Research and Development, shall have primary responsibility, subject to the approval of the Director, for the exercise of the Foundation function designated in Section 5(2) above.

One of the Associate Directors, designated as the Associate Director for Engineering, shall have primary responsibility, subject to the approval of the Director, for the exercise of the Foundation functions designated in Section 5(3) (4) and (5) above.

(c) The Director, Deputy Director and Associate Directors shall not engage in any other business, vocation, or employment during their period of service with the Foundation. Except in any case of specific approval by the Board, the Director and Deputy Director shall not have any pecuniary interest in any business or other organization with which the Foundation makes any contract or other arrangement.

(d) The Director may appoint and fix the pay of such additional personnel as he deems necessary.

(e) The Director may procure temporary and intermittent services to the same extent as is authorized by Section 3109(b) of Title 5, United States Code.

AUTHORITY OF THE FOUNDATION

SECTION 10. The Foundation shall have the authority to take any action it deems necessary to carry out this Act, including the authority to -

(1) Prescribe rules;

(2) Make contracts or other arrangements with any State, agency, or person, with or without reimbursement, without any performance or other bond, and without regard to Section 3709 of the Revised Statutes of the United States (41 U.S.C. 5);

(3) Make advance, progress, or other payments relating to research with respect to public professions without regard to Section 3648 of the Revised Statutes of the United States (31 U.S.C. 529);

(4) Accept and utilize the services of voluntary and uncompensated personnel and to provide to such personnel transportation and subsistence as authorized by Section 5703 of Title 5, United States Code, for persons serving without compensation; and

(5) Acquire by purchase, lease, loan, or donation, and to hold and dispose of by sale, lease, or loan, any real and personal property.

GENERAL PROVISIONS

SECTION 11. (a) Any person entering into any contract or other arrangement with the Foundation shall maintain records, in such detail and manner as prescribed, by rule, by the Foundation, to ensure an effective audit. Such records shall be available at reasonable times to the Foundation and to the Comptroller General of the United States, or any of their duly authorized representatives, for purposes of audit and examination.

(b) The Foundation may obtain from any agency any information, estimates, or statistics which the Foundation deems necessary to carry out this Act. Any agency shall

transmit such material or assistance directly to the Foundation upon such request by the Foundation.

(c) Upon request by the Foundation, the head of any agency may detail, with or without reimbursement, any of his personnel to the Foundation to assist the Foundation in carrying out this Act.

SCHOLARSHIPS AND GRADUATE FELLOWSHIPS

SECTION 12. (a) The Foundation may award scholarships and graduate fellowships for the study of the engineering disciplines.

(b) Any scholarship or graduate fellowship awarded under Subsection (a) shall -

(1) Be made only to citizens of the United States; and

(2) Be made on the basis of ability.

PATENTS

SECTION 13. When research funded or partially funded by the Foundation results in patentable inventions, the

Foundation shall require the researcher to obtain such patents and assist him in so doing. Whether the patent so obtained will be the property of the U.S. Government or of the researcher and his organization shall be decided by the Foundation on an individual basis subject to the following guidelines:

(1) The primary objective is the exploitation of the patent for the benefit of U.S. industry and consumers. Thus, an organization's intention to exploit the patent and evidence of pursuit of this intention shall constitute factors favorable to granting ownership of the patent to the researcher and/or his organization.

(2) The largest part of the cost associated with bringing a patent to the market place is usually incurred in the development and marketing phase and without the protection of an exclusive patent a company is unlikely to proceed with development and marketing.

(3) An unused patent has no value.

REPORTS

SECTION 14. (a) The Foundation shall transmit a report to the President and to each House of the Congress

not later than one year after the Board has been duly organized and annually thereafter. Each such report shall contain a detailed statement of the activities of the Foundation, together with its recommendations for such legislation or other action it deems appropriate.

(b) In addition to reports required by Subsection (a), the Foundation shall make any study or report ordered by either House of the Congress, by any committee of either House, or by any joint committee of the Congress.

(c) At the request of either House of the Congress, of any committee of either House, or of any joint committee of the Congress, the Director of the Foundation shall furnish such House or committee with such assistance or information as it may request.

AUTHORIZATION

SECTION 15. (a) For the purpose of carrying out Section 5 of this Act there is hereby authorized to be appropriated to the Foundation -

(1) For the fiscal year ending September 30, 1980, an amount not to exceed $5,000,000;

(2) For the fiscal year ending September 30, 1981, an amount not to exceed $20,000,000; and

(3) For the fiscal year ending September 30, 1982, an amount not to exceed $100,000,000.

Sums appropriated under the authority of this subsection shall remain available until expended. For the fiscal year ending September 30, 1983, and for each subsequent fiscal year such sums may be appropriated as the Congress may hereafter authorize by law to carry out the provisions of Section 5.

(b) There are authorized to be appropriated for each fiscal year such sums as may be necessary to administer the provisions of this Act.

Senator ROTH. I might mention to you that Senator Stevenson and I are in the process of forming what we call a Senate export caucus. We are going to be taking a look at many different aspects of the problem, certainly technology and the development has to be high priority.

Gentlemen, thank you very much for being with us today.

[The prepared statement of Mr. Weinschel follows:]

TESTIMONY OF DR. BRUNO O. WEINSCHEL,*
ON BEHALF OF
THE INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS,
IN HEARINGS ON TRADE LEGISLATION HELD BEFORE THE
U.S. SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS,

July 25, 1979

INTRODUCTION

Mr. Chairman, we are engineers -- applied scientists. We invent, develop and make the products of American technology. Those products are potentially the difference between a positive and negative trade balance.

The redesign of our trade policies is needed -- it would help assure policy coherence where it is needed. The streamlining of our governmental trade bureaucracy is needed -- it would help implement our trade policies.

But coherent trade policies and streamlined administradition are meaningful only if American business has something to trade -- something to sell which our trading partners or domestic customers wish to buy. And it must be something either better and more advanced, or cheaper because technology made us more productive, when compared to competing products made elsewhere. If we do not have that -- if we do not foster major advances in our applied technology --

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* Dr. Weinschel is Vice President of IEEE and Chairman of IEEE's U.S. Activities Board.

we will not solve our trade problems, no matter how we revise trade policy, no matter how we reorganize our trade bureaucracy.

So there is a missing ingredient in the pending trade bills and proposals. You can supply that ingredient. You can make this package whole. You can make it work. You can make it succeed.

We have a proposal. We propose that you add to your bill an additional title, creating and funding a new government initiative: an agency (or a well defined part of a larger agency) devoted exclusively to fostering development of applied technology, so that American business -- and particularly small business, where the greatest technological advances most often originate -- can increase productivity, develop new and better technologies, and become more competitive in world markets, as well as compete successfully against imports in our domestic market. Those are markets where we have recently lost out -- needlessly -- to foreign competition in fields where we have been, could be, and should be the technological leader and leading exporter and domestic supplier with growing, not shrinking, technological and trading advantage.

50-490 0 - 79 - 13

Accordingly, in this testimony we propose to outline for you briefly (and submit more detailed documentation separately) the following: (1) the problem of declining American productivity and sluggish technological advance; (2) the current weaknesses in governmental support for technological advance; and (3) a proposed legislative solution which would restore the traditional and justifiable American leadership in technology, productivity, exports and competitiveness in the domestic market.

I. DECLINING AMERICAN PRODUCTIVITY AND SLUGGISH TECHNOLOGICAL ADVANCE

A. Decline in R&D as Percentage of GNP.

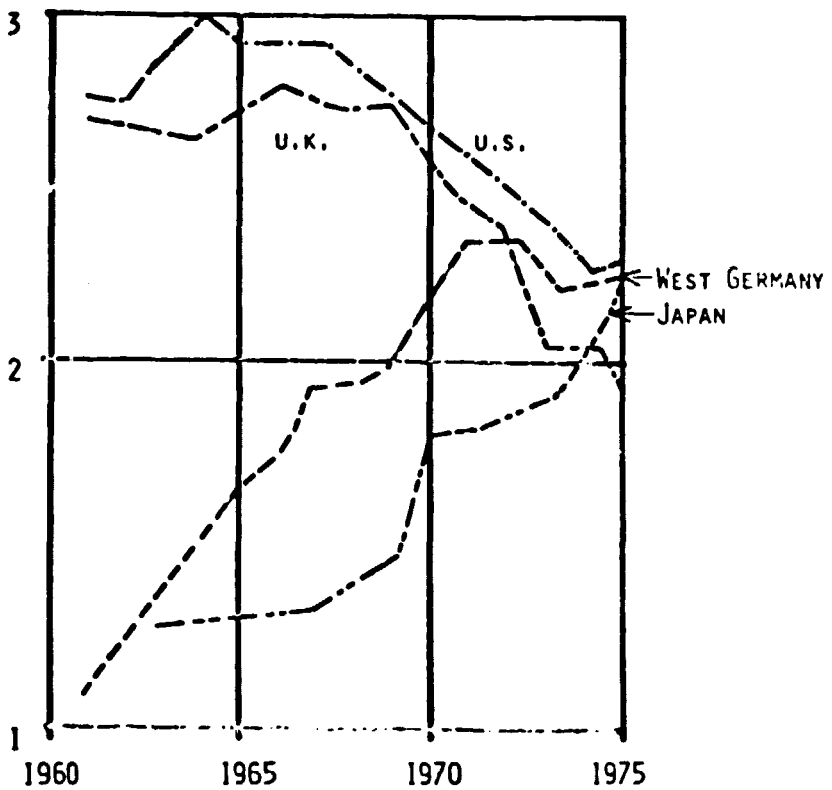
The U.S. decline in expenditure for research and development is evident since 1975. Figure A shows an overview of the investment in research and development as a percentage of gross national product, for the United States, Great Britian, West Germany and Japan. It shows how we lost our lead from 1960 to 1975.

B. Disparity in Defense and space related U.S. R&D.

But 50% of U.S. investment in R&D is defense and space connected, and the benefits for the civilian economy are, as a result, minor. The problems which our universities solve for our defense establishment and space effort attract some of our brightest scientists, thereby taking them away from the more "mundane" jobs of applied research which might enhance industrial productivity.

In contrast, Japan spends about 2% of their R&D on defense and space, and West Germany about 11%. So if one were to redraw the curves on Figure A for civilian R&D only, one would find that we are spending at about one-half the rate of our successful trade competitors.

NOTE: About 50% of U.S. R&D is used for defense and space
About 2% of Japan's R&D is used for defense and space
About 11% of Germany's R&D is used for defense and space



FOUR COUNTRIES' R&D EXPENDITURES AS % OF GNP 1961-1976

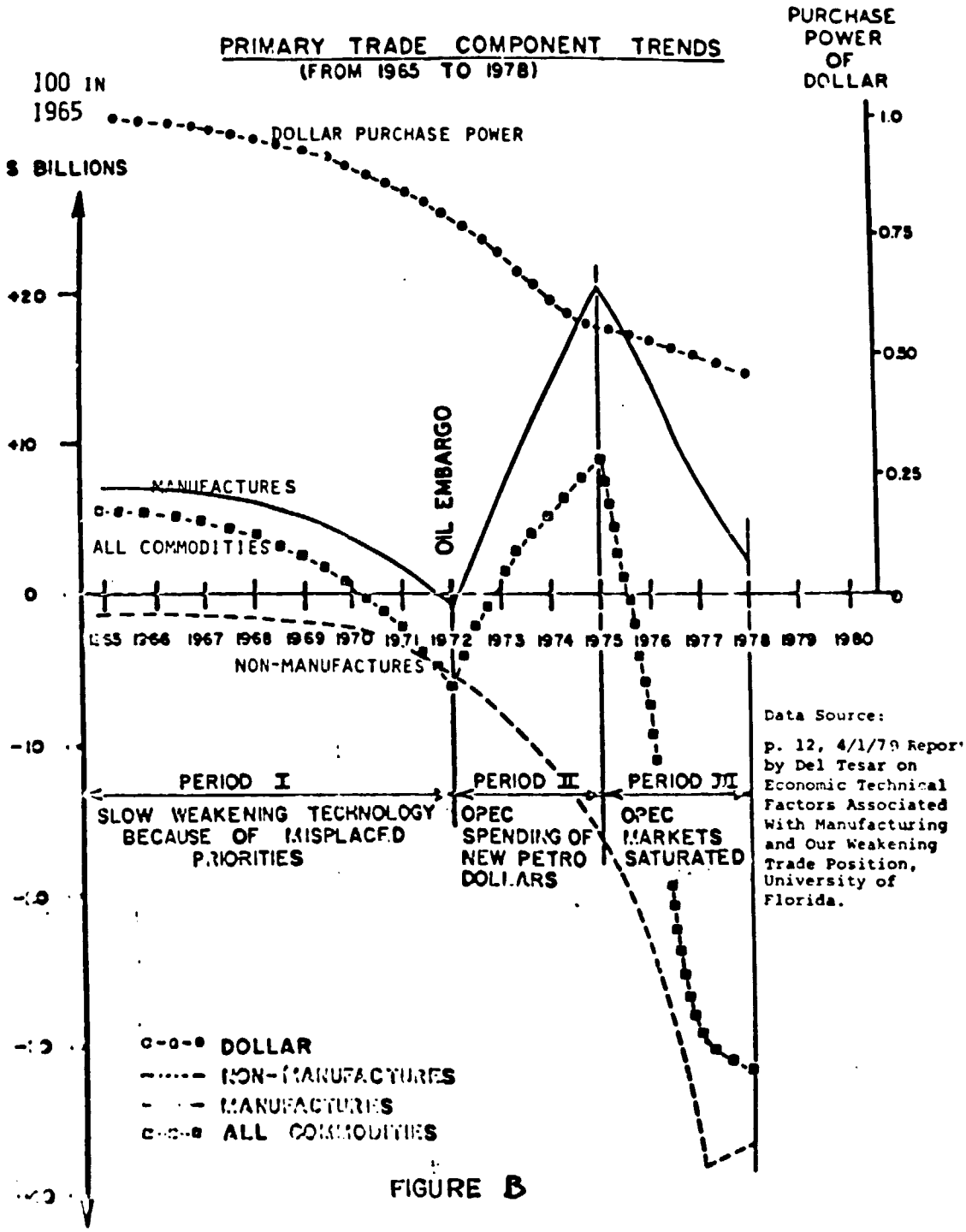
FIGURE A

Data Sources:
Science Indicators 1974, Report of the National Science Board 1975, pp. 154, 169

Science Indicators 1976, Table I-1, Page 134.

C. Our Negative Trade Balance is a Pre-OPEC Problem.

This problem has been in the making for about 30 years. Contrary to popular opinion, it is a pre-OPEC problem, and it was clearly evident in 1972, before the first oil price jump. For example, look at Figure B. The second line (with square dots) is the U.S. trade balance for all commodities; the top line (with round dots) shows the value of the dollar. The dollar's purchasing power decreased since 1965 by more than 50%. But in the period before OPEC, even before importing about 25% of our total energy, we had a negative trade balance. While OPEC was a contributing factor after 1975, it was not the main cause. In the second period, after more oil dollars became available to OPEC nations, there was a temporary reversal of our negative trade balance, which peaked in 1975. Our exports exceeded our imports from 1973 to 1975. Eventually, in the third period, after 1975, we had a saturation of the markets of the OPEC countries, and, in consequence, the U.S. trade balance became more and more negative. The excess OPEC funds are now used primarily as bank deposits, and for the purchase of stocks, real estate, business enterprises, etc., in politically stable, highly developed countries.



Data Source:

p. 12, 4/1/79 Report by Del Tesar on Economic Technical Factors Associated With Manufacturing and Our Weakening Trade Position, University of Florida.

FIGURE B

D. Low U.S. Average Industrial Capital Investment -- Low U.S. Productivity Growth.

Consider productivity growth in the last decade when compared to a percentage of gross national product devoted to industrial capital investments (Figure C). This chart shows a relatively linear rel tionship. Japan leads with about 34% of GNP going into industrial capital investment, and about 11% average growth in productivity. Great Britain and the United States are the lowest, both in industrial capital investment and productivity growth. The relationship is obvious.

CORRELATION BETWEEN PRODUCTIVITY GROWTH AND INDUSTRIAL CAPITAL INVESTMENT (1960 – 1973)

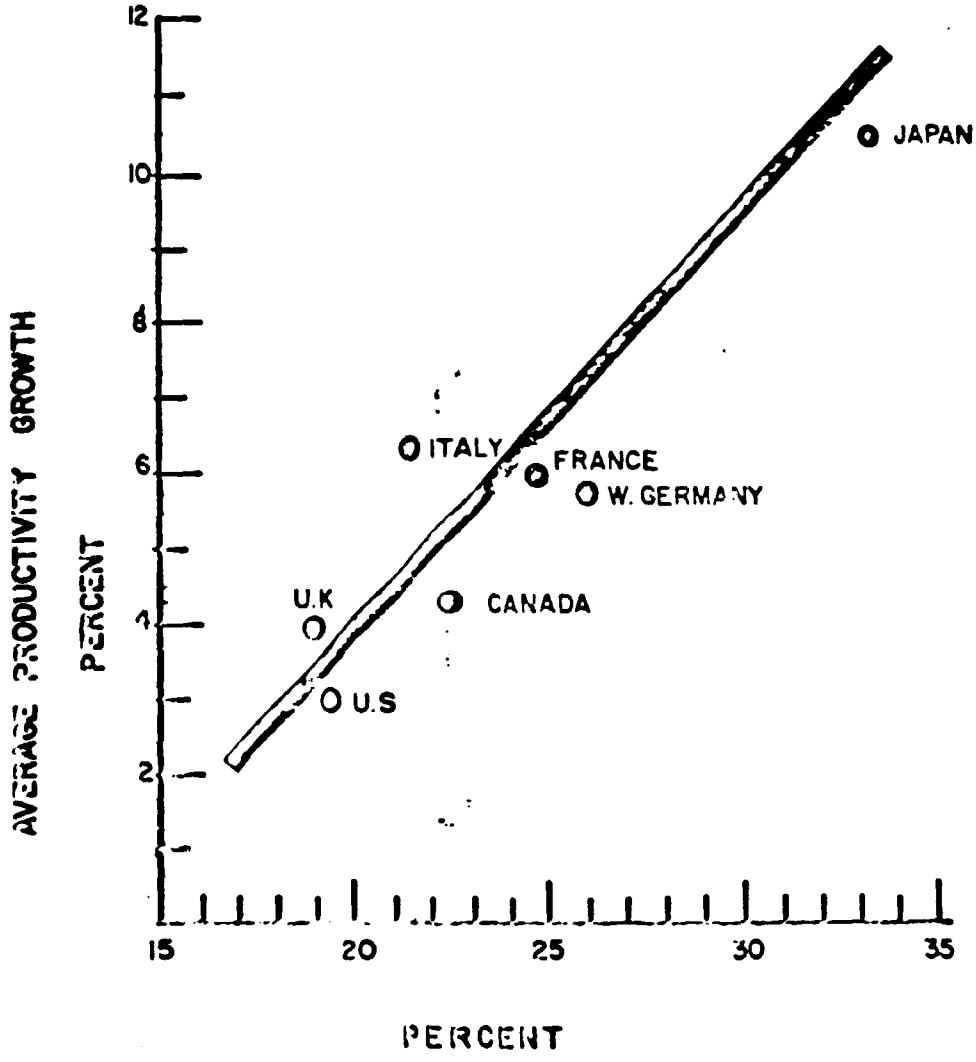


FIGURE 6, PAGE 10, REPORT ON ECONOMIC & TECHNICAL FACTORS ASSOCIATED WITH MANUFACTURING AND OUR WEAKENING TRADE POSITION, BY DEIBERT TESAR, APRIL 1, 1979, UNIVERSITY OF FLORIDA.

FIGURE C

E. Restoring Productivity Growth and Positive Trade Balance: Funding Applied Technological R&D.

There is a widespread belief in this country that an increase in basic research will directly and quickly improve productivity. That is a mistake. Figure D shows the number of Nobel Prizes awarded for a few countries. The publicity attached to those awards, and the organized science community, orchestrates this message: "Give us more money for basic research and all the national ills can be cured."

But in fact there is a negative correlation between achievements in unfocused basic research and improvement in productivity. Both the U.S. and Great Britian had many more Nobel Prize winners during the period from 1941 to 1976 than Japan or West Germany. Yet the United States and Great Britian do not approach the growth of productivity of West Germany or Japan. Japan does not even show on Figure D -- it had only one Nobel Prize winner in 30 years. On the other hand, the growth of Japan's productivity was 5 times ours in about the last 15 to 20 years. And West Germany's was about 3 times ours.

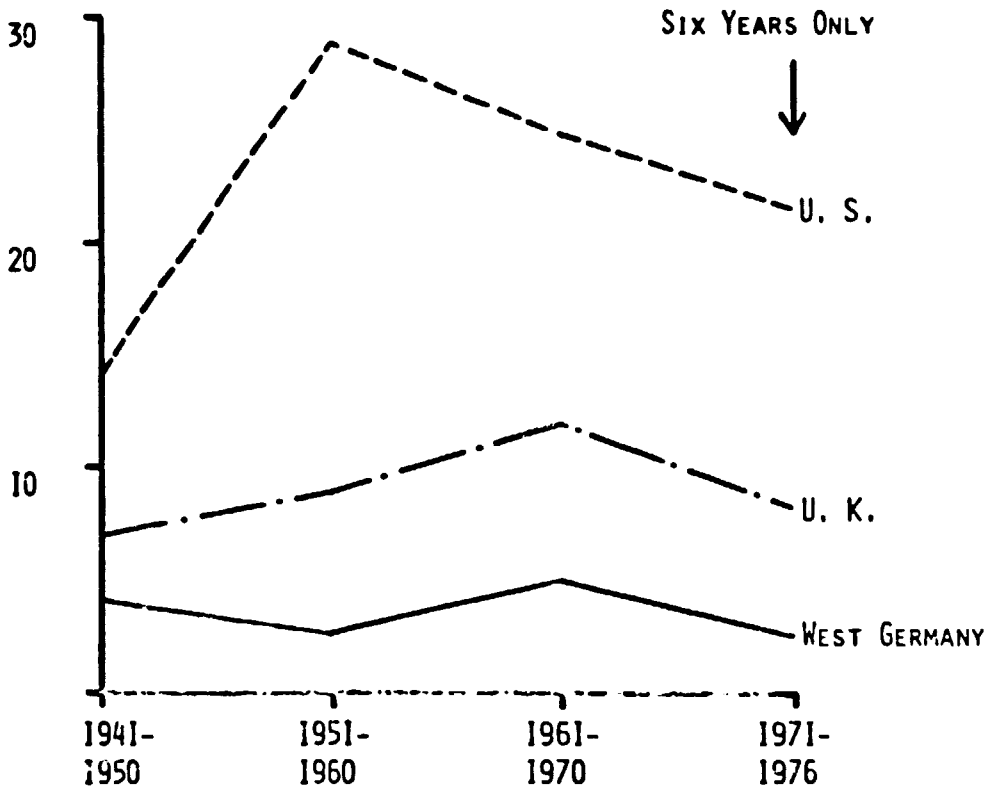
In spite of the higher percentage of fuel imports, both Japan and West Germany had positive trade balances and strong currencies, as well as lower rates of inflation and lower rates of unemployment.

We do not mean by this analysis to suggest that our basic science establishment should not be kept in good health. It is necessary to replenish the storehouse of knowledge. But there is a long time delay between selected portions of unfocused basic research and any resulting increase in productivity or in our ability to compete in world trade.

F. Focusing Applied Research -- The Small Business High Technology Company

Focused basic research closely coupled with applied research makes the difference. And the most productive investment would be in small high-technology business, because that is where the fundamental technological improvements will result quickly in new products, and improved production technology and that is where the funding is most needed.

NUMBER OF NOBEL PRIZE AWARDS FOR U.S.; U.K.; WEST GERMANY; JAPAN.
PER TEN YEAR PERIODS.



NOTE: JAPAN HAD ONE NOBEL LAUREATE IN 30 YEARS.

FIGURE D

SOURCE: TABLE I-14, PAGE 196, SCIENCE INDICATORS 1976, REPORT OF THE NATIONAL SCIENCE BOARD 1977, NSB-77-1

Compare a larger company (with management by what I call the "MBA syndrome") with a small company, typically owned and managed by the founder.

The larger company is managed, usually, in a fashion to minimize risks. If you inquire why they are taking the short term improvement project instead of the ones requiring more years but which may lead to a major breakthrough, they will tell you that the entrepreneurial climate -- to take risks -- is too dangerous, and they will complain about regulations, taxation, and the risk of further regulations and taxation in years hence while they are in the middle of the project.

But if you go to a smaller company and inquire of a man who owns his own business, who founded it, he will say that he expects to be here eight years from now, and he is willing to innovate, to take the gamble, because he may have tremendous profits eight years from now.

The average publicly held company is run for maximum short-term bottom line return on investment -- and that does not encourage innovation.

The maximum return on technological innovation, on the R&D dollar, is in the high technology small business. As shown in Table 1 below, small business with less than 1,000 employees produced, from 1953-1973, about 24 times as many major innovations per R&D dollar as did companies with over 1,000 employees.

TABLE

Estimated innovation rate, in major innovations per R&D dollar*

Time interval	Firm size (total number of employees)		
	1-1,000	1,000-10,000	10,000+
1953-59	100.0	29.5	3.9
1960-66	64.4	14.4	2.2
1967-73	35.1	9.0	2.0
1953-73 total	57.3	15.0	2.4

*Numbers are relative to the innovation rate for companies of 1 to 1,000 employees in the 1953-59 period; this rate is assigned the value 100.

SOURCE: Appendix Table 4-18; and Research and Development in Industry, 1974, National Science Foundation (NSF 76-322), p. 26.

Table 1 taken from Science Indicators 1976, page 118 (a publication of the National Science Board).

In the same period, as shown on Table 2, companies with less than 1,000 employees accounted for 47 percent of the major U. S. innovation and 34 percent came from companies with more than 10,000 employees. However, the contribution by small business deteriorated during the period. Between 1953 and 1959, it was 49 percent small business and 29 percent large business; from 1960 to 1966 it became 50 percent small and 31 percent large; and from 1967 to 1973, it was 43 percent small and 43 percent large.

TABLE 2

Distribution of major U.S. innovations by size of company, 1953-73

Period	Total	Size of company: Up to 100 employees	100-1,000 employees	1,000-5,000 employees	5,000-10,000 employees	10,000 or more employees
	Percent distribution					
1953-73	100	23	24	13	5	34
1953-59	100	23	26	14	8	29
1960-66	100	27	23	14	5	31
1967-73	100	20	23	12	3	43
	Number of innovations					
1953-73	310	72	75	41	16	106
1953-59	102	23	27	14	8	30
1960-66	107	29	25	15	5	33
1967-73	101	20	23	12	3	43

NOTE: Detail may not add to totals because of rounding.

SOURCE: Gellman Research Associates, Inc., *Indicators of International Trends in Technological Innovation*, 1976 based on Appendix D.

See Figure 4-30 and Table 4-31 in text.

Table 2 taken from Science Indicators 1976, page 268 (a publication of the National Science Board).

The innovative ability of small business, the seedlings of future big business, has been hampered by the impact of regulations and changes in availability of capital and manpower resources.

II. CURRENT WEAKNESSES IN GOVERNMENTAL SUPPORT FOR APPLIED TECHNOLOGICAL ADVANCE.

We fund unfocused basic research and education for basic research, but not applied non-mission oriented technology.

The sort of research funded by the National Science Foundation (NSF), for example, is not the solution to our problem. It is unfocused basic research. This type of basic research is really aimed at a better understanding of the relations in basic science.

On the other hand, focused basic research typically takes place in industrial laboratories. Focused basic research is more typical at the Government Funded Research Institutes in Japan and West Germany.

Our universities, on the other hand, prefer mostly unfocused basic research.

The science community in the universities continues to benefit tremendously from the budget of the National Science

Foundation, which is now almost a billion dollars, and, of that, about $900 million is truly funding for unfocused basic research. Perhaps $100 million is devoted to applied science and engineering.

But even the portion of the NSF budget devoted to "applied science" is hamstrung. NSF is not allowed, except in very exceptional circumstances, to contract with "for profit" organizations. It is not allowed to place a contract if a product or a service, or a manufacturing technology, would result. That is their orientation. It is fine for basic research. It does not solve the problem of scientific applications leading to new markets and an improvement of our ability to compete in the world trade or domestically against imports.

What we need is something like a National Engineering Foundation which would be the focal point for developing, in universities and elsewhere, new post-graduate programs in sophisticated manufacturing engineering. While some universities work successfully with industry, thereby exposing their students to real life industrial problems, NEF could be a catalyst to increase the involvement of universities with industry.

Our best engineering graduates are aimed toward basic research; while both in Japan and West Germany their best engineering graduates are oriented toward industry. Large companies like G.E. and Westinghouse have training programs to bridge this gap. Small companies cannot afford those programs. Small, innovative, high-technology business would gain most from the availability of industrially trained and oriented engineering graduates.

Other agencies might fill the gap -- but they do not.

The Small Business Administration, for example, might solve the problem -- but it does not. The "basement scientist" who leaves IBM and wants to convert his fine idea to practice has a lot of trouble getting the first hundred thousand dollars. While the SBA is entitled to support high technology ventures, it does not. Perhaps SBA needs some guidance from Congress to encourage its participation in high risk, innovative small business.

But a real solution would be the development of a technology agency committed to this objective. What we need is an environment which encourages investment in this sort of thing, and to some extent minimizes the risks and increases the rewards.

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III. A PROPOSED LEGISLATIVE SOLUTION TO RESTORE U.S. LEADERSHIP IN TECHNOLOGY, PRODUCTIVITY, AND TRADE.

Our policies and programs have a missing ingredient, which makes them negative policies only. We say we will fight inflation. We say we will fight unemployment. We say we will have orderly trade agreements. But those are only temporary band-aids.

We need to have a positive policy, which says that, for example, within 5 years we want to make sure that the net disposable income of the average American will increase by 30% in constant purchasing power, and that the investment in manufacturing technology and facilities will increase to 15% or 20% of GNP per annum, and that our productivity will grow by 5% per year.

To achieve that, we need a consensus that can be implemented by industry, Congress, and the Administration working together.

Of course, we cannot confine the issue just to "innovation". The broader issue in the United States is the rate of productivity increase, and a still broader issue is "competitiveness" -- the ability to compete in world trade, both in export as well as meeting domestic competition of imports (or of

foreign owned factories within the United States which are placed here in order to be safe from our increasing protective trade policies. Because of our negative trade balance, high rate of inflation and decreasing value of the dollar held in foreign countries, investment in U. S. facilities by foreign owners becomes most attractive).

But to get moving, our basic and primary need is this: to establish within the government an agency or sub-agency whose primary objective is funding and fostering applied R&D -- technological applications which will restore U.S. productivity leadership.

Such an agency would make grants to industry and universities for the express purpose of "building the better mouse trap", increasing productivity and improving our ability to compete. In essence, this agency should do for applied science that which the NSF does for pure science but which the NSF is unequipped to do for applied science. More particularly, the agency should have the following objectives, functions and governance:

A. Objectives and Functions.

1. Initiate and support applied research and engineering programs, bearing in mind:

A. Export and job potential;

B. Potential impact on productivity;

C. Benefits to small business; and

D. Benefits to the dis-aggregated parts of industry which are made up of small businesses.

2. Support, by means of grants, scholarships, and other forms of assistance to institutions of higher education, educational curricula which would emphasize practical engineering skills.

3. Initiate and support by means of similar grants and other forms of assistance cooperative programs between institutions of higher education and industry involving (a) the pursuit of research which meets specific commercial needs, (b) the exchange of personnel in research positions, and (c) research on industry standards, quality control and cost control.

B. Governing Board.

Such an agency should be administered by a board composed of representatives from business and the applied sciences and structured in such a way that its independence and integrity can be preserved.

The agency should also be adequately funded so that it may carry out the vital goals of its mission.

C. Fitting the Agency within the Executive Branch.

Ideally, we would like to see an independent agency -- a National Engineering Foundation ("NEF"), like NSF, but with different Directors, different objectives -- a different mission.

But it need not be an independent agency. It could be lodged in a new Department of Trade, or elsewhere. The important thing is that -- wherever this function is lodged -- it have (1) a properly defined mission, (2) a governing board committed to that mission and capable of achieving it, and (3) adequate resources.

With that in mind, we believe a valuable and not-to-be-missed opportunity is presented by the present bill. The proposal for the creation of a Department of Trade or, in the alternative, of a restructured Department of Commerce, which would centralize and streamline all other current agencies dealing with trade, would provide the new base upon which a series of vitally needed new programs could be built.

Technology is inextricably linked to a healthy export trade. Any new Department of Trade ought to have as a primary mission support of applied technology in the United States.

Whatever the form, we need a strong bill, and a bill which recognizes the vital connection between external trade policy and domestic productivity/innovation.

Senator ROTH. At this time I would ask Mr. Greenbaum to come forward. Mr. Greenbaum is representing the American Importers Association. I notice he is president of Kemp & Beatley of New York City.

Mr. Greenbaum?

TESTIMONY OF LEE A. GREENBAUM, JR., PRESIDENT, KEMP & BEATLEY, INC., AND FIRST VICE PRESIDENT, AMERICAN IMPORTERS ASSOCIATION, ACCOMPANIED BY GERALD O'BRIEN, EXECUTIVE VICE PRESIDENT

Mr. GREENBAUM. Thank you.

My name is Lee Greenbaum, Jr. I am president of Kemp & Beatley of New York City. My company is an importer, exporter, and domestic manufacturer of table linens. I appear here in my capacity as first vice president of the American Importers Association [AIA], 420 Lexington Avenue, New York City. I am accompanied by Gerald O'Brien, executive vice president of AIA.

The American Importers Association is a nonprofit organization formed in 1921 to foster and protect the importing business in the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is a recognized spokesman for importers throughout the Nation.

We welcome this opportunity to present our views on S. 377, S. 891, and also the administration's proposal, addressing the question of reorganizing the Federal Government's international trade functions.

The AIA began its consideration of this issue with the belief that while the United States did not have a formal long-range international trade policy coordinator, a fairly rational policy existed which grew out of a long U.S. tradition of free trade policies and health interagency debate over the specifics of these policies.

We also felt very strongly that who developed future trade policy was less important than that the policy encourage trade liberalization. While we remain firmly convinced of the validity of the latter point, we believe that the ad hoc policy development of the past several years combined with the enormous challenge of insuring the effective worldwide implementation of the MTN agreements require the United States to establish a strong but lean office to develop a long-range international policy which interfaces with national economic, defense, agricultural, consumer, and foreign policies.

We hope that in doing so, the new mechanism will enhance this long-standing exchange of diverse views between departments and between diverse national interests rather than stifle it.

We believe that only an entity in the Executive Office of the President can both elevate the priority of trade policymaking and perform this coordination role. At the same time, a trade policy with the direct endorsement of the President will go farther toward insuring consistent administration of trade programs in the departments and discouraging policymaking by administrators than will extensive box moving on the Government's organization chart.

We doubt very much that this role can be performed either by a new department standing no higher than the departments upon which

it would impose its policies or by an interagency committee whose members have other matters as their primary mission.

It is essential as well that this entity possess the highest quality policy analysis and research staffing. The objective of thoughtful, comprehensive policy planning requires an aggressive, creative and professional in-house staff. The staff of this entity should not be so overwhelmed with the details of administering trade programs that they lose sight of their primary task, as so often happens in U.S. departments.

The Federal Government needs an entity to be the focal point for developing and coordinating U.S. trade and investment policy with attention to the interrelationship with other national policy issues such as foreign policy, economic policy, agriculture, and national security.

Its mandate should also include a determination of the proper policies for expanding U.S. international trade and policies to maximize consumer benefits from international trade. Coordination of these diverse departmental interests can be accomplished effectively only by an office close to the President.

We feel that the following are the necessary characteristics for structuring such an entity:

It should be located in the Executive Office of the President so as to hold a position of primacy on international trade issue.

The head of the entity should be a member of the President's Cabinet.

The entity should have policy coordination and analysis staffs which are professional, permanent, and large enough so as to command the respect of the departments, of the agencies, of the Congress, and of the public.

The entity should have trade negotiating authority.

The entity should have sufficient power to see that negotiated agreements are implemented in the United States and to insure foreign adherence to the agreements.

The entity should not be part of or associated with any existing department which has a long-standing constituency.

The appointment of the head of the entity should be subject to congressional confirmation.

The new entity should be mandated by legislation.

Beyond these characteristics, we believe that little or no change need be made in the present assignment of trade program administration among the departments.

The following paragraphs express some of the reasons why we believe each of the characteristics is essential.

As we stated earlier, bureaucratic perception that the President has developed a coherent trade policy to which he is committed will lessen much of the independence exhibit in the past by trade program administrators.

Therefore, we see little need to shift responsibility for antidumping, countervailing duty, and steel trigger price mechanism if our recommendations are implemented.

We largely agree with the President's proposals for strengthening the STR to empower it to develop and coordinate trade policy, although we believe STR should have its own analysis staff. We

disagree with the President's recommendation that the administration of the antidumping and countervailing duty laws and related functions should be assigned to the Department of Commerce.

There is little reason to move these functions out of Treasury. That Department's recent enforcement policies can hardly be labeled free-trade biased. The Department has clearly responded to congressional and Presidential pressure to alter its practices.

The new procedures of the Trade Agreements Act will allow it even less discretion in these cases than in the past. It has moved firmly to correct its neglect of the television antidumping case. Perhaps most importantly, Treasury understands the dumping and countervailing duty laws and has the extensive experience necessary to enforce them.

On the other hand, Commerce has no experience in this incredibly complex area. Private attorneys acknowledge that it takes years to fully comprehend the intricacies of antidumping cases. There is little reason to forego Treasury's knowledge and experience.

One change that the Trade Agreements Act will make in these proceedings is to make them more formal and to require the decision-makers to play an unbiased judge of competing claims. Commerce is not suited to this role in antidumping and countervailing duty cases. Traditionally, it has been the advocate of domestic business and its bureaucracy has naturally become attuned to its constituents' needs. This historic bias makes it the wrong agency to be playing a nonpartisan role in these cases.

AIA would like to take this opportunity to call for a new Commission to study the outlook and alternatives for U.S. international trade for the coming decade and to report to the Nation on how best we can meet the challenges which lie ahead.

Such commissions in the past have performed a valuable educative function, but even the report of the Williams Commission in 1971 has been outdated by the overwhelming changes in world trade since its publication in 1971. U.S. trade policy today all too often is crisis-oriented and lacks a long-term focus.

The Nation's export efforts are ineffective because we still lack any real agreement about what form export promotion should take. Every trade issue provokes heated debate but, all too often, very little light. The world's economies have entered a new era; our trade policies do not address these changed circumstances except in reaction.

A new Commission should address as a whole our domestic and international economic policies, the direction our industries are moving, the needs of the citizenry as consumers and the problems of inflation. Its report should advise the Government, industry and the public as to what must be accomplished, why it must be done, and how it can best be attempted.

The Commission should establish a pattern for future policymaking by the President's Trade Office by addressing policy issues outside of trade but which will have a significant impact on our trade programs.

The speaker before me just referred to one such issue: research and development. For example, the U.S. Department of Labor has decided to allow the use of Comprehensive Employment and Training Act [CETA] funds to train sewing machine operators for the domestic

apparel industry. For the apparel industry—the same companies and unions which have pressured Congress and the administration to protect the jobs of workers now employed. The Department of Labor now finds there is a shortage of 1,000 workers in New Jersey's apparel industry alone.

At the same time, however, this Nation has extensive restraints on the importation of apparel items for the purpose of protecting an industry which claims to be unable to compete with lower wage foreign competition. Why then is the Government preparing to train young people for careers in a noncompetitive industry? Has the administration made a decision to protect this industry for the life of these new workers regardless of the costs to the consumer?

More likely, these policies were developed independently without consideration of their interrelationship. As a consequence, we are seeing the beginning of a cycle that will end with these CETA trained workers applying for adjustment assistance years ahead. A trade policy office must consider conflicting decisions such as these, and a national commission ought to consider thoughtfully the direction that office should take. It would seem more logical, for example, for CETA funds to be used to encourage the development of industries which are competitive in the international marketplace. These decisions are difficult, but as a nation we must begin to predict where events are leading us and to make the shifts necessary to achieve our national and international goals.

A restructuring of our national trade policymaking function may bring improvements, but our root problem is a lack of guidance as to what directions that policy should take. We feel that a Commission could provide that leadership.

We agree with Prof. John H. Jackson's arguments in his recent study for the Senate Finance Committee that the MTN is not a finished process. The multitude of dispute settlement procedures—the "Balkanization of GATT decisionmaking", the lack of precision in many of the new rules, the conflicting directions of the agreements, some of which limit government intervention while others encourage government management of trade—all must be dealt with as carefully as were the negotiations themselves.

Professor Jackson implies that the new agreements force a major decision concerning the direction of international trade regulation, whether trade will be governed primarily by an effective system of rules or by power diplomacy. Without a well-defined, long-range trade policy, the United States will react only issue by issue and never address the fundamental questions. The results could well undo the accomplishments of the MTN.

The task facing the United States, as it addresses international trade policymaking for the years to come, are many and arduous. They are increasingly interrelated with other national issues. Even the questions left unanswered in the MTN are difficult and can be properly addressed only with the aid of long-term policy and a strong policymaker.

I would only like to add, commenting on the previous discussions, that while we need a vigorous and able leader, we must be very concerned that there has been no discussion of the intellectual qualities necessary in that office. We need a strong man, but he must have wisdom, knowledge and he must get help.

Thank you, sir.

Incidentally, the comments on CETA were based on an article in the Daily News Record for Friday, July 20.

Senator ROTH. Thank you, Mr. Greenbaum.

On your last point, I think that is not only true of whoever heads up the trade agency, but I think one of my real concerns is that we develop a professionalism in the trade area. In the past in STR, as I mentioned, you don't only lose the top guy, but you lose all those going down so that we don't have a seethrough or the same background and experience when we go into a new negotiation.

So that I would hope whatever restructuring we develop that we would attract good people and keep them there so that they would want to find a career.

I have, as you know, favored moving countervailing duty and antidumping, but not to Commerce. You feel Commerce is moved by protectionism. I wonder on what grounds you say that?

Mr. GREENBAUM. We have felt that their interest has been with the domestic industry and with the more inward looking sections of domestic industry. They have had some responsibilities recently to try to foster international trade. There has been, in the brief time I have heard these sessions, a great deal of criticism of the efficiency of Commerce in these areas.

I think most agencies dealing with one segment of our economy tend to develop a relationship which considers the interests of their constituency very strongly.

If I may volunteer to step into the lion's den, in our written testimony, we looked at some of the recently formed departments and did not find any reason for joy in their performance. We believe that might be the fate of the Department which you propose.

Senator ROTH. Well, let me put it this way: I am not satisfied with the present organizational structure.

Mr. GREENBAUM. Nor are we.

Senator ROTH. I agree, I guess, with you in the sense that we need a sound activist trade policy. I think what we need, what we are trying to determine here is an organization to achieve that. What would be your reaction to moving countervailing and antidumping to the STR?

Mr. GREENBAUM. That would be our second choice. We feel that that is the next most logical place, and we hope that what one might call the technicians who are familiar with those problems, there would be some way for them to go along. I don't know if there is a change in the civil service status or not, but there is expertise which we don't want to lose.

Senator ROTH. They would be transferred, I am confident.

One of our concerns in committee, particularly in the Finance Committee, has been that in some of these cases it has taken too long to resolve them and somehow we have to expedite that.

Mr. GREENBAUM. We do agree with that, but we do feel that with strong direction from the President and the STR, there is no reason, perhaps with a little more staffing, there is no reason why Treasury can't accomplish that.

Senator ROTH. Treasury has always been a strong Department. I just think it would be a much sounder approach to remove it from Treasury to the STR. I don't want to give the problem to the STR of taking on the Treasury.

The only other comment I have at this time is on creation of a commission. I must say in my years in the Congress, I am constantly proposing that myself. But I do think the time has come for action.

Mr. GREENBAUM. I don't mean the Commission should delay this reorganization. That would be disastrous, but we have decades ahead of us and we must get intelligent guidance. It doesn't mean we have to stop and not reorganize——

Senator ROTH. But one of the roles that I see of the new organization is to take a long look. What I am concerned about in government today, not only in this area but every other area, we are just acting with respect to the immediate problem—we really are reacting. In the case of MITI in Japan, not the problem, where they are so much more sound and far reaching than we are; they are planning 10, 15 years from now.

They are doing it within that MITI organization. That is the whole purpose, in my judgment, of creating a new vehicle or instrumentality, is to give some long-range looks and then to make specific proposals to the Congress how to implement them. So in this respect, I agree with you.

Thank you very much, Mr. Greenbaum.

Mr. O'BRIEN. Hearing the testimony this morning, the statement was made many times about how STR becomes more morbid between trade negotiations——

Senator ROTH. Becomes what?

Mr. O'BRIEN. Morbid, dead, the people leave. It is not surprising all the negotiations in the past have been no more than how do we cut tariffs. Now with the new emphasis this time on enforcement, both on behalf of American exports and on imports of the new codes, I think that there is, for the future a real reason for a strong STR and for a staff to stay because they will have a continuing function. It is not the same old ball game any more.

Senator ROTH. It is not the same old ball game, but if you look at the people who are leaving or intend to leave in the near future, I think it is imperative that we, in our consolidation, create the kind of mission that will attract the people. Thank you, gentlemen, very much.

[The prepared statement of Mr. Greenbaum, Jr., follows:]

Mr. Chairman and Members of the Committee: My name is Lee A. Greenbaum Jr. I am President of Kemp & Beatley, Inc. of New York City. My company is an importer, exporter, and domestic manufacturer of table linens. I appear here in my capacity as First Vice President of the American Importers Association (AIA), 420 Lexington Avenue, New York City. I am accompanied by Gerald O'Brien, Executive Vice-President of AIA.

The American Importers Association is a non-profit organization formed in 1921 to foster and protect the importing business in the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is a recognized spokesman for importers throughout the nation.

We welcome this opportunity to present our views on S. 377, S. 891, and also the Administration's proposal, addressing the question of reorganizing the federal government's international trade functions.

I. INTRODUCTION

The AIA began its consideration of this issue with the belief that while the U.S. did not have a formal long-range international trade policy coordinator, a fairly, rational policy existed which grew out of a long U.S. tradition of free trade policies and healthy interagency debate over the specifics of these policies. We also felt very strongly that who developed future trade policy was less important than that

the policy encourage trade liberalization. While we remain firmly convinced of the validity of the latter point, we believe that the ad hoc policy development of the past several years combined with the enormous challenge of ensuring the effective worldwide implementation of the MTN agreements require the United States to establish a strong, but lean, office to develop a long range international trade policy which interfaces with national economic, defense, agricultural, consumer and foreign policies. We hope that in doing so, the new mechanism will enhance this long-standing exchange of diverse views between departments and between diverse national interests rather than stifle it.

We believe that only an entity in the Executive Office of the President can both elevate the priority of trade policymaking and perform this coordination role. At the same time, a trade policy with the direct endorsement of the President will go farther toward ensuring consistent administration of trade programs in the departments and discouraging policymaking by administrators than will extensive box-moving on the government's organization chart. We doubt very much that this role can be performed either by a new department standing no higher than the departments upon which it would impose its policies or by an interagency committee whose members have other matters as their primary mission.

It is essential as well that this entity possess the highest quality policy analysis and research staffing. The objective of thoughtful, comprehensive policy planning requires an aggressive, creative and professional in-house staff. The staff of this entity should not be so overwhelmed with the details of administering trade programs that they lose sight of their primary task, as so often happens in U.S. departments.

The creation of consolidation of existing agencies into the two new Departments of Transportation and Energy have failed to meet the goal envisioned for a Department of International Trade & Investment: the development of effective national policies in their respective areas. We question whether a new department dev ted to international trade would be able to do any better.

An entity modeled upon the present STR with certain modifications suggested below presents the best prossible vehicle for meeting the goal of better trade policy coordination and administration.

II. AIA'S PROPOSAL FOR REORGANIZATION

Discussions on the issue of how best to reorganize the federal government's international trade functions have centered around three approaches: the creation of a new department, moving most trade functions to the Department of Commerce, or creating an entity in the Executive Office of the President responsible solely for the development of trade policy.

The federal government needs an entity to be the focal point for developing and coordinating U.S. trade and investment policy with attention to the interrelationship with other national policy issues such as foreign policy, economic policy, agriculture, and national security. Its mandate should also include a determination of the proper policies for expanding U.S. international trade and policies to maximize consumer benefits from international trade. Coordination of these diverse departmental interests can be accomplished effectively only by an office close to the President.

For these reasons AIA believes an entity in the Executive Office offers the best opportunity with the least possibility of encouraging unnecessary bureaucratic expansion.

We feel that the following are the necessary characteristics for structuring such an entity:

It should be located in the Executive Office of the President so as to hold a position of primacy on international trade issues.

The head of the entity should be a member of the President's Cabinet.

The entity should have policy coordination and analysis staffs which are professional, permanent and large enough so as to command the respect of other departments and agencies.

The entity should have trade negotiating authority.

The entity should have sufficient power to see that negotiated agreements are implemented in the United States and to ensure foreign adherence to the agreements.

The entity should not be part of or associated with any existing department which has a long-standing constituency.

The appointment of the head of the entity should be subject to Congressional confirmation.

The new entity should be mandated by legislation.

Beyond these characteristics, we believe that little or no change need be made in the present assignment of trade program administration among the departments.

The following paragraphs express some of the reasons why we believe each of the characteristics is essential.

(A) The entity should be placed in the Executive Office of the President.

The development of trade policy can never be isolated as an independent subject. Even if trade functions are removed from existing departments to a consolidated department, the old departments will continue to have valid interests in trade. New offices will soon regenerate within the departments, and interagency jurisdictional conflicts will reappear.

Rather than discouraging the espousal of valid interests, these views should be channeled into a focal entity with the authority and independence to choose between and balance competing views and then enforce the policy ultimately selected. Only the Office of the President is in such a position.

One of the forces behind the rising interest in reorganization is the recognition that international trade policy is no longer to be treated as the stepchild of domestic economic policy or foreign and defense policies, but that it must be considered on its own. Such a readjustment of attitude requires that the President bring his presence fully to bear on policy determination. He can do that best by designating international trade policymaking as important enough to warrant a place beside the National Security Council, the Council of Economic Advisors, and the Ambassador to the United Nations. Consolidation into a new or existing department would move the subject away from the President.

(B) The head of a new entity should be a member of the President's Cabinet.

If trade policy were to be consolidated with existing Department of Commerce functions, it would be forced to compete for the attention of the Secretary with the department's domestic commercial and non-commercial missions including even such agencies as the Bureau of the Census, the National Oceanic & Atmospheric Administration, and the U.S. Fire Administration. Trade policy clearly would become lost in Commerce's bureaucratic morass, and the person responsible solely for international trade would not sit as a member of the Cabinet.

In a new department, the Secretary would be a member of the Cabinet but only as one among equals without special authority to decide interdepartmental disputes. His or her voice could not be expected to carry the special kind of authority that we are suggesting is necessary. The present STR has had that authority but only for trade negotiation purposes. An officer with the even broader mandate of setting trade policy for the government will need even a stronger hand.

(C) The entity must have a professional analysis staff.

One shortcoming of the STR is that it is not large enough to do the statistical and policy research and analysis necessary for the development of trade policy much less than that necessary for coordinating trade policy with other national policies. It presently receives such support from the International Trade Commission. The addition of overall policy development and oversight, however, requires that an analytical capability be given to the new entity. The National Security Council provides an excellent example both for professionalism and size.

The staff's size must be restrained, however. The Department of Commerce is an example of analysis growing beyond demonstrated need—where analysis becomes more a function of competition for attention than of support for decision-making. In a department, all too often, the numbers of personnel become equated with power and effectiveness. This tendency is restrained in the Executive Office.

(D) The entity should have trade negotiation authority; and

(E) The entity must have the power to ensure that trade agreements are implemented.

Clearly this entity should be empowered to conduct all U.S. trade negotiations. As a part of its authority to see that its policy for other governmental trade programs is carried out by the responsible administering agency, it should have the authority to ensure that those agencies also adhere to the policies resulting from negotiated agreements. This entity should also bring pressure on other signatories of trade agreements to adhere to their provisions.

(F) Trade policy should not be assigned to a constituency-based department.

An entity with authority to develop international trade policy must not be "captured" by any single constituency. It must be accessible and sensitive to

the needs of or partisan and sectoral interests but it must hold itself in a position to be able to say no to any demands not in the overall national interests. A new department would be more easily "captured" than an office in the White House.

The entity must also be in a position to give serious consideration to interests which do not wield strong, organized political influence such as the consumer, the poor and those persons living on fixed incomes. These citizens through lack of an interested forum are forced to bear the related costs of inflation and the costs of import restrictions.

(G) The appointments of the chief policy officers should be confirmed by the Congress; and

(H) The new entity should be established by an Act of Congress.

The new entity must have the authority of a statutory mandate. In its operations the entity must be perceived by our trading partners not merely as an arm of the President but as an entity backed by the authority of both the President and the Congress.

III. THE WHITE HOUSE REORGANIZATION PROPOSAL

As we stated earlier, bureaucratic perception that the President has developed a coherent trade policy to which he is committed will lessen much of the independence exhibited in the past by trade program administrators. Therefore, we see little need to shift responsibility for antidumping countervailing duty, and steel trigger price mechanism if our recommendations are implemented.

We largely agree with the President's proposals for strengthening the STR to empower it to develop and coordinate trade policy, although we believe STR should have its own analysis staff. We disagree with the President's recommendation that the administration of the antidumping and countervailing duty laws and related functions should be assigned to the Department of Commerce. There is little reason to move these functions out of Treasury. That department's recent enforcement policies can hardly be labelled free-trade biased. The Department has clearly responded to Congressional and Presidential pressure to alter its practices. The new procedures of the Trade Agreements Act will allow it even less discretion in these cases than in the past. It has moved firmly to correct its neglect of the television antidumping case. Perhaps most importantly, Treasury understands the dumping and countervailing duty laws and has the extensive experience necessary to enforce them.

On the other hand, Commerce has no experience in this incredibly complex area. Private attorneys acknowledge that it takes years to fully comprehend the intricacies of antidumpting cases. There is little reason to forego Treasury's knowledge and experience.

One change that the Trade Agreements Act will make in these proceedings is to make them more formal and to require the decision makers to play an unbiased role as adjudicator of competing claims. Commerce is not suited to this role in antidumping and countervailing duty cases. Traditionally it has been the advocate of domestic business and its bureacracy has naturally become attuned to its constituents' needs. This historic bias makes it the wrong agency to be playing a nonpartisan role in these cases. The White House has acknowledged indirectly this problem and responded by giving the Trade Policy Committee the responsibility for overseeing Commerce's import remedy policy "to the extent legally permitted." We doubt that the TPC can have more impact in oversight than would the President's Office which creates trade policy, but the primary question is why should a situation be created where oversight will have to be exercised?

IV. A NATIONAL COMMISSION

An assumption implicit in our statement today is that any new entity or department will have as a first order of business an analysis of current trade policies and a proposal for the direction of future U.S. policy. AIA would like to take this opportunity to call for a new Commission to study the outlook and alternatives for U.S. international trade for the coming decade and to report to the nation on how best we can meet the challenges which lie ahead.

Such commissions in the past have performed a valuable educative function, but even the report of the Williams Commission in 1971 has been outdated by the overwhelming changes in world trade since its publication in 1971. U.S. trade policy today all too often is crisis oriented and lacks a long-term focus. The nation's export efforts are ineffective because we still lack any real agreement

about what form export promotion should take. Every trade issue provokes heated debate but, all too often, very little light. The world's economies have entered a new era; our trade policies do not address these changed circumstances except in reaction.

A new Commission should address as a whole our domestic and international economic policies, the direction our industries are moving, the needs of the citizenry as consumers and the problems of inflation. Its report should advise the government, industry and the public as to what must be accomplished, why it must be done, and how it can best be attempted.

The areas to be investigated include but go beyond the subjects studied by the Williams Commission. They include international competition in research and development, structural and sectoral employment, energy as it relates to trade, agriculture, international protection of confidential business information submitted by non-resident corporations for governmental regulatory purposes, taxation and dispute prevention as well as dispute settlement mechanisms to work toward an internationally-accepted rule of law in international trade and commerce.

The commission should establish a pattern for future policymaking by the President's trade office by addressing policy issues outside of trade but which will have a significant impact on our trade programs. For example, the U.S. Department of Labor has decided to allow the use of Comprehensive Employment and Training Act (CETA) funds to train sewing machine operators for the domestic apparel industry. For the apparel industry—the same companies and unions which have pressured Congress and the Administration to protect the jobs of workers now employed! The Department of Labor now finds there is a shortage of 1,000 workers in New Jersey's apparel industry alone! At the same time, however, this nation has extensive restraints on the importation of apparel items for the purpose of protecting an industry which claims to be unable to compete with lower-wage foreign competition. Why then is the government preparing to train young people for careers in a noncompetitive industry? Has the Administration made a decision to protect this industry for the life of these new workers regardless of the costs to the consumer? More likely, these policies were developed independently without consideration of their interrelationship. As a consequence, we are seeing the beginning of a cycle that will end with these CETA trained workers applying for adjustment assistance years hence. A trade policy office must consider conflicting decisions such as these, and a national commission ought to consider throughtfully the direction that office should take. It would seem more logical, for example, for CETA funds to be used to encourage the development of industries which are competitive in the international marketplace. These decisions are difficult, but as a nation we must begin to predict where events are leading us.

A restructuring of our national trade policy making function may being improvements, but our root problem is a lack of guidance as to what directions that policy should take. We feel that a Commission could provide that leadership.

V. CONCLUSION

The tasks facing the United States as it addresses international trade policymaking in the years to come are many and arduous. They are increasingly interrelated with other national issues. Even the questions left unanswered in the MTN are difficult and can be addressed properly only with the aid of long-term policy and a strong policymaker.

We agree with Professor John H. Jackson's arguments in his recent study for the Senate Finance Committee that the MTN is not a finished process. The multitude of dispute settlement procedures (the "Balkanization of GATT decision-making"), the lack of precision in many of the new rules, the conflicting directions of the agreements, some of which limit government intervention while others encourage government management of trade, all must be dealt with as carefully as were the negotiations themselves. Professor Jackson implies that the new agreements force a major decision concerning the direction of international trade regulation, i.e., whether trade will be governed primarily by an effective system of rules or by power diplomacy. Without a well defined long range trade policy, the United States will react only issue by issue and never address the fundamental questions. The results could well undo the accomplishments of the MTN.

Finally, as this Committee considers the alternatives for trade reorganization, we urge you to give serious thought to the realities of bureaucracy. How will depart-

ments stripped of power react in the years that follow? What manner of hearing would a new secretary receive as he or she competes for the President's time with coequal departments and strong agencies? Can the injection of new responsibilities revitalize an overgrown, lethargic Department of Commerce? Will the mere transfer of administrative responsibilities significantly alter the policy orientation of these offices?

In our experience, we are pessimistic that any reorganization alone will cause fundamental improvement. Quality decisionmaking and efficiency are functions inversely related to size. We greatly fear that the primary result of departmental reorganization will ultimately be more bureaucracy, more diffused responsibility, and less vitality in the agencies involved with international trade.

Senator ROTH. Mr. Tobin, please come forward.

Mr. Tobin is a member of the Smaller Business Association of New England, and director of Marketing and Development. I particularly, although I haven't read what you have to say, welcome your being here because I think one of the most important aspects of our trade policy is to get much greater participation by small business.

I agree with the comments made this morning that many of your very large multinationals can do much on their own, but that somehow we have to open the door so that small and medium business become export oriented. I am pleased to have you here, Mr. Tobin.

TESTIMONY OF WILLIAM F. TOBIN, DIRECTOR OF MARKETING AND DEVELOPMENT, MASSACHUSETTS PORT AUTHORITY, AND MEMBER OF THE SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND INTERNATIONAL TRADE COMMITTEE

Mr. TOBIN. Thank you, Mr. Chairman.

Mr. Chairman, thank you for giving small businesses the opportunity to express a voice in shaping the U.S. export policy.

The Smaller Business Association of New England, known as SBANE, the Nation's oldest regional association of smaller enterprises, is in its 41st year. We feel thoroughly qualified to comment on a bill such as S. 377 and to speak for smaller companies on their needs in the export area.

To substantiate our knowledge of foreign trade, I point to SBANE's recent receipt of the President's E Award for excellence in export promotion.

We are the first small business association to receive this prestigious honor since President Kennedy introduced the E Award in 1961.

In 1977, SBANE was responsible for initiating the first small business export program, a series of extensive trade missions exclusively for smaller companies conducted by the Massachusetts Port Authority. Its success has prompted some in Washington to consider a possible prototype for national implementation.

SBANE agrees with your assessment that the administration of American export trade programs and services must be consolidated. As manager of the authority's small business export program, I can personally attest to the fractured and ineffective management of U.S. export policy. Our lingering trade imbalance bears this out.

What has not sufficiently arisen in prior testimony, press statements and media reports, is the real small business should, and must play in U.S. foreign trade.

We hope you are now all familiar with the aggregate strength of U.S. smaller enterprise; 97 percent of all businesses are defined as

small. They employ 55 percent of the work force and generate 43 percent of the GNP. Knowing these statistics, it is our belief that the vast potential for future international trade is held by small business.

SBANE believes the single greatest contribution small business can make toward a healthier economy is through expanded exporting.

Let me illustrate. In New England alone, there are 20,295 manufacturers employing fewer than 500 people. In other words, they are classified as smaller enterprise. If it is possible to encourage only 5 percent of the 20,295 small New England manufacturing firms to export that presently do not, we would achieve a 42-percent increase in the number of manufacturing firms that do export.

If we multiply these results by the number of other regions in the country, the benefits become all too obvious for the local, regional and national economy.

It is a reachable goal and possibly even modest. But I should add, such potential is doubtful without a more systematic and accessible approach to administration of U.S. foreign trade policy.

Various Federal agencies abundantly award grant money to study why small businesses do not export and why they should. We know these answers. Now is the time to proceed and unifying Federal trade agencies under an umbrella entity is a good start.

Our experience with the Washington bureaucracy tells us that it would be difficult to sustain a national priority on export—particularly small business export—without creation of such a department of trade.

Small business leaders have not previously been accorded a voice in forging U.S. export policy. One need only look at the roster of the President's Export Council to see that the small businessman or person is not represented.

When—and not if—small business input is acted on by the new trade agency, the real and perceived impediments to export for small companies would be dealt with. I would like to examine some of those this afternoon.

We can only assume a serious department of trade investment will include a division to represent smaller enterprise. This small business branch would necessarily have to address the many barriers a small company faces when engaging in export trade.

We seek only a recognition that small business labors under shortage of specialists, manpower, and capital, but not talent, potential, and innovation. Before it can assist small business exporters, Department of Trade and Investment would have to convince smaller companies why they should engage in foreign trade.

The most identifiability reason to export is that international markets can be profitable for small business.

Second, I say quite earnestly, that the small businesses that I know who export are also in it for the unparalleled challenge for one's business ability. Profit certainly is the greatest appeal to export, but to trade on the ambition of entrepreneurs would be an oversight.

Moreover, as I pointed out, a dramatic increase in small business foreign trade can genuinely pare our trade deficit. It takes numbers, though, and small concerns must be persuaded of the potential of their collective effort.

Finally, and perhaps most importantly, the global market of the eighties will put greater demands on U.S. business, especially small business. The MTN agreements will put foreign competitors on equal footing with small companies for U.S. Government contracts. Also, small business will be virtually shut out of the soon to be opened foreign business unless the United States more aggressively helps the smaller entrepreneur. To remain competitive under the ensuing conditions, many small companies will have to enter the export market.

SBANE proposes and endorses a multi-step plan that should encourage small companies to export and, in effect, buoy our entire international trade program.

Step 1 would be a separate department of trade and investment accorded cabinet level status should be formed. It should, as proposed in S. 377, consolidate the export agencies and offices of relevant Federal Government bodies.

Step 2, as recommended earlier, there should be a clearly defined and highly publicized small business office within the Department of Trade and Investment. This office would offer one-step service for the export needs of small companies, from licensing to foreign liaison to advocacy of legislative programs stimulative to foreign trade for smaller enterprise.

Step 3, the MASSPORT/SBANE small business export program should serve as a model for local and regional sector programs like it around the country. A proposal detailing precisely just this is being reviewed and considered by one of the task force on the White House Conference on Small Business.

In short, the benefit of this program is that it can be started very quickly and produce tangible results almost immediately that can be measured.

Step 4, trade missions sponsored by the Department of Commerce, or whoever will sponsor them from now on, should be geared more to small businesses. The ventures should be of a horizontal nature and include more companies unquestionably defined to small.

Step 5, SBANE is suggesting creation of a foreign "Commerce Business Daily" that would list foreign contracts made available to both large and small U.S. businesses. This list would be compiled by the commercial attachés in the respective nations.

With MTN opening up more foreign businesses, it is imperative that the United States reach out to apprise small businesses of these opportunities.

A German manufacturer can subscribe for $30 to Commerce Business Daily. Why should we so freely allow this type of access while depriving American small businesses of equal access to foreign markets.

A recent article in Business Week best summarizes the need for department of trade and investment.

> Only a full fledged department will have the power to build an export oriented constituency to give more weight to trade in the definition of national policy objectives and to help formulate the legislative measures needed to remedy the weaknesses in the U.S. economy that are now reflected in the chronic trade deficits.

SBANE wholeheartedly agrees. We had a caveat, however. Without fundamental change in the structure and direction of U.S. export policy toward small business, consolidation or merger of trade policy-

makers and administrators will become no more than a worthless and costly exercise to rearrange the bureaucracy.

The time for change is now. I trust this committee and the Congress will recognize this and act accordingly.

Thank you very much.

Senator ROTH. Thank you, Mr. Tobin. I am sure you can appreciate the fact that I agree very strongly with Business Week, that I think the only way you are going to rapidly change the trade policies and national objectives is through a department of trade and investment.

Unfortunately, I recognize, as you probably have here earlier, as does Senator Ribicoff, that we may not get a full change at this stage, so we want to make certain we do take steps that are leaning in that direction.

Very candidly, the greatest growth is going to be abroad and we have to be in a position to get our fair share of that. I am particularly sympathetic to what you are saying, and that is that we must be structured and organized so that small business, which really is the most innovative part of our private sector, has an opportunity to expand in that direction.

One question I would like to ask in that regard, assuming whether we coordinate within the STR or Commerce or a miracle happens and we get the new department, what about the export promotion functions of SBA, would you place that in this new agency or department?

Mr. ROBIN. Senator, we can look back with experience for 3 or 4 years and see what has happened. I see nothing over those last 3 or 4 years that would encourage me to repeat what has already happened. I think I tend to agree with the remarks that you made earlier that we need a strong advocate with an organization under that person who can speak very, very strongly and aggressively for export trade.

One of the problems with SBA, Commerce, OPIC—the other agencies is that it is just creating further and additional confusion. Two points, Commerce defines small business as any company, generally speaking, with 500 or fewer employees. OPIC defines a small business as any company not on the Fortune 1,000 list. The 1,000 company on the Fortune list is $100 million.

Mr. Chairman, I propose that that is not a small business, if you have $100 million in revenue. The second is that my agency in Massachusetts and two others are now talking with SBA about grant funding. We are talking with three or four different departments within SBA, all to study why we are not exporting more, why small business is not exporting.

Chances are we will get that money and on one hand there is the incentive for us to go after that money, but on the same hand, we have to sit back and wonder at the waste that is going on. We know the answers and with all due respect to the former speaker here earlier, I don't think we need more studies. I think we need action and action very quickly.

Senator ROTH. I agree very strongly with you. One of the suggestions you made, which I think is an excellent one, is that of instituting a foreign Commerce Business Daily to list procurement opportunities. I will both follow through and write the Secretary of Commerce on that regard. It is a matter that concerns me because one of our new

codes, the whole purpose of which is to open foreign government procurement to American business.

If you look at our record it has not been very good. I find from our American business people that they are learning weeks later, say, behind the Canadian or British where these opportunities are.

Mr. TOBIN. They are fast.

Senator ROTH. So this code is not much good if you and your people in Massachusetts or my State of Delaware don't know what they are in time to do something about it. So I think that is a valuable suggestion.

I was interested in your proposal of one-stop service. I mentioned earlier that Senator Adlai Stevenson and myself are creating what we call a Senate Export Caucus, the whole purpose of which is to adopt policies to promote American trade.

As I say, we are very much interested in small business. Would you mind just going into a little more detail what you mean by one-stop service?

Mr. TOBIN. When a small business entrepreneur gets the idea that he or she wants to export, chances are they don't know anything about it. If they go to the government, where do they go? Do they go to the Commerce Department; do they go to the SBA; do they go to the OPIC; do they go to Eximbank, and if they finally figure out which agency they do go to, who do they go to in that agency?

More times than not what happens when an individual goes to one of those agencies, they are told you are in the wrong room, you have to go up to floor such-and-such and see Mr. or Mrs. so-and-so. You go up there and you are told you are in the wrong building. We have cases of being told we are in the wrong city, the regional office is not here, you are in the wrong regional office.

This is only a subfield office. At this point the person says, "the hell with it," and goes back to concentrating on his local market. So what I am saying and what we are suggesting is that individuals of knowledge with the Government program be put in various locales so that when an individual business entrepreneur comes into that Federal Government office, there is one individual that can answer their questions, would direct them the first time in the right direction.

This is not happening now and more often than not it turns away those individuals who are thinking of exporting.

Senator ROTH. I think that is critically important. No. 1, small business cannot afford to spend either the time of their owner or executive or the costs in contrast to larger business. So if we are really going to promote the small business involvement in trade, it seems to me that is essential, which leads me to a related problem in the multinational trade negotiations.

It was at my instigation we created what we called advisory committees for business and labor so that the chemical industry or the steel industry or the various unions would have the opportunity to comment as negotiations proceeded. There was great complaint in 1974 that our business and our labor was handicapped by the fact that in Europe they had that opportunity. On the whole, I thought it worked reasonably well. Labor did not become as involved as I should have liked.

But I might also say there was no direct vehicle for small business. Now, we were talking this morning about the problem of business generally and labor. Senator Ribicoff and I voiced the opinion that it would be desirable to provide advisory committees for them.

My question to you is: How can we do this same thing to get the input on an ongoing basis from small business?

Mr. TOBIN. Senator, the problem is credibility. You said it a moment ago. A small business entrepreneur is usually running their own show where maybe one or two top people can speak with authority. They don't have the time to come to Washington; they don't have the time to go to regional meetings, unless—and they are willing to spend that time—unless they feel they are being brought down for a realistic purpose rather than for a lot of show and tell.

Unfortunately, the aspect relating to small business has been a lot of show and tell, so to speak.

I think you will find small business is aggressively anxious to make its input known on the Federal level. My response would be they would welcome such advisory committee role, participation, however it might be structured, but they are going to want to believe it is real. Too often they come to Washington and they believe that they are being caught up in a political mishmash that has no sense of reality.

I think if we can make that step in the process that their comments are going to be really listened to, then they will participate. But it is kind of hard after being told that small business is extremely important and then there is an export council put together and there is no representation on that export council of small business.

They are not brought together as a strong lobbyist group, therefore, they lose a great deal of input because of that. The White House Conference on Small Business, I think, is a step in the right direction, but they are not going to come to Washington in January and listen to a lot of platitude. What has been promised to them in January, I hope, will be real because I think the ones I have talked to at this point have come to the conclusion that they are willing to take their time from their businesses if it is going to mean something and they are looking toward this White House Conference to see whether all their participation has been worth it.

They don't expect to have everything their own way, but they want to be given a realistic shot and so far they have not.

Senator ROTH. Going back to the example of the multinational trade agreements, as I said the Advisory Committees on the whole worked reasonably well. I think the fact that we had only four negative votes on the vote earlier this week, shows that the system worked. In all candor, I think it was partly due to the fact that Ambassador Strauss was willing and did listen to their complaints.

I would also say it was due to the fact the Oversight Committees let the STR know when they weren't adequately listening. It is a little more difficult, however, with small business. Because one of the things, you broke down the large business by Tennecos, or whatever it was, so that there was a commonality of interest. Whereas, in small business, you have got a diversified group that obviously there is going to be some inconsistency as to their position.

I do think if we create this advisory, we ought to try to set up some kind of a mechanism. If you have any further thoughts in this area,

I think it is critically important that there be a direct input into this instrumentality so that we can expand the opportunity of small business.

One final thing, Mr. Tobin, you mentioned something about your small business export program. I mentioned earlier about the Senate Export Caucus. I would be very much interested in receiving, if you have any, background information about this, or any other thoughts that you think would be helpful in assuring small business can become much more involved in trade.

Mr. TOBIN. Thank you, Mr. Chairman.

Senator ROTH. I want to thank you for your very helpful statement. I appreciate your being here with us today.

Mr. TOBIN. Thank you.

[The prepared statement of Mr. Tobin follows:]

STATEMENT OF WILLIAM F. TOBIN, MEMBER, SMALL BUSINESS ASSOCIATION OF NEW ENGLAND, INC. AND DIRECTOR OF MARKETING & DEVELOPMENT, MASSACHUSETTS PORT AUTHORITY, BOSTON, MASS.

Mr. Chairman and Members of the Committee: Thank you for giving small business the opportunity to express a voice in shaping the U.S. export policy. It's our understanding that this is the first small business input of S. 377. We are flattered and trust that our contribution will aid the Committee in drafting an export program cognizant of smaller enterprise.

The Association, known as SBANE, is in its 41st year, the nation's oldest regional association of smaller enterprise. SBANE focuses its resources for its 1,400 company members on educational programs for the small business executive and legislating on national issues on behalf of the small business sector.

We feel thoroughly qualified to comment on a bill such as S. 377, and to speak for smaller companies on their needs in the export area.

To substantiate our knowledge of foreign trade, I point to SBANE's recent receipt of the President's "E" Award for Excellence in Export Promotion. We are the first small business association to receive this prestigious honor since President Kennedy introduced the "E" Award in 1961. Attachment A tells about the "E" Award.

In 1977, SBANE was responsible for initiating the first Small Business Export Program, a series of extensive trade missions exclusively for smaller companies, conducted by the Massachusetts Port Authority. Its success has prompted some in Washington to consider it a possible prototype for national implementation. Attachment B explains the program.

SBANE agrees with your assessment that the administration of American export trade programs and services must be consolidated. As Manager of the Authority's Small Business Export Program, I can personally attest to the fractured and ineffective management of U.S. export policy. Our lingering trade imbalance bears this out.

What has not sufficiently arisen in prior testimony, press statements and media reports is the role small business should—and must—play in U.S. foreign trade.

We hope you are now all familiar with the aggregate strength of U.S. smaller enterprise—97 percent of all businesses are defined as small; they employ 55 percent of the workforce, generate 54 percent of the GNP and innovate 24 times as many products as large business.

Knowing these statistics, it is our belief that the past potential for future international trade is held by small business. Large corporations know their market, have capitalized on it, and will continue to do so.

SBANE believes the single, greatest contribution small business can make toward a healthier economy is through expanded exporting.

Let me illustrate. In New England alone, there are 20,295 manufacturers employing fewer than 500 people; in other words, they're classified as smaller enterprise. If it is possible to encourage only 5 percent of the 20,295 small New England manufacturing firms to export that presently do not, we would achieve a 42 percent increase in the number of manufacturing firms that export. If we multiply these results by the number of other regions in the country, the benefits become all too obvious for the local, regional and national economy.

It is a reachable goal, and possibly even modest.

But, I should add, such potential is doubtful without a more systematic and accessible approach to administration of U.S. foreign trade policy. This must be coupled with an outlay of federal dollars in a way stimulative to small business exports such as in tax policy, which I will discuss later.

Various federal agencies abundantly award grant money to study why small businesses do not export and why they should. We know those answers. Now it's time to proceed, and unifying federal trade agencies under an umbrella entity is a good start.

Our experience with the Washington bureaucracy tells us that it would be difficult to sustain a national priority on export—particularly small business export—without creation of such a Department of Trade.

Small business leaders have not previously been accorded a voice in forging U.S. Export Policy. One need look only at the big business monopoly of the President's Export Council. When—and not if—small business input is acted on by a new Trade Agency, the real and perceived impediments to export for small companies will be dealt with. I'd like to examine some of those this morning.

First, however, a premise. Large corporations, among them the 250 or so currently doing 80 percent of America's exporting, do not require for exporting success much of the apparatus set in place by export promotion offices of the Commerce Department. The giants don't need, or at least are not as dependent on, legislative incentives to export, like DISC. Small business, on the other hand, needs all the assistance it can get from Congress, and whoever is administering trade policy.

We can only assume a serious Department of Trade and Investment will include a division to represent smaller enterprise. Not only to disseminate information on trade programs, but to assist small businesses in their overseas transactions and protect domestic small concerns in industries hurt by lower tariffs and more open procurement codes enacted in MTN.

This small business branch would necessarily have to address the many barriers a smaller company faces when engaging in export trade.

On Attachment C is a short checklist of selected barriers to small business export compiled by the SBANE Trade Committee. I'll point out some of the more stubborn obstacles:

1. *Market Information.*—A small business can spend $20–30,000 analyzing the right international markets for its product. That's with no guarantee of finding one, however.

2. *Channel of Distribution.*—Once the appropriate buyer or buyers are found, how does a small business reach them? Maybe they speak a different language; maybe they use an independent rep; maybe they don't really comprehend the need for your technology.

3. *Licensing.*—Here's a barrier that has been greatly exaggerated. The only licensing problem I've heard encountered is in cases of national security. But a small company eager to export may perceive the licensing process as cumbersome and impossible. This can be overcome by more aggressive government outreach to explain its relative simplicity.

4. *Outdated Standard Industrial Codes—SIC's.*—On exporting missions I've been on, the small companies are matched up with foreign purchasing agents who anticipate examining products of relevance to their company. But Commerce doesn't always keep pace with the modernization of technology represented by the SIC codes. For example, a small business person I know who manufactured an infrared scanner to detect heat loss was brought together with a European manufacturer who produced infrared heat sensitive switches—two different fields.

5. *Misguided Government Trade Missions.*—Currently, Commerce sponsors vertical trade missions, meaning but a single industry, such as tool and die manufacturers, would participate. A trade venture more conducive to small business would employ a horizontal approach, as done by the MASSPORT/SBANE Small Business Program. This way, with companies of diverse industries participating, the fierce competitive nature of vertical trips would disappear and give the small business more opportunity to successfully market its product.

6. *Government Seminars on Export.*—Many government seminars on export I've known about or attended offer programs dominated by government types lecturing small business executives. What should occur is a program almost entirely conducted by small business people experienced in export trade.

We are not suggesting that there be a deemphasis of government advocacy for large business in the global marketplace. But there is much documentation, including a telling report released last year by New York Congressman Rosenthal,

that shows federal money for export assistance is abundantly spent to help large business—those who need it the least.

We seek only a recognition that small business labors under shortage of specialists, manpower and capital—but not talent, potential and innovation. A new Department of Trade, to be effective, must capitalize on this energy of smaller enterprise.

Before it can assist small business exporters, Department of Trade and Investment would have to convince smaller companies why they should engage in foreign trade.

The most identifiable reason to export is that international markets can be profitable for small business.

Secondly, there are tax advantages to exporting that reduce the risk of starting an international venture. I'm talking about the DISC, the Domestic International Sales Corporation, which I know from experience affords a small company additional dollars at a critical time in its growth period in exporting.

Thirdly, I say quite earnestly that the small businesses I know who export are also in it for the uparalleled challenge to one's business ability. Profit certainly is the greatest appeal to export, but to not trade on the ambition of entrepreneurs would be an oversight.

Moreover, as I have pointed out, a dramatic increase in small business foreign trade can genuinely pare our trade deficit, and slow inflation. It takes numbers, though, and small concerns must be persuaded of the potential of their collective effort.

Finally, and perhaps most importantly, the global market of the 80's will put greater demands on U.S. business, especially small business. The MTN agreements will put foreign competitors on more equal footing with small companies for U.S. government contracts. Also, small business will be virtually shut out of soon-to-be opened foreign business unless the U.S. more aggressively helps smaller enterprise. To remain competitive under the ensuing conditions, many small companies will have to enter the export market.

SBANE proposes and endorses a multi-step plan that should encourage small companies to export, and in effect, buoy our entire international trade program.

Step One.—A separate Department of Trade and Investment, accorded Cabinet level status, should be formed. It should, as proposed in S. 377, consolidate the export agencies and offices of relevant federal government bodies.

As a business association, we almost never advocate "more" government. But we do not agree with those who consider this new Department more and excessive bureaucracy. We view a Department of Trade and Investment as the only mechanism to vault small business into the exporting role it should legitimately hold.

Step Two.—As recommended earlier, there should be a clearly defined and highly publicized small business office within the Department of Trade and Investment. This office should offer "one-stop service" for the export needs of small companies—from licensing to foreign liaison to advocacy of legislative programs stimulative to foreign trade for smaller enterprise.

Step Three.—The MASSPORT/SBANE Small Business Export Program should serve as a model for local and regional sector programs like it around the country. A proposal detailing precisely just this is being reviewed and consolidated by one of the Task Forces on the White House Conference on Small Business. In short, the benefit of this type of program is that it can be started very quickly and and produce tangible results almost immediately that can be measured.

Step Four.—Trade missions sponsored by the Department of Commerce, or whoever will sponsor them from now on, should be geared more to small business. The ventures should be of a horizontal nature, and include more companies unquestionably defined as small.

Step Five.—Commercial attaches in foreign cities should significantly broaden their assistance for small business. They should emulate the aggressive stance of foreign-based employees of the Department of Agriculture, who help farmers find markets, expedite sales and whatever else it takes to smooth their export activities.

Step Six.—SBANE is suggesting creation of a foreign "Commerce Business Daily" that would list foreign contracts made available to both large and small U.S. business. The list would be compiled by the commercial attaches in the respective nations. With MTN opening up more foreign business, it is imperative that the United States reach out to apprise small business of these opportunities.

A German manufacturer can subscribe for $30 to "Commerce Business Daily". Why should we so freely allow this type of access while depriving American small business of equal access to foreign markets.

Step Seven.—The DISC should not be removed, as some suggest. Consideration might even be given to expanding its benefits for small business.

A recent article in *Business Week* best summarizes the need for a Department of Trade and Investment: "Only a full-fledged department will have the power to build an export-oriented constituency, to give more weight to trade in the definition of national policy objectives, and to help formulate the legislative measure needed to remedy the weaknesses in the U.S. economy that are now reflected in the chronic trade deficits."

SBANE wholeheartedly agrees. We add a caveat, however.

Without fundamental change in the structure and direction of U.S. export policy toward small business, the consolidation or merger of trade policymakers and administrators will become no more than a worthless and costly exercise to rearrange the bureaucracy.

The time for change is now. I trust this committee and the Congress will recognize this and act accordingly.

Thank you very much.

[Attachment A]

SBANE Scores A First . . . It Wins the Presidential "E" Award

On May 9, 1979, SBANE became the first small business association in the United States to be honored with the President's "F" Award for excellence in the promotion of export trade.

The award to SBANE—a selection made by the U.S. Department of Commerce—was presented to SBANE's John C. Rennie by Senate Small Business Committee Chairman Gaylord Nelson (D-Wis.) at the Small Business Washington Presentation in Washington. Rennie, President of Pacer Systems, Inc., Burlington, Mass., chairs the SBANE International Trade Committee.

SBANE is also the first association in New England and one of the few across the country to get the "E" Award. Through 1978, 137 New England companies, large and small, had been "E" Award recipients. Some 1,350 "E" Awards have been conferred on companies and organizations since President Kennedy introduced it in 1961.

Several SBANE member companies have been recipients of the "E" Award.

According to the Department of Commerce, the "E" Award for Export Service is given to firms who "demonstrate novel and successful solutions to problems of export trade in such areas as financing, transportation, and marketing, and must make significant contributions to marketing promotion programs."

[Attachment B]

Small Business Export Program

(Sponsored by the Massachusetts Port Authority in conjunction with the Smaller Business Association of New England)

In the Fall of 1977, a unique international marketing program for small business manufacturers was implemented by the Massachusetts Port Authority. The Small Business Export Program is the first program of its kind in the nation designed specifically to encourage and assist small business manufacturers who lack the resources and time to explore trade opportunities in the development of foreign markets for their products. While initially open only to companies located in the Commonwealth of Massachusetts, the program was expanded in the Fall of 1978 to include participants from throughout the New England region.

The Small Business Export Program resulted from a request by the Smaller Business Association of New England (SBANE) for the Authority to devise a program which would benefit and enhance the small businesses of New England. Through the program, the Authority provides, without charge, a selected number of small business manufacturers with individual assistance in the following areas:

Analyzing markets to determine the nature of a company's export potential.

Training and advising on matters concerning export pricing, shipping, documentation, financing and business customs.

Identifying and contacting potential foreign customers and distributors for a company's products.

Arranging and sponsoring foreign trade missions for participating firms to meet with prescreened buyers, distributors, sales representatives, and organizations interested in licensing or joint ventures.

Providing interest free loans for firms participating in trade missions to the extent of one half of the economy round trip air fare, $100 per diem during the mission and $200 per trip for such services as secretarial and interpreters used while abroad.

A company's selection to participate in the program is done on the basis of their products export potential, their financial history, their available financial and operating resources to meet increased production demands, and management's desire and ability to become an exporter. In addition, companies selected cannot presently be engaged in any significant export activities.

The Small Business Export Program is very selective. Companies are scheduled for trade missions only if it is believed that the contacts made for them overseas will result in increasing their bottom line profits. The goal of the program, simply stated, is to encourage small businesses who are not now exporting to any significant degree to do so, not as a one-time transaction, but on a permanent basis—profitably.

During a trade mission, a minimum of 10 individual, prequalified sales meetings, held at the foreign company's offices, are arranged for each participating company. While each participating company is responsible for their representative's travel costs, all logistical arrangements such as hotels, flights, and car reservations are taken care of by the Authority.

Prior to each trade mission, a day-long seminar is held for the participants to acquaint them with the various aspects of exporting. Topics include international banking, freight forwarding, insurance, European business practices, distribution and joint venturing and licensing.

Since its inception, four trade missions have been sponsored under the program. Twenty-five companies have directly participated. Due to the success of the program to date and its unique approach, considerable attention has been gained throughout New England. The Authority has received approximately 1,500 inquiries and more than 700 completed program applications. A composite picture of the twenty-five participating companies would produce a manufacturing company which has been in business for twenty-eight years, with fifty-five employees, annual sales of $1,900,000 where exports account for less than 4 percent.

Results to date have produced actual export sales of $1,224,000 to companies met directly or indirectly during the trade mission. Eighteen foreign distributors have been signed and eleven European companies have come to the States to pursue further discussions and negotiations with participating companies.

The Small Business Export Program is a permanent program of the Authority and with current levels of staffing, four trade missions are planned each year. Including the Authority's Belgian office, three professionals and two secretaries are assigned to this program; however, each individual has responsibilities in addition to their program work.

[Attachment C]

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC.

SELECTED EXPORT BARRIERS FOR U.S. SMALL BUSINESS

Lack of market information:
- if there is a market;
- who the customers are;
- where are they located;
- how can they be reached;
- what are the channels of distribution;
- when can rep's be used; and
- where can they be found.

Lack of understanding of customs regulations here and abroad.
Confusing terms and abbreviations.
Inability to service what is sold.
Spare parts availability.
Confusions with "metric."
Fluctuation in money exchange rates.
Problems with cashing foreign language checks.

Collection problems: lack of understanding of foreign drafts, and time sequence of collection.

Packaging for overseas shipment: Problem of bulky products.
Prohibitive freight charges.
When to choose air or sea freight.
When to use air or sea parcel.
Role of freight forwarder—Export company.
How to locate a good one.
Confusion with documentation forms.
Unfamiliar language, geography, ways of doing business.
Frustration with slow-moving communication.
Cost to market overseas: Travel; non-English language literature.

Expense of account maintenance prohibitive.
Hidden incentives for overseas companies by their governments distorts our competitive situation.
Tax structure too complex—value added tax at import.
Not enough support from the Commerce Department.
Advertising overseas not effective.
No time.
No specialist in our firm to handle it.
Have not even tapped my own backyard.
Difficult to keep trained export-employees.
Overseas market too advanced.

[Attachment D]

THE SBANE FOREIGN TRADE PROGRAM—JUNE 1979

Following are the projects—some ongoing and others in the works—being undertaken by SBANE to encourage and assist its small business members in exporting their products and services:

SBANE International Trade Committee (SINTRAC).—The committee, consisting of 10 exports in small business export programs and carries out the ways to facilitate foreign trade for a smaller company. The Committee is chaired by John. C. Rennie, President of Pacer Systems, Inc., Burlington. Mass.

Small Business Export Program.—Sponsored jointly by SBANE and the Massachusetts Port Authority (MASSPORT), this export mission is the first one of its kind exclusively for small business. For basically the cost of transportation, companies selected for the trade mission (there have been four trips to date) are eligible for the following services from MASSPORT:

Define and analyze the most advantageous foreign markets.

Train and advise on matters concerning export pricing, documentation, financing and foreign business customs and procedures.

Arrange foreign trade missions for participating small companies to meet with buyers, distributors, sales representatives, licensing agents and organizations interested in joint ventures.

Provide interest-free loan assistance for foreign trade missions to participating firms and subsidize such services as secretarial and interpreters used abroad.

Small business from throughout New England are eligible. Companies must not have exported or only done limited foreign business to be eligible. Interested parties should contact William Tobin or Anna Ginn at MASSPORT, at 617-482-2930.

Legislative advocacy to stimulate export trade.—SBANE has testified before Congress on the need to retain the Domestic International Sales Corporation (DISC)—the tax deferral on export sales. If the DISC is to be repealed, the Association is adamant in its stand that other incentives for export should be introduced, preferably ones that target the inducement more toward smaller enterprise.

SINTRAC is working to reverse a flaw in a recently passed Massachusetts law which only permits a tax exclusion for multi-state or multi-national companies. This law, at least interpreted by the Massachusetts Department of Corporations and Taxation, patently discriminates against smaller companies.

SBANE has been requested by the Carter Administration to monitor the Multinational Trade Negotiations (MTN) as it moves through Congress. In testimony last March to the U.S. House Small Business Committee, SBANE was a moving

force in convincing the Administration to restore procurement preference programs for small business. The Administration had negotiated the so-called "set asides" out of the 99-nation treaty, but protests from SBANE and others put it back in.

Provisions in the treaty still call for elimination of "Buy American" and "Labor Surplus Area" Acts. SBANE is examining means to arrange for adjustment assistance for small businesses hurt by loss of the procurement preferences.

Membership in the U.S.-U.S.S.R. Trade Council.—SBANE becomes the first small business association to become a member of the prestigious Council, based in New York, which is responsible for fostering trade between the U.S. and the Soviet Union. For a minimal fee, SBANE members will be the only small businesses in the U.S. that will learn through the Council what market there is in Russia for their products.

Small Business Exporters Handbook.—SINTRAC members, lamenting the fact that no such compendium exists, are investigating the possibility of preparing such a manual.

Educational Outreach.—In addition to co-sponsoring export seminars, SBANE speaks before business and educational groups to extol the merit of exporting for small business—and explain how to go about doing it.

Cargo Insurance.—SBANE is negotiating for group insurance on foreign shipments made by SBANE members. Such insurance would discount shipment rates to participants, saving them possibly thousands of dollars.

International Liaison.—SBANE periodically hosts business groups from foreign countries, which establishes contacts made available to our members when they seek to do business in that country. Most recently, SBANE met with members of the Sussex Federation of Industries, SBANE's sister association in Great Britain.

Heightening Government Sensitivity toward the special export needs of small business has been an SBANE priority. The most recent joint government-SBANE effort was the seminar in Waltham, Mass., sponsored by the Overseas Private Investment Corporation (OPIC), a government agency which insures U.S. companies from business disruption due to internal problems in the country where they're based.

With the encouragement of SBANE and others, many government agencies, most notably the Small Business Administration, the Department of Commerce, the Export-Import Bank and OPIC are opening more programs to aid the small business exporter.

Publicity for Small Business Exporting.—SBANE has endeavored to reveal this story to the media, an effort crowned recently by the appearance of SINTRAC Chairman Rennie on the popular public television show "McNeil-Lehrer Report." Rennie was also the feature of a recent New York Times article on foreign trade.

Senator ROTH. I would like to include as part of the record a statement by Senator Mathias.

[The statement of Senator Mathias follows:]

PREPARED STATEMENT OF SENATOR MATHIAS

Mr. Chairman, I would like to take a few minutes of the Committee's time this afternoon to discuss S. 937, my bill to establish a Cabinet-level committee to coordinate programs to increase exports. I'm afraid this proposal may be dwarfed by the grander schemes we will be considering today and in the days ahead to improve the organizational side of our international trade and export policies. And this would be a shame, because we can organize, strengthen, and consolidate until we've established an American marching division to advance our trade and export interests—but without communication among the brigades, we're lost. Without the kind of coordination mandated by my bill, we may actually take two steps backward for every step forward an individual department tries to take.

Frankly, I am skeptical of proposals to create a super-Department of International Trade. I am not sure that conglomerate Government agencies are flexible or responsive enough to act on the many demands made of them. I do not think the answer to our export woes or trade objectives is to take all existing Government agencies or functions that smack of international trade, exports, or imports, and throw them together under one roof.

Bigger is not necessarily better, nor are these myriad offices and operations yearning for union. We should heed Diderot, who wrote,

"Watch out for the fellow who talks about putting things in order. Putting things in order always means getting other people under your control."

No matter what new or fortified Government organizations are forged by the efforts begun this week in this series of hearings, the need for a top-level interdepartmental co-ordinating committee remains. So many agencies of our Government take actions and implement programs that substantially affect our international trade capabilities, that not even the most ambitious super-department could embrace them all. The bills before the Committee today that would consolidate many trade and export functions in one department recognize this. To quote the provisions of one, that are repeated in modified form in all the proposals:

"In carrying out his functions, powers, and duties the Secretary [of International Trade and Investment] shall consult, exchange information, and carry on joint planning, research, and other activities with the Secretary of the Treasury, the Secretary of State, the Secretary of Agriculture and the heads of such other executive agencies as the Secretary deems appropriate."

Even a "Trade Czar" would need to work in tandem with other Executive officials. I would rather not see the crowning of a new czar. But I would like to see open lines of communication, and, more than that, working lines of communication, among the agencies with functions affecting U.S. export capabilities.

The need for coordination at the Cabinet level was acknowledged and given statutory effect in the Trade Expansion Act of 1962, which created an interagency trade organization to assist the President in carrying out his authority under that Act. An Executive Order promulgated pursuant to the Trade Act of 1974 revived this interagency committee under a new name, the Trade Policy Committee. I am pleased to note that the Administration has given the Committee a prominent place in its reorganization plan, by expanding its coordinating responsibilities to include the issues of import remedies, energy trade, East-West trade, investment, and commodities. However, there exists no statutory authority, nor do I see promise in the Administration proposals, for Cabinet-level interagency coordination on export promotion and policies. My bill would establish the statutory authority needed to ensure regular Cabinet-level consultations.

The same type of interagency coordination that is mandated by statute on international trade negotiation issues must take place with regard to export promotion. A national export policy needs more than mere enunciation of its existence, more than a few dollars earmarked here and there for loans and information services. I think that careful attention, thought, and coordination can often succeed where overblown rhetoric and expensive programs fail.

Last week, I testified before a Senate subcommittee on tax rules affecting foreign business conferences that inhibit the U.S. sales force from going all out to make contacts with foreign markets. I said then that, with our share of the global trade pie shrinking, now is the time to make sure we don't have disincentives to international trade hidden away on our statute books. Let me rephrase that statement for the context of governmental orgainzation: now is the time to make sure we don't have Government agencies unwittingly working at cross-purposes on the export front.

The Department of Justice enforces antitrust laws that bear heavily on businesses engaging in export trade. The Small Business Administration lends money with the express purpose of promoting export ventures. The Internal Revenue Service enforces tax laws that may encourage or discourage potential exporters. These are some of the less obvious Government functions that touch our export capacities. We should not let these functions be carried out in a disjointed manner simply because they do not fall under a program explicitly marked "Export Policy." We must coordinate the Government's export functions, wherever they are found, into a rational export policy. I think that Cabinet-level officials should be given the responsibility of leading their respective departments toward this integrated policy.

Senator ROTH. With that, the committee will adjourn, subject to the call of the Chair.

[Whereupon, at 3:21 p.m., the committee recessed, to reconvene subject to the call of the Chair.]

REORGANIZING THE GOVERNMENT'S INTERNATIONAL TRADE AND INVESTMENT FUNCTIONS

THURSDAY, JULY 26, 1979

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met, pursuant to notice, at 1 p.m. in room 3302, Dirksen Senate Office Building, Hon. William V. Roth, Jr., presiding.

Present: Senators Roth, Chiles, and Percy.

Senator ROTH. The subcommittee will come to order. At this time we would request—as a matter of fact, he is already here—Mr. Richard O'Leary, vice president, Onan Corp., and Mr. Ron Shelp, vice president and director, American International Underwriters Corp., and chairman of the International Service Industry Committee on behalf of the Chamber of Commerce of the United States.

Gentlemen, we will follow the usual practice of including your statement in its entirety. If you can, I would appreciate your summarizing your opening statements.

At this point I will place Senator Cohen's statement in the record.

[The statement follows:]

OPENING STATEMENT OF SENATOR COHEN ON TRADE REORGANIZATION

I am pleased to have this opportunity to participate in these important hearings on proposals to reorganize trade functions.

The lack of centralization in the current trade organizational structure is a result of the limited role that the Government has been required to play in recent years in promoting trade. U.S. business has been very strong, and the United States has consistently had a surplus on its balance of merchandise trade.

Now we are in an increasingly interdependent world. The United States had its first trade deficit in 1971 and deficits for the last two years have been at record high levels. This factor underlines the necessity for better coordination of our export promotion policy. U.S. businesses are now being forced to compete with less developed countries, especially the newly industrializing countries such as Mexico and Brazil, where labor costs are far below those in the United States. Non-tariff barriers, such as foreign subsidies, government purchasing requirements and import quotas contribute further to the competitive difficulties for U.S. firms. The decline of the dollar is another problem which the United States has not had to deal with extensively in the past.

The Senate is likely to pass the Multilateral Trade Negotiations implementing legislation sometime this week. The remedies for unfair trading practices that are contained in this legislation may be very helpful to U.S. industries. But the agreements must be implemented fairly if they are to be beneficial.

In light of new problems that face our country in the trade area as well as a major trade agreement that will have to be administered, it seems that this is an appropriate time to carefully study the existing organizational structure to determine whether it is adequate to meet these requirements or whether some organisational changes are in order.

I would like to mention some problems that have been of particular concern to industries in my own state. The first complaint I have heard concerns the Treasury Department's implementation of the anti-dumping and countervailing duty stat-

utes. The shoe and fish industries have accused the Treasury Department of missing statutory deadlines, changing rules without notice and using unverifiable information supplied by foreign governments involved in countervailing duty and anti-dumping cases.

The fishing industry in Maine has been particularly affected by Treasury actions. Earlier in the spring, I opposed the extension of the Treasury Department's authority to waive countervailing duties. The Maine fishing industry has been forced to compete with the Canadian fish industry, which is heavily subsidized by the Canadian government. The Canadians can then sell their fish at a lower price in Boston markets than U.S. fishermen can. This results in much-reduced sales for the U.S. industry. The industry appealed to the Treasury Department, hoping to get a countervailing duty applied to offset the Canadian advantage caused by the subsidy. The Treaty waived the duty because it determined that the Canadian subsidy had been reduced. The fishermen feel that the Treasury Department failed to accurately determine the full extent of the subsidy.

Another problem that has been brought to my attention concerns the textile industry, which has contended that our bilateral agreements on textiles are not being administered properly. Textiles are still being allowed to come into the U.S. territory after the agreed upon quota limitations have been reached. This makes it difficult for our own domestic textile industry to compete.

The small business community in Maine has a different concern. Its representatives have pointed out that many programs now exist that would assist small business in exporting, but it is very difficult for small businessmen and women to learn of the assistance that is available to them. Small business exports, especially those in high-technology areas and services, could make a much more significant contribution to our balance of trade than is currently the case.

One of the problems with the current organizational framework is that the agencies that now have responsibility for trade have conflicting objectives. The State Department commercial attaches are supposed to promote U.S. business abroad, but their first priority is U.S. foreign policy. The Treasury Department must be concerned with the falling dollar, the position of the United States in world financial markets, and our relationships with less developed countries. The outcome of countervailing duty and anti-dumping cases may often be influenced by these considerations.

We are here to examine whether it is appropriate to give trade a higher priority within the government structure. I intend to carefully examine the reorganization options to determine which, if any, would contribute toward a more effective trade policy.

Senator ROTH. Mr. O'Leary, you may proceed.

TESTIMONY OF RICHARD E. O'LEARY, VICE PRESIDENT, ONAN CORP., EXPORT POLICY TASK FORCE OF THE U.S. CHAMBER OF COMMERCE; RONALD K. SHELP, VICE PRESIDENT AND DIRECTOR, AMERICAN INTERNATIONAL UNDERWRITERS CORP., AND CHAIRMAN OF THE INTERNATIONAL SERVICE INDUSTRY COMMITTEE; RONALD DANIELIAN, EXECUTIVE VICE PRESIDENT AND TREASURER, INTERNATIONAL ECONOMIC POLICY ASSOCIATION; AND FRED STOKELD AND GORDON CLONEY, STAFF MEMBERS, U.S. CHAMBER OF COMMERCE; ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. O'LEARY. Thank you, Senator. I am Dick O'Leary, member of the export policy task force of the U.S. Chamber of Commerce and vice president of the Onan Corp.

With me from the services committee of the chamber, are Ronald Shelp, vice president and director, AIUC; Ronald Danielian, executive vice president, International Economic Policy Association. From the chamber staff I have brought Fred Stokeld on my right and Gordon Cloney.

Rather than burdening the committee with the recitation of the continuity of the chamber's interest in the area or a repetitious accounting of the problem faced by the United States in the area of economics and trade, we will simply reference the comprehensive report of the Subcommittee on International Finance and conclude that the problems are clear and the solutions will require different tools and a fresh approach to international economic policy.

The underlying principle behind any reorganization of our existing tools or institutions must be a recognition that international trade is an integral part of overall economic policy and cannot be viewed in a vacuum.

Any meaningful reorganization of the trade related functions of government must consider international economic policy together with its ramifications for domestic policies rather than simplistically focusing on the management of discrete export and import programs.

The critical deficiency that must be corrected is the absence of a singular and effective policy source. We have, therefore, addressed ourselves to the task of testing the various models that might both correct that deficiency and create the least number of new problems. Consequently, we have resolved that the policy development and coordinating role of the assistant to the President for national security affairs provides us all with an operative and largely effective model for attacking a problem of no lesser significance than national security—that of trade.

We, therefore, propose that an assistant to the President for international economic policy be appointed who would have primary responsibility for advising the President on international economic affairs. To maintain balance, he would also be accountable to the Congress as trade representative of the United States. We further propose that the primary policy implementation, enforcement and administrative responsibilities for international trade be centralized to the extent possible in a body organized around objectives clearly articulated by and agreed in advance among the Executive and the Congress.

We were pleased at the President's announcement of July 19, which appears to be conceptually consistent with this approach but would caution the President to first insure that a position with primary accountability for international economic policy be established and that a full consistent set of objectives are articulated before rushing to the task of applying mandates to existing institutions.

Thank you for your patience and Ron Shelp has some additional summary remarks which are of concern to the service industry.

Mr. SHELP. Thank you, Senator.

Since service industries also are known as invisibles and, as the thrust of my remarks will indicate, they often tend to be invisible in Washington, perhaps I should define services first.

The members of the International Service Industry Committee represent a wide range of the American economy—advertising, banking, accounting, insurance, transportation, tourism, motion pictures, data transmission, and so forth. The reason Mr. Danielian is with me is because he is chairman of our committee's reorganization task force which has developed many of these recommendations.

We would like to commend you for your effort to bring some order and direction to our Government agencies and programs relating to

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both trade and investment. In doing this it is important that the needs of the service sector be recognized and fully addressed in the structure defined, because this is not the case at the present time. It is now conventional wisdom that the United States long ago became a service economy, with 7 out of 10 Americans working in services and 65 percent of GNP originating from the service sector. This fact often escapes policymaker perception, especially when it comes to foreign services. Yet not only does the United States have the largest domestic service economy and the largest service labor force, but it is also the largest importer and exporter of services and the largest foreign investor in services.

Last year United States services account trade—which includes both U.S. exports and imports and direct investment flows, fees, and royalties—totaled $129 billion, which is 30 percent of all trade.

What is important to note is that there was a $23 billion surplus, an important offset to the $34 billion deficit suffered in merchandise trade. Or another way to look at it: If it were not for the service account surplus, last year's balance-of-payments deficit would have been several times larger than it was.

So for the moment the United States is ahead in services, but this position is challenged by competition that is often fortified by other governments who give their service industries legitimate assistance and in some cases impose unfair trade practices and discriminatory procedures against U.S. competition.

It is not only industrial countries such as Japan, Great Britain, and France who compete with us, but it is also more and more developing countries who are conquering international service markets; just to name two, Korea and Brazil.

Japan is today the second largest service economy in the world, and it is not too hard to imagine some day it will be competing with our services in the same way the Japanese electronics industry has competed with our electronics industry. It is interesting to note the Japanese Government is organizing itself to deal with services commerce and to advance the cause of its service industry in the world economy. This is in stark contrast to the U.S. situation, where services have not been the primary concern. At most it has been of secondary or tertiary concern within our present systems that deal with foreign trade and investment.

With but a few scattered exceptions there is no constituency in the executive branch for services. There is no customary disposition on the part of policymakers to think in terms of service industry problems and whether these differ from those of manufacturers or the agricultural community. This neglect is even evidenced in theoretical studies to improve the international economic organization of our government. Both the Murphy Commission and the Williams Commission reports completely missed the emergence of the U.S. services sector in our foreign commerce and thus never considered this sector in its reorganization recommendations.

Let me give you some examples of this absence of concern in Washington:

Though U.S. services may suffer from import competition, the trade adjustment assistance provisions of trade legislation are not available to service producers.

The Webb-Pomerene export promotion provisions do not apply to services.

DISC legislation is applicable to only two service industries.

The export promotion programs of the Commerce Department ignore most services.

The data collection mechanism of the U.S. Government is not organized to concentrate on service flows.

Other Government programs to facilitate exports, such as the Export-Import Bank, refuse to assure that certain U.S. services have a competitive chance to bid on services business related to Exim transactions.

The Congress is to be commended because it gave services the first formal recognition in Washington by insisting on their inclusion in the 1974 Trade Act. Yet one last example indicating how so far the policymakers have tended to miss the point is how little was accomplished in the multilateral trade negotiations dealing with services, even though Congress gave a broad arsenal of authorities to the President to try to do something about it.

One thing that did come out of the exercise that was worth while is a White House Interagency Task Force study on services published in 1978 that is certainly the leading study on the subject, if not the only one. But it did not examine the place of services in U.S. trade promotion. Your counterpart committee in the House of Representatives did a 1978 report which noted that commerce has not devoted sufficient resources to promotion of U.S. services and should give greater priority especially to those services which have a multiplier effect on export activities.

I think you can conclude from these references the following: First, service industries and invisibles in general should be given the kind of policy attention by our foreign economic policymakers that is given manufacturing and agricultural sectors. Second, the expansion of U.S. service industries into foreign markets should be given a priority within Government promotional programs and incentive systems that is equivalent to that now given to the other sectors. Finally, service industries also should have equivalent Government attention in dealing with problems such as subsidized competition, unfair trade practices, nontariff barriers, investment barriers, and procedural discrimination, which manifest themselves in many foreign markets.

In conclusion, permit me to make several suggestions that you might consider in whatever legislation you produce to streamline, coordinate, and make more efficient the foreign economic policy apparatus. First, the legislation and/or the Legislative history should make it clear that services are included and that terms such as trade, commerce, and industry include service industry considerations unless specifically excluded.

Second, the record should establish that the inclusion of service industries and their recognition in law is expected to be pervasive in practice. It should make clear the intent of Congress is (1) that attention to the sector is given at the highest policymaking level and (2) that services be recognized and taken into consideration in all component international trade and investment functions at the operating level.

This would (a) include promotional and incentive programs designed to expand our foreign commerce and (b) would require those programs which defend the existing position of the U.S. economy against unfair trade and discriminatory practices—including multilateral and bilateral trade negotiations, international investment discussions, and dispute settlement processes—to cover services.

It is vitally important to remember that, since a major portion of service income comes from foreign investment, a reorganized foreign economic policy establishment must deal with our international investment activities no less than our trade activities.

Third, annual reports on overall progress relative to dealing with U.S. service industries in international commerce might also be required.

Finally, while the thrust of these recommendations is to encourage the full integration of service industry issues throughout our Government's international economic structure, there is also the need for some specialized overall sectoral analysis and policy coordination. Thus, the record might recognize the need for a service industry bureau or division with sufficient resources to carry out a monitoring, policy coordination, data, and research development function.

The idea of establishing an interagency coordinating committee on services, as suggested by the 1975 Commerce Department study mentioned earlier, should be considered. The merit of this, however, obviously depends on the final shape the reorganization of Government takes.

What counts is the most efficient, responsive, and effective mechanism. However you proceed, it is important that the growing role of the service sector be recognized and that provision be made to incorporate its interests and needs in a manner commensurate with the sector's importance to our country's overall international position. The country can no longer afford the luxury of neglecting what many would term its most promising activity. Other governments recognize the importance of services. So must we.

Senator ROTH. Thank you for your very helpful statement. Mr. O'Leary, I believe you are a member of the export policy task force.

Mr. O'LEARY. Yes, sir.

Senator ROTH. Are you satisfied with the administration's proposal from the standpoint of export policy? It does seem to me that one of the major deficiencies of the administration proposal is its failure to address export policy coordination or to spell out with any particularity what a commercial corps would look like.

Would you care to comment?

Mr. O'LEARY. I think Senator, we would concur with your concerns that the announcement by the administration did not make it clear that we would have, if their proposal was implemented, a single, strong policy source. That is in our view critical to making progress in this area.

Senator ROTH. I think there is a growing consensus, at least on this side, that perhaps the STR should become the leadman—in the trade area, that is. Frankly, I am concerned that the administration proposal seems to fragment and divide more than it consolidates, which I think is essential if we are going to have a truly affirmative trade policy.

Would you be satisfied with putting countervailing duties and some of the other programs of the Treasury into Commerce?

Mr. O'LEARY. Senator, it is obvious from our statement that we have intentionally not addressed ourselves to the particulars of the existing institutions for the very simple reason that all that does is create some defensive reactions.

Our very strong recommendation would be that many of these functional responsibilities, which are presently spread through a number of existing departments, agencies, and commissions, be aggregated into a centrally well-organized group—a group that would operate according to the objectives enunciated by the Congress and the President and would be directed by someone speaking for the entire Government with respect to policy issues.

Senator ROTH. Mr. Shelp, I agree very strongly with you that we have not given or paid adequate attention to the service industry in this international field. Let me ask you this: Do you think it is possible to include services under countervailing duty and antidumping statutes?

Mr. SHELP. Theoretically, yes, the countervailing duty statutes are basically intended to discourage subsidies by foreign exporters. You could come up with some interesting examples of subsidies that U.S. service industries face from foreign competition. As to antidumping, the same theory would apply although there are difficulties; but, in principle, they should apply.

Senator ROTH. I guess the thing that bothers me is how do you put a duty on a service?

Mr. SHELP. It is a tough question, very tough question.

Mr. DANIELIAN. I would like to add, Senator, that in the consideration of the Trade Act of 1974, in section 301, where they did give some limited response to unfair trade practices in services, the Congress mandated that the President be able, where it be found unfair trade practices present, to levy fees and so forth, even against service industries.

It involves more of an Executive decision in this particular case, but 301 did give some break to service industries, although minimal, in the sense that fees and so forth could be levied. So I think it can be worked out. As to how you take action against countries that subsidize services, in the paper this morning there is an article that the French Government has been subsidizing each passenger $1,100 to fly the Concorde.

That is a problem for the U.S. air transportation companies which constitute a service industry.

Mr. SHELP. If I could comment further on that—that same section 301 of the trade bill gives the President authority to respond against unfair trade practices in other ways. He does not necessarily have to respond against a foreign service industry. He can respond by other appropriate means. That is probably a fairly important consideration since some of the industries that would be subsidized or be competing with American services in certain markets might not be very active within the United States. So for the appropriate response we would probably have to respond elsewhere.

Senator ROTH. As you know, in the multinational trade agreements, we have agreed we should continue this practice of having advisory

committees from the various sectors of industry, agriculture and labor, and yesterday we talked a little bit about small business.

Was any kind of a service advisory committee created during the MTN negotiations?

Mr. SHELP. No; they were not. The service industry suggested it numerous times. In the testimony that I have given for the service industry committee twice now, once on the Senate side, once before Congressman Vanik's committee, we advocated creation of such a committee in the post-MTN advisory committees structure that we understand is going to be established.

Senator ROTH. That certainly makes good sense to me, and I shall follow through as we develop this legislation to insure that that is done.

What is your view of the administration's reorganization proposal as it affects services?

Mr. SHELP. I have read the press releases. I have not read the legislation, if indeed there is legislation yet. I cannot see services mentioned. I am aware of communications between some senior administration officials and service industry leaders whereby the former say that services basically will not be taken into consideration in the reorganization structure and even some encouragement from these officials to go to Congress because it might see it differently.

Senator ROTH. Senator Stevenson and myself are in the process of creating a Senate Export Caucus, and I would suggest to you that through that we ought to focus on the service industry and what can be done to promote and protect from unfair competition abroad.

Mr. O'LEARY. If I might interject, the preceding discussion almost is as good an example as I could offer of the fragmented nature with which we have attempted to deal with international economic policies in the past. It follows in our view that if we come to grips with centralizing an effective policy power, that policy developer would surely have to take account of the dramatic impact of the service industries and all other aspects of the problem so that we get a comprehensive policy rather than piecemeal. Trying to develop or utilize existing tools—speaking in terms of specific subsidies—has not worked in the past, and we think a more comprehensive approach is required if we are going to do anything effective about it today.

Senator ROTH. I certainly agree with you. In a way it is very shocking, how little attention has been paid to this aspect of international commerce. Does service trade affect trade in goods where we have serious deficits?

Mr. SHELP. Yes; in at least two ways. First, although often overlooked, trade in services facilitates trading of goods. You have shipping, a service; insurance, a service; and a number of others—all intimately related to goods trade. But secondly, there is a direct relationship between trade in services and goods; I am not sure which is the chicken and which is the egg.

For example, communication services; if a firm is exporting communication services, at some point you are likely to have the export of computers and related goods follow from that.

Obviously, it could work in reverse order. There are numerous other examples you could name. In the consulting industry, or construction business for example, the same logic would apply.

Mr. O'LEARY. Senator, I might supplement Ron's comment by simply pointing to the very large and dramatic impact of the engineer-

ing services in which the key to pulling through manufactured products is indeed the services-related contracts in which people design and specify the products from their resource country; this is something we could learn a great deal about from our friends overseas.

Senator ROTH. Gentlemen, as you undoubtedly know, agreement has been reached that during the August recess that staff people as well as people from the administration are going to try to work together in strenghthening what I think is an inadequate proposal.

It is my belief that we will undoubtedly move in the direction of consolidating more and strengthening the hand of the STR as the lead agency and lead individual in this whole trade picture.

I would suggest that you might keep in contact with these people, with your proposals, particularly as to how we can assure the service industry is adequately represented.

We are very hopeful that definitive action can be taken relatively quickly because I think the success with which we implement the new multinational agreements depends on having a strong organization.

I am pleased to see both of you here and your contribution, and would hope you would keep in close communication.

Mr. O'LEARY. Senator, we thank you for your time. You may rest assured that we will indeed aggressively keep in touch with the group that develops specific proposals in the area.

Thank you very much.

Senator ROTH. Unfortunately, I have to go and vote. We do have a few more questions, particularly in the service industry, and we would like to address those to you if you would give us a written reply.

Mr. SHELP. We would be glad to, Senator.

Senator ROTH. Thank you.

[The prepared statements of Mr. O'Leary and Mr. Shelp follow:]

STATEMENT BY RICHARD E. O'LEARY ON GOVERNMENT REORGANIZATION FOR TRADE, FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

I am Richard E. O'Leary, Vice President—Corporate Development, and General Counsel and Secretary of the Onan Corporation, Minneapolis, and a member of the Export Policy Task Force of the Chamber of Commerce of the United States. I am also a member of that Task Force's Subgroup on Government Organization which was established recently to bring up-to-date the Chamber's longstanding interest in government organization in the international economic policy area.

Also appearing with me is Ronald K. Shelp, a Vice President and Director of the American International Underwriters Corporation and Chairman of the Chamber's Service Industry Committee, who has been invited to discuss the implications for the service industries of government reorganization.

The Committee on Governmental Affairs is to be commended for the leadership and initiative in bringing the question of government organization for international economic policy to the point of decision. There has been no shortage of commissions and studies on the subject in recent years. What has been lacking previously was a conviction that further action was necessary—a deficiency that has now been redressed by the Committee.

BACKGROUND

The National Chamber has vigorously supported approval of the Tokyo Round of the Multilateral Trade Negotiations (MTN) as an essential step toward a freer world trading environment in which the U.S. economy can prosper. The Chamber has also been involved in the development of the MTN implementing legislation and worked for the passage of the Trade Agreements Act of 1979.

The signing of the MTN agreements and the passage of the implementing legislation are, however, only the beginning of a new trade era—an era which will

require different tools and fresh approaches in international economic policy. An important element of this new era is the organizational framework within which the MTN is to be implemented. To derive maximum benefits from the MTN, the U.S. must have effective leadership coordination and administration of its international economic policies.

The Administration has raised export expansion to the level of national priority, and by its growing legislative efforts in the trade area it is clear that Congress feels a sense of urgency on trade issues. Presently, there are too many voices, often unorchestrated, dealing with international economic policy for this country. This is not conducive to maximizing trade performance.

To realize the goal of increased export trade, the United States must have (a) a continued commitment on the part of the President and Congress to trade as a national priority; and (b) a strong policy development and coordinating body for international economic policy, whose head would have direct access to the President and a link to Congress.

The international payments problems of the United States can be measured in our trade deficits, currently exceeding $30 billion annually, and in the sharply reduced U.S. share of world exports (from 21 to 12 percent since 1957). These trends are due in no small part to insufficient leadership toward a greater national export consciousness and discouragement on the part of potential and current exporters due to delays and confusion in dealing with the federal government. Prompt and effective action is needed to deal with these shortcomings and a reorganization of the government's international trade policy machinery is a necessary first step.

The underlying principle behind any reorganization effort must be a recognition that international trade is an integral part of overall economic policy, and cannot be viewed in a vacuum. Just as the world has become economically interdependent, so has our domestic economy become significantly impacted by our trade with other countries. The positive multiplier effect of exports on the domestic economy is often overlooked or underestimated. Successful international economic policy must be evolved within a framework that takes fully into account the impact on the domestic economy of present and future import and export flows.

It follows, therefore, that for any meaningful reorganization of the trade-related functions of government, its scope should take into consideration the full range of international economic policy, together with its ramifications for domestic policies, rather than be limited to the management of export and import-related programs per se.

ASSISTANT TO THE PRESIDENT FOR INTERNATIONAL ECONOMIC POLICY

The preceding considerations support our primary conclusion that there is an immediate need to establish a cabinet-level position of assistant to the President known as the Assistant to the President for International Economic Policy (IEPA), who should be responsible for the formulation, coordination, and, in certain limited specified areas, implementation of international economic policy. The IEPA should also be designated as an ambassador-at-large. He should function within an overall congressional and presidential commitment to the importance of international economic policy and should have the primary responsibility for advising the President in this area. The National Chamber strongly believes that even if the reorganization were limited to the establishment of an IEPA, this would go a long way toward redressing the difficulties caused by the proliferation of government organizations dealing with foreign economic policy.

The establishment of an IEPA would not require a new cabinet-level position; rather IEPA would expand on the already-existing cabinet-level position of the Special Trade Representative (STR). As in the case of the STR, which is presently accountable to both the President and the Congress under the Trade Act of 1974, the IEPA would be similarly accountable. Thus, an important element of congressional oversight would be retained.

The IEPA should be responsible for *policy development* in such areas as East-West trade, North-South trade (commodities), energy trade, trade regulation, export finance, export expansion, trade-related taxes, international investment, service sector trade, science and technology transfer, and monetary and foreign aid activities as they relate to trade. Coordination of input from all of the relevant agencies would be accomplished through IEPA chairmanship of a cabinet-level foreign economic policy committee.

The IEPA should also be responsible for all multilateral and bilateral trade negotiations, as well as their implementation. He must have a highly qualified analytical and negotiating staff to carry out his functions.

OBJECTIVES FOR AN EFFECTIVE REORGANIZATION

Although the Chamber's primary concern relates to the establishment of an IEPA, we recognize that there remains a variety of functional areas that require consideration. What follows is a list of ten objectives that should be met for an effective trade reorganization:

(1) There must be coordination between domestic and international economic policy.

(2) The administering body must have the strong confidence of, and be receptive to inputs from, the private sector—including both industry and agriculture.

(3) The body administering trade activities, including export promotion trade regulation enforcement, must have the ability to attract first-rate people.

(4) Follow-up to the MTN agreements must be timely and vigorous. This will require a strongly-motivated, permanent, and professional negotiating cadre.

(5) The head of the body administering trade activities within the policy framework set by the IEPA must pursue trade objectives with singlemindedness and concentration and be personally responsible for the drive toward greater export consciousness by the private sector.

(6) In the development of trade policy, balance must be maintained between export-oriented and import-impacted interests.

(7) Policy development and administration must deal comprehensively with all segments of the private sector—agricultural and manufactured products as well as the ever-expanding service sector.

(8) Trade policy should reflect long-term strategic planning rather than simply reactions to current conditions.

(9) International trade requires a strong, broadly-based financial services institution to meet effectively the competitive conditions faced by U.S. exporters.

(10) There must be an effective mechanism within the reorganized system to assure continued and timely input from private sector advisory committees.

CONCLUSION

The announcement by President Carter on July 19 of the Administration's proposed reorganization appears to be generally responsive to the concerns the National Chamber has expressed. The organizational format proposed is largely consistent with the objectives identified as necessary to an effective reposturing of the United States in international trade. A final evaluation and recommendations for alterations in the President's approach must await review by the Chamber's membership of the detailed legislative proposal to implement that reorganization.

In terms of objectives, however, we would urge the President to make it clear that his principal international economic advisor, whether an upgraded Special Trade Representative or a new Assistant to the President who absorbs the old STR function, has the *primary responsibility* for international economic policy, and that the coordinating responsibilities cover all related functional areas. We would further urge the President to centralize all possible overlapping responsibilities in functional areas in the offices selected to be held accountable for the implementation of international trade policies. It follows that these offices should be relieved by any responsibilities that are unrelated or unnecessary to the objectives of trade and commercial development.

The United States attained substantial improvements in the international trading environment through the Multilateral Trade Negotiations, and congressional participation in the trade negotiation process has been an important ingredient. If the United States is to obtain maximum benefits from the MTN, so vital toward redressing our serious international payments situation, effective coordination and administration of our international economic policies is a top priority. Congressional participation in the reorganization process is essential and we commend the Governmental Affairs Committee for taking the necessary initiative.

Statement by Ronald K. Shelp on Service Industry Aspects of S. 377 To Reorganize Government Programs Dealing With International Trade and Investment, for the Chamber of Commerce of the United States

I

I am Ronald K. Shelp, Vice President and Director of the American International Underwriters Corporation and the Chairman of the International Service Industry Committee of the Chamber of Commerce of the United States. I appreciate the opportunity to appear before the Senate Committee on Governmental Affairs. Accompanying me is Mr. Ronald Danielian, Executive Vice President of the International Economic Policy Association and a member of our services committee, and Mr. Gordon Cloney, Director for Special International Policy at the U.S. Chamber.

The Committee has heard the National Chamber recommendations relating to the various proposals to reorganize the international trade and investment function of the Federal Government.[1] I will comment on consideration specifically relating to Service industries. These industries deal in what are often called "invisibles"; that is intangible products such as advertising, accounting, banking, insurance, air transport, lodging, licensing, leasing, franchising, finance, construction, computer services, engineering, consulting, communications, data transmission, shipping, motion pictures and others.

From the perspective of the service sector this committee's effort to bring order and direction to our government's numerous agencies and programs that relate to international trade and investment is commendable.

In contrast to some other nations our present structure might be construed as having substituted confusion for cohesion. The conflict and at times collision of bureaucratic baronies suggest a lack of national direction in our international commercial relations. These circumstances deny U.S. business and U.S. labor the full benefit of the income and employment which international commerce might bring.

As you deal with the need for improved organization it is important that the needs of the service sector be fully recognized and addressed in whatever structure you finally design. This is not the case at present. The emergence of a U.S. economy dominated by services has escaped policymakers' perceptions.

II

It is common to call ours a service-oriented economy. The American people produce and consume both goods *and* services. Seven out of every 10 working Americans are employed in the service sector. About 65 percent of the GNP is service-derived. Since World War II the most intensive growth within the American economy has been in the services sector. This has also been reflected in the growing role of the invisibles in U.S. foreign commerce.

Last year U.S. services account trade, which includes U.S. exports and imports of service industry products as well as direct investment flows, fees and royalties, totaled about $129 billion or 30 percent of all U.S. trade. Moreover, the services account produced a $23 billion surplus, an important offset to the $34 billion deficit suffered in merchandise trade. Viewed in another way, were it not for the services account surplus, last year's balance of payment deficit would have been several times larger than it was.

Over the past 30 years, as the services component within our foreign trade grew, an unbroken string of services account surplus was generated. At the same time, U.S. service industries have invested abroad. Five years ago, the last available U.S. government estimate put the value of overseas sales by the foreign branches and subsidiaries of U.S. service industries at about $50 billion. Since then the figure has probably doubled.

In sum, the U.S.: (1) has the largest domestic service economy, (2) has the largest service labor force, (3) is the largest importer and exporter of services, and (4) is the largest foreign investor in services.

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[1] Statement on Government Reorganization for Trade before the Senate Governmental Affairs Committee for the Chamber of Commerce of the United States by Richard O'Leary, Vice President Corporate Development, General Counsel and Secretary, Onan Corporation; July 26, 1979.

III

For the moment we are number one in invisibles. However, our position is not without challenge. Between 1969 and 1976, our percentage share of world invisibles trade receipts fell by one-fifth, from 25 percent to 20 percent of the world total. Our service industries faced strong competition from industrialized countries such as Japan, Germany and France; and advanced developing countries such as Brazil and Korea are also making inroads into international service markets. Domestic sectors are strengthening almost everywhere. One of the challenges faced by U.S. service industries abroad is simply growing competition.

A second part of this challenge comes from service industries in competitor nations whose governments, using internationally acceptable practices, do a better job of recognising, promoting and defending their international service industries than we do. In other words, these governments have recognized what we have tended to take for granted: the major and growing role services can play in their international economic activities. In the U.K. and France, for example, service industries enjoy encouragement and support equivalent to that given the manufacturing sector. In Japan, the service sector has already experienced such phenomenal growth that today Japan is the second largest service economy. It is simply a matter of time until Japanese service industries penetrate international markets with the same determination they have used in capturing merchandise markets. An impact upon some of our international service industries equal to that which the Japanese had upon the electronics industry is not inconceivable. Japanese efforts already are underway to strengthen strategically important services and to form a national strategy for increasing international trade in services such as communications, engineering and construction.

A third part of the international challenge faced by U.S. service industries in world markets comes from industries in competitor nations that employ unfair trade practices and discriminatory treatment of foreign investment. In some countries law or discretionary administrative procedures "slow" the entry or impede the operating efficiency, and hence competitivenses, of the foreign service firm in their market. In other cases, particularly in less developed countries, it may simply be made impossible to export a service to the country or to produce it locally via an affiliate or subsidiary. Some countries subsidize their service industry's entry into other markets including the U.S. market.

The total absence of international agreement on procedures for handling service trade problems and the general lack of progress in agreeing on international standard for the treatment of foreign investment makes dealing with other governments on such service issues a difficult proposition. This is particularly so when one recognizes that the U.S. Government itself has only just begun to recognize the importance of the services to our foreign commerce.

IV

In approaching the question of how to reorganize the federal agencies that deal with international trade and investment, it is crucial that service industries be "in" whatever new structure you legislate into place.

It is important to bear in mind that service industries share the concern common to U.S. business over the state of our trade and investment structures. It is also important to realize, however, that the perspective is different than that of manufacturing and agricultural industries.

Manufacturing and agriculture have at least been the recognized focal points for attention within the existing disjointed system. And *they* seem to feel that it has serious weaknesses. In contrast, service industries have never been of primary concern, and most have not been of secondary or tertiary concern, within the present system.

With a few scattered exceptions, there has been no executive "constituency" for service industries. There is no customary disposition on the part of policy makers to think in terms of service industry interests or problems, or whether these differ from those of manufacturers or the agricultural community.

The absurd fact that a sector the size and international importance of the services should be an orphan in Washington is not limited to the present structure of departments which are involved with our foreign commercial policy. It is also evidenced in theoretic studies of governmental international organization.

For example, both the Murphy Commission Report and the Williams Commission Report overlooked the emergence of the U.S. service sector into our foreign commerce and thus never considered the fact that it was commonly ignored by policy processes.

Permit me to offer but a few concrete illustrations from among many I could cite:

Though U.S. services may suffer from import competition, the trade adjustment assistance provisions of trade legislation are not available to service producers.

The Webb-Pomerene export promotion provisions do not apply to services.

D.I.S.C. legislation is applicable to only two service industries.

The export promotion programs of the Commerce Department ignore most services.

The data collection mechanism of the U.S. government is not organized to concentrate on service flows.

Other government programs to facilitate exports, such as the Export-Import Bank, refuse to assure that certain U.S. services have a competitive chance to bid on services business related to Exim transactions.

The first formal recognition of "services" in Washington did not come until the 1974 Trade Act, and this was clearly and without question a Congressional initiative. You created the authority to negotiate reductions in barriers to services trade and gave the President an arsenal of legislation to deal with service problems. We in the U.S. international service sector commend your initiative.

Little was accomplished in the MTN in using these authorities which is but one more example of services failing to capture policymaker attention. In attempting to define this mandate and determine negotiating parameters, it was necessary to refer the matter to a White House interagency task force chaired by the Secretary of Commerce. This group proceeded to review in some detail the position of U.S. service industries in foreign commerce and the inadequacy of the present governmental structure for dealing with them.

In a massive 1976 Report [2] the task force concluded that:

Services are now of major importance in U.S. foreign commerce and their increased future importance to U.S. economic health and growth is an "inescapable fact."

Governmental abilities to adapt and respond to this fact have lagged as international economic policy formation and related programs "have been almost exclusively focused on goods, not services."

A few governmental programs deal with certain service industries while others receive virtually "no specialized analysis or policy attention."

There is a need to create a coordination point in government for dealing with international trade and investment matters relating to services.

Government agencies involved with trade and investment should increase the resources allocated to "the now under-represented analytic and policy resources applied to service trade and investment."

The 1976 Report thus confirmed the international importance of services and proposed policy response, coordination, and generally improved effort to deal with service industry trade barriers and with distortions to service trade and investment.

The report did not examine the place of services in U.S. trade promotion. This is, however, deficient as well. In a 1978 report the House Committee on Government Operations released a follow-up to its "Twentieth Report on the Effectiveness of the Export Promotion Policies of the Departments of Commerce and State"[3]. One of the conclusions was that

"Commerce has not devoted sufficient resources to the promotion of U.S. services, such as construction projects and architectural and engineering design and feasibility studies, which have an important multiplier impact on export expansion" (page 2).

And the recommendation was made that

"Commerce should give greater priority to the promotion of U.S. services, in particular those services which have a multiplier effect on export activities, such

[2] "U.S. Services Industries in World Markets—Current Problems and Future Policy Development," U.S. Commerce Department, Washington, D.C., December 1976.

[3] Committee on Government Operation, "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State: Follow Up Report," March 14, 1978.

as construction projects, architectural and engineering design work and feasibility studies" (page 3).

This report also has an interesting example of this problem which is appendixed[4].

Thus, as these references suggest: (1) service industries and the invisibles in general should be given the kind of policy attention by our foreign economic policymakers that is given manufacturing and agricultural sectors, (2) the expansion of U.S. service industries into foreign markets should be given a priority within government promotional programs and incentive systems that is equivalent to that now given to the other sectors and finally (3) service industries also should have equivalent government attention in dealing with problems such as subsidized competition, unfair trade practices, non-tariff barriers, investment barriers and procedural discrimination which manifest themselves in many foreign markets.

V

In conclusion I would like to offer several suggestions for any legislation which this committee may produce to streamline, coordinate and to make our government's foreign commerce related functions responsible and efficient.

"The legislation and/or the legislative history, should make it clear that services are included and that terms such as trade, commerce and industry include service industry considerations unless specifically excluded.

"The record should establish that the inclusion of service industries and their recognition in law is expected to be pervasive in practice. The record should establish the intent of Congress is: (1) that attention to the sector is given at the highest policymaking level and (2) that services be recognized and taken into consideration in all component international trade and investment functions at the operating level. This would (a) include promotional and incentive programs, designed to expand our foreign commerce and (b) would require those programs which defend the existing position of the United States economy against unfair trade and discriminatory practices including multilateral and bilateral trade negotiations, international *investment discussions*, dispute settlement processes, etc. This latter must be stressed. As a major portion of service income comes from investment, a reorganized foreign economic policy establishment must deal with our international investment activities no less than our trade activities.

"Annual reports on overall progress relative to dealing with U.S. service industries in international commerce might also be required.

"Finally, while the thrust of these recommendations is to encourage the full integration of service industry issues throughout our government's international economic structure, there is also the need for some specialized overall sectoral analysis and policy coordination. Thus, the record might recognize the need for a service industry bureau or division with sufficient resources to carry out a monitoring, policy coordinating, data and research development function. The idea of establishing an inter-agency coordinating committee on services, as suggested by the 1975 Commerce Department study, mentioned earlier, should be considered. The merit of this however, obviously depends on the final shape the reorganization of government takes."

As the program of work for such a service division would be a function of how the system is reorganized, it is not possible to offer specific recommendations now. However, as a reference material, I append an April 1979 memorandum sent by Mr. Cloney to Assistant Secretary of Commerce Weil.[5] This suggests work parameters for the inter-agency coordinating committee for international services recommended in the 1976 Inter-Agency Study. It is possible to infer from it areas of concern to such a services division or bureau.

IV

As stated at the onset of these comments, the question of reorganization of our government agencies dealing with foreign trade and investment is an essential step in streamlining and increasing effectiveness in this part of our federal government. We have learned the hard way that simply creating new government agencies is an easy but not necessarily meaningful answer to improving matters. What counts is the most efficient, responsive and effective mechanism. However you proceed it is important that the growing role of the service sector be recognized and that provisions be made to incorporate its interests and needs in a manner

[4] See Appendix A.
[5] See Appendix B.

commensurate with the sector's importance to our country's overall international position. The country can no longer afford the luxury of neglecting what many would term its most promising activity. Other governments recognize the importance of services. So must we.

[APPENDIX A]

Excerpt from: "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State: Followup Report"

TWENTIETH REPORT BY THE COMMITTEE ON GOVERNMENT OPERATIONS

In Singapore, for example, the Government is planning to build a major new international airport. The local official responsible for construction is seeking feasibility studies and development plans. He has no travel budget but has been flown by host governments to Japan and numerous European capitals to view their facilities. He expressed a desire to examine United States facilities and the Embassy sent a cable to Washington discussing the problem. As of August 1977 the Embassy had not received a response and the personnel we spoke to indicated that because of planned trade center activities they would not have the time or resources to follow up on this matter. Not only will U.S. developers and architects be at a disadvantage in bidding on this multimillion-dollar project, but if a foreign developer is used, U.S. subcontractors and suppliers who U.S. developers and architects normally would turn to will also lose extensive export opportunities.

In general, it was felt that because trade centers were primarily geared for promoting products, not enough effort was made to promote services. Although there is a demand for innovation insurance, advertising, legal and financial services which U.S. firms could provide in the Far East, there were almost no export promotion efforts in these areas. While some efforts have been made to promote U.S. architectural and engineering services, they have been oriented toward larger development firms and ignored small firms and smaller projects.

An architectural or development design and study contract is more important for U.S. export expansion than can be measured by the amount of that contract itself. Because architects and engineers. when writing feasibility and design studies, often specify those products and services they are familiar with, U.S. manufacturers can gain tremendous advantage if U.S. firms prepare these studies. Commerce should aid these firms in their efforts to receive awards for such studies, explore the possibility of providing loans or other financial assistance from the Small Business Administration and encourage Export-Import Bank cooperation in efforts to assist U.S. firms seeking to provide feasibility and design study services abroad. . . . . (page 4).

[APPENDIX B]

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., April 17, 1979.

To: Hon. Frank A. Weil, Assistant Secretary, Industry and Trade Administration, Department of Commerce, Washington, D.C.
From: Gordon J. Cloney, Director, Special Policy Development.
Subject: Inter-Agency Committee on International Services—Notes on Work Program.

A. BACKGROUND

Total U.S. services account trade reached 129 billion dollars in 1978, a little less than one third of all U.S. imports and exports, and produced a 23 billion dollar surplus. Moreover, most service industries have a ripple effect stimulating U.S. merchandise exports.

Notwithstanding the strategic importance of the service sector, overall invisible trade receives fragmented attention within the federal trade and investment policy structure. Some agencies are not aware of the sector as they carry out general foreign commerce and investment responsibilities. Others have a limited "industry sector" responsibility. Some are not aware of current efforts by others that deal with, or impact on, services trade.

In December of 1976, the Commerce Department released a White House Inter-Agency Task Force report on services and the multilateral trade negotiations. Entitled "U.S. Service Industries in World Markets: Current Problems and

Future Policy Developments," the report was "the first comprehensive analysis of the participation and problems of U.S. service industries in international commerce," and its purpose was "to develop recommendations for improving the government's ability to address them."

The principal conclusions of the task force were set forth in 27 recommendations. Recommendation number twelve called for the establishment of an inter-agency committee on international services chaired by the Department of Commerce with membership including the State, Treasury and Labor Departments, the Office of the Special Trade Representative and other agencies "as appropriate." The committee should involve individuals "at least at the Deputy Assistant Secretary level."

This memorandum outlines considerations relative to the purpose and operation of such an inter-agency committee as seen by the International Service Industry Committee of the U.S. Chamber of Commerce.

B. COMMITTEE OBJECTIVES

An inter-agency committee on international services should have as its principal objectives enhancing international performance of the service sector, and, insuring that the sector and its component industries receive adequate attention from policy-makers and those within the federal government who administer foreign trade and foreign investment policy. Citing the economic importance of the international services sector, the introduction to the 1976 Commerce Department report capsuled the general problem as follows:

"Nonetheless, it seems fair to observe that the importance of the services sector has escaped the appreciation and systematic attention it merits. This is particularly the case with regard to the subject of this report: services in the world economy. Definitional, conceptual, theoretical and empirical work have all lagged behind the evolution of what some have termed 'post-industrial' economic realities. So, too, have governmental capacities to adapt and respond creatively to this evolution. International economic policy formation, and the associated, data gathering and organization, have been almost exclusively focused on goods, not services. Indeed, the extent and characteristics of international commerce in services have been virtually unknown to policy-makers."

While the 1976 report contributed to the conceptual framework, response by government is, thus far, modest. Hence, the inter-agency committee, the logical next step, should have as principal objectives:

1. Enhance the performance of the U.S. service sector in foreign markets.
2. Increase consciousness of the importance of international service trade and investment within the federal government.
3. Enhance the government's capacity to identify and respond to service industry problems.
4. Coordinate present government policy activities and operations which affect services.
5. Stimulate new initiatives, both as proposed in the 1976 study and others which may be identified for committee attention and action.
6. Increase the analytic and policy resources within government that are directed toward international services trade and investment.

C. COMMITTEE FUNCTIONS

It seems reasonable the committee operate as policy working group which implies a leadership role in coordinating and orienting specific action programs affecting services carried out by the individual member agencies. In the case of new issues, e.g., issues not being under the present aegis of a particular agency, the committee would designate the action agency—in the words of the 1976 report: "employ the existing structure but infuse within it an awareness of the need for analytic and policy consideration of service industries."

Specific functions of the committee would thus include:

1. Inventory and then give periodic general review to ongoing agency programs that impact on international service industries both directly and indirectly.
2. Periodic review of specific action programs dealing with current service industry issues and the progress being made

   insure that, as appropriate, the action agency is receiving and considering the comments of other agencies.

   resolve inter-agency differences if present.

   resolve policy problems, e.g., relating specific current issues to overall long-term policy objectives.

3. Consider suitable new policy initiatives including: those proposed in the 1976 report, other issues suggested by industry, and issues suggested by the member agencies.

define and assign priority to such issues and designate the action agency.

insure that comments and needed information are provided the action agency by other agencies (and through them by industry as appropriate).

follow up, resolve inter-agency differences and policy conflicts.

4. Review and expand the manpower and other resources being applied to international service trade and investment by the participating agencies.

In general committee functions should seek to enhance line operations in the member agencies by coordinating action programs, by resolving differences, by providing a general policy umbrella under which individual action programs are carried forward, and by initiating new action programs as appropriate.

The committee will require skillful, confident, creative leadership by Commerce in light of anticipated bureaucratic inertia, lack of awareness, and possible agency hesitation in the presence of what is by definition a non-traditional policy subject. The quality of staff work which Commerce will have to provide is thus apparent.

D. WORK PROGRAM

Areas to which the committee should direct attention are: (1) trade; (2) data and research; (3) investment; (4) technology transfer and (5) taxation.

Listed below in outline form are those issues in each category which would appear to be suitable for committee attention in the short and medium-term.

Section E of this memorandum examines some key short-term issues in greater detail.

Issues found in the 1976 task force report are indicated by "R" followed by the number of the specific recommendation as cited in the report itself, pages 57–76.

(1) Trade

A. Post MTN Developments within GATT:

1. Analyze post-MTN climate for service consideration under GATT.[1]
2. Analyze Government procurement code implications.[1]
3. Consider extension of service industry considerations into other codes.[1]
   Subsidies code (R#3(a)).[1]
   Others.
4. Consider future GATT discussion on service trade (R#3(c)).

B. OECD—Introduce Service Trade Issue (R#13):

1. Evaluate potential for/progress in OECD committees in dealing with service industry matters (Committee on Trade, Investment, Invisibles, Insurance, Transportation, Tourism).[1]
2. Catalogue service trade barriers and set priorities (R#5).[1]
3. Examine lack of international standards, guidelines and procedures for dealing with service trade barriers including dispute resolution aspects.
4. Pursue means to harmonize international practices on individual sector basis or on service sector basis.
5. Analyze developments in trans-border data transmission discussions for trade and investment implications and policy response.[1]
6. Analyze developments re service barriers in LDCs as base for Group B positions in UNCTAD and the U.N.

C. Bilateral Trade Relations:

1. Determine best way to pursue bilateral services requests tabled in MTN by the United States but not acceded to by the respective trading partners (R#3(b)).[1]
2. Catalogue service trade barriers by country and sector (R#5).
3. See further bilateral action on service trade barriers on ongoing basis.
4. Respond ad hoc to negative developments as required by future circumstances.

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[1] Short-term issues

D. Determine Feasibility of Extending Domestic Laws and Recourse Actions Now Available to Manufacturers to Service Industries:

1. Trade adjustment assistance (R#10).[1]
2. Anti-dumping recourse actions.[1]
3. Countervailing duties.[1]
4. Extension of Webb Pomerene provisions to service industries.[1]

E. Enhance Response of U.S. Export Promotion Mechanisms and Programs to U.S. Service Industry Export Development.

(2) *Data and research*

A. Consider establishment of working group on international services data (R#24).[1]

B. Consider establishment of Office of Service Industry Research to guide.[1]

1. Research leading to improved data collection (R #26 & 27).
2. Market research.
3. Economic impact data.
4. Service investment impact on LDCs (R #18).

C. Review analytic resource application to services trade and investment with a view to increasing coverage (R #14).

(3) *Investment*

A. Enhance response of existing multilateral investment discussions and related U.S. policy to service industry concerns (R #15).[1]

1. Catalogue issues and investment obstacles of greatest importance to service industries.
2. Follow up in U.S. policy formulation processes.

B. Pursue service industry investment problems in bilateral investment discussions (R #16).[1]

C. Develop State/Commerce early warning system for identifying and responding to service industry investment obstacles (R #17).

D. Analyze procurement practices of the international financial institutions with regard to utilization of U.S. service industries especially in project design and engineering.

(4) *Technology transfer*

A. Enhance response of existing multilateral technology transfer discussions and related U.S. Government policy to service industry needs.[1]

B. Seek means to deal with problems in bilateral discussions.

(5) *Taxation*

A. Monitor legislative proposals and regulatory decisions with regard to impact on service industries.

1. Seek comments from other agencies on pending foreign tax credit regulations as these relate to services.[1]

B. Pursue equitable and realistic U.S. tax treatment of U.S. nationals resident abroad and employed by service industries.[1]

E. KEY CURRENT PRIORITIES—DISCUSSION

Based upon events in the MTN, and other international dialogues involving trade and investment matters, the following areas would appear to be particularly suited for current priority examination by the committee.

GATT Related Initiatives.—The MTN included a reference to services in the government procurement code. Little else seems to have occured relative to services (although it is rumored that the subsidies code might be susceptible to service industry considerations). This process did establish the principle of dealing with service trade barriers as a number of other countries tabled service barriers for bilateral discussion. The post-MTN era must see U.S. initiatives to expand upon this modest beginning and the following objectives come to mind:

Climate.—Analyze the nature and tone of response to U.S. attempts to introduce services at Geneva as a basis for future strategy. What are the dispositions of trading partners for future GATT discussions in the area? Absent another "round," how might additional progress be brought about? What special work has to be done with trading partners and with the GATT Secretariat by the U.S. Government? Establishing a plan of action for future efforts, how might industry cooperate?

[1] Short-term issues.

Government Procurement Code.—Determine what actually has been accomplished in the reference to service "incidental" to the trading transaction in the GP code. Pursuing a plan of action relative to this provision based on the objective of enhancing U.S. service industry trade raises questions such as:

what services are included in the U.S. view? Is the definition firm?

what does "incidental" mean and is this a common or shared definition within GATT or at least among the principal parties?

how will the code be administered and what preparation and support will be required of government? How will follow up with U.S. service industry be handled?

what will the GP code do for U.S. service exports and what sectors stand to benefit?

what will be the anticipated impact upon U.S. government procurement and related U.S. services? What sectors stand to be hurt?

what preparatory work is needed for the opening of the code to cover all services at the end of three years as the code text provides?

Other Codes.—prepare a strategy for dealing with services in the context of other GATT codes, in particular the subsidies code. Questions include:

suitability of the particular code for expansion to services.

U.S. government views as to relevance of subsidies to U.S. services.

possible opposition from (U.S. industry/foreign industry or foreign government).

The OECD.—The 1976 task force report proposed and the U.S. government has proceeded to introduce the matter of service trade barriers in the OECD Trade Committee. The first item for attention appears to be compiling a generic list of service trade non-tariff barriers as the basis for considering how to deal with them through the OECD, the GATT or elsewhere.

Thus, the inter-agency committee should pursue the development of a U.S. list that catalogues and prioritizes those that are trade barriers while referring those that are more properly investment barriers to other OECD committees.

Various references now exist which might be used including: (1) the 1976 task force report and its 18 sectoral appendices; (2) the 1976 study by Wolf and Company prepared for Commerce as a background reference to the 1976 study; (3) the 1975 benchmark study, Invisible Barriers to Invisible Trade, MacMillan Press Ltd. (London); and (4) industry studies which have been presented to the STR.

The Chamber's Service Industry Committee can provide assistance to this analysis.

Bilateral Trade Issues.—During the course of the MTN, various U.S. service industries provided the STR with information concerning service trade barriers for bilateral negotiation.

In some cases individual barriers in a single foreign market were cited while others provided more comprehensive studies involving various types of practices in numerous markets. From these the STR subsequently tabled those it believed suitable for bilateral negotiation with the appropriate trading partner. Apparently very few requests were acceded to.

Thus a serious effort should be made to pursue through other bilateral channels the remaining bilateral service trade issues not resolved through the MTN. Consultations might be undertaken with the firm or industry group citing the barrier to consider options and strategy.

Domestic Trade Law.—Many elements of U.S. trade law will receive Congressional attention in the near future. It would be appropriate to examine those dealing with adjustment assistance and recourse actions to determine if service industries, in general or upon a selected basis, might be covered by such provisions.

Priority areas would include determining whether: trade adjustment assistance might be extended to service industries impacted by foreign competition; whether the sale of foreign services (for example air transport) at prices under cost might be considered dumping; whether subsidies to foreign service industries (for example in construction) might be susceptible to countervailing duty actions, and, whether the Webb-Pomerene antitrust exemption might be extended to service industries.

Data.—There is a clear need for more comprehensive, definitive data and there are shortcomings in the present government collection of service industry data. Certain sectors are covered in some detail with aggregate figures broken down by region and country. But in others there is no systematic or complete compilation. It may be that some needed data is presently found in other government surveys, the extent of this data is presently unknown. Another basic issue is that for

statistical purposes there is not an agreed upon definition of a service industry; nor what activities should be considered as services.

A government study could be undertaken, under the inter-agency committee's aegis, to evaluate the type of information that should be collected to properly understand the impact of service industries on foreign trade and the balance of payments as a basis for policy actions.

This study might: determine the extent and quality of data presently being collected by all relevant government agencies; re-define service industry classifications to better highlight them; determine information requirements from government and industry; evaluate changes to existing reporting and collection procedures; and advise on the general design of improved reporting techniques for data from major service industry sectors.

Senator ROTH. The committee will temporarily recess. Senator Percy will be back as soon as he completes his voting and will proceed at that time.

[Voting recess.]

Senator PERCY [presiding]. The committee will resume its hearings. Mr. Galvin?

TESTIMONY OF ROBERT W. GALVIN, CHAIRMAN OF THE BOARD, MOTOROLA, INC., ON BEHALF OF THE INDUSTRY POLICY ADVISORY COMMITTEE FOR THE MULTILATERAL TRADE NEGOTIATION

Mr. GALVIN. Thank you.

Senator PERCY. The Committee warmly welcomes you as—I won't say "old friend"—but a young friend of long standing with many members of this committee. We respect your judgment. And your testimony in this area will be very valuable to us.

Mr. GALVIN. Thank you, Senator.

I am Robert W. Galvin, chairman of the board and chief executive officer of Motorola, Inc.

Our company does 30 percent of its business outside of the United States throughout the world, in competition with the other strong electronic companies here and abroad. It should be noted that 70 percent of our business done at home is equally as competitive against the same worldwide suppliers.

During the past 3 years, I have served as a member of the Industry Policy Advisory Committee (IPAC) of the Special Trade Representative to the Multilateral Trade Negotiations. Most recently, I have served as its chairman.

I appreciate your receiving my thoughts on Government reorganization needed to implement and enforce the new MTN codes. I will also express certain options of the IPAC wherein I feel comfortable that I will be making a faithful representation of the Committee's views.

The IPAC consisted of high-level executives from 20 of the Nation's leading corporations representing a broad cross section of American industry. The deeper we became involved in our advisory work, one thing became apparent: The U.S. Government was not organized to implement and adequately enforce the codes and agreements which might be reached in the negotiations.

The IPAC members were unanimous in their endorsement of the following principles and objectives:

Our Government must provide a more centralized and cohesive organization at a more elevated level than has ever served our country's foreign trade policies and practices.

This entity and all of its subparts must be a strong advocate and ally of American business vis-a-vis other governments and their trade and investment policies and practices as we seek out and satisfy non-U.S. markets.

This entity must provide for the fair application and enforcement of U.S. laws and regulations for the mutually fair access to the U.S. market.

This entity must be a strong advocate of U.S. business interests in the refinement of the international codes, GATT regulations, et cetera, as may be required in the year to come.

And this entity should continue a formal consultive process so as to know industry's ongoing and changing needs.

Over the past several years, many other industrial nations have produced formidable business competitors. These competitors have developed—many with the active encouragement of their government's preferential ground rules—into well organized businesses, which are competing effectively in worldwide markets, including our own lucrative domestic markets.

In order for the United States not only to compete but to be the world's economic leader of the future, we must have the strongest centralized code and trade regulation enforcement entity we can create.

We need to make U.S. companies' success in international trade a positive and priority concern of the Federal Government. Trade has received stepchild treatment from most of the departments and agencies to which authority has been delegated. The new entity, to satisfy this concern and redress this treatment, must have cabinet rank and be a strong advocate of free, but fair trade—not protectionism.

It must guarantee that our trading partners follow the codes that were agreed to in the MTN. It must be sure that the foreign products sold in the United States are produced and marketed in accordance with those codes. It must also assure that foreign products sold in other countries in competition with U.S. goods are sold in accordance with the codes.

No private U.S. company, regardless of size or resources, can adequately compete with another country's business organization if its government is its active partners, providing unfair assistance or preferential rules.

In this country, many—perhaps most—companies who need it find it impossible to obtain timely or effective relief from unfair trade practices under our present structure, unless they can find an advocate within each of the many agencies involved. In addition, they must have the financial resources necessary to prepare multiple documentations, support the staffs who will persist in following through with all of the red tape, and multiple procedures which the law now requires.

Even then, this task becomes virtually impossible when one considers that the Government's interest in international trade is scattered over some 50-odd departments, agencies, and bureaus—many of which use their foreign trade jurisdiction to pursue other policy goals. In addition, over 30 congressional committees and subcommittees are involved in international trade affairs.

The fact of the matter is that the essentials for any international trade program—whether it involves a small company, a large corporation, or a nation—are so tightly integrated and interdependent that, for the government to do its job right, it is unwise to separate the individual segments.

We must realize that international trade does not mean just exports or just imports but both exports and imports plus international investments. Therefore, the Government agency responsible for implementing and administering the U.S. foreign trade policies must have jurisdiction over these three activities.

The Industry Policy Advisory Committee feels so deeply about the necessity for a major reorganization that, in its initial determination, the majority of the IPAC concluded that a new Department of International Trade and Investment would be the preferred solution.

The functions and responsibilities to be included were:

The Office of the Special Trade Representative—to effect policy, consult with business, and carry on negotiations with governments.

The antidumping, countervailing duty, and customs administration functions of the Treasury Department.

The economic and business functions of the State Department, including the overseas commercial attachés.

The statistical reporting function of the International Trade Commission.

The international business and export-control functions of the Commerce Department.

The Export-Import Bank; and

The Overseas Private Investment Corporation.

We were moved to this conclusion for the following reasons:

One, such a plan satisfies our objective of centralized responsibility and authority.

Two, it would be the most emphatic signal we could send to our trading competitors that our Government meant to treat trade and investment seriously and to assure fair interpretation and enforcement of trade rules.

Three, we wanted you, the Congress, to read into this recommendation the unqualified seriousness with which we have concluded the essentiality of our Government taking resolute steps to accomplish the goals and objectives cited earlier.

Four, trade rule enforcement and further negotiations and consultation with business must be an ongoing, living activity as we continually renew and update our relationships with our trading competitors.

If it is politically feasible to take this dramatic step, the majority of the IPAC would support it.

Since the IPAC last met, the administration has submitted a plan for reorganization. The IPAC anticipated the general form of this recommendation, as certain of our members did recommend an expanded and strengthened STR office and/or an expanded and strengthened Department of Commerce.

From this point forward in my presentation, I cannot represent the views of the Industry Policy Advisory Committee, inasmuch as it was not practical to convene on relatively short notice this group of volunteer members. So, I will speak now only of my personal opinions.

As an IPAC member who has voted for and supports a new Department, I would like to indicate that I can also support much of the thrust of the administration's plan but would urge the strengthening of certain of these recommendations. I will comment on my exceptions only.

As I understand it, the administration's proposal involves, among other things, the retention of the Trade Policy Committee and establishes within it a Trade Negotiating Committee. The Trade Policy Committee will advise on basic trade issues for negotiation and administration, will advise on various trade relief measures, and will provide policy guides for the trade agreements program. Its function is described as including coordinating responsibilities.

I don't think a committee such as this can operate as a coordinating entity with sufficient assurance of timely and effective action. I believe the committee should be strictly advisory, providing its advice directly to the U.S. Trade Representative, and the coordinating responsibility should be unqualifiedly placed in the hands of that office.

The Trade Negotiating Committee is described as being responsible for managing the negotiation of particular issues and having responsibility for coordinating the operational aspects of those negotiations.

Again, I don't consider that such a committee can manage or coordinate firmly or effectively or in a timely manner. Therefore, the responsibility for those functions should be vested with the Office of the U.S. Trade Representative. As with the Trade Policy Committee, the Trade Negotiating Committee should be advisory only to the U.S. Trade Representative.

Next, appropriate functions are assigned to the Department of Commerce—renamed the Department of Trade and Commerce.

I concur with the functions proposed and, as you will note below, will recommend certain additions.

However, the responsibility for these functions is vested in an Under Secretary for Trade. I strongly suggest the reversal of roles.

The Department of Trade and Commerce should have whatever Under Secretaries or Assistant Secretaries are required to carry on the nontrade and investment functions which may remain in that Department. But the Secretary of the Department should be entrusted with the primary responsibility of seeing to the accomplishment of the trade and investment functions which are the subject of this hearing. And this should be prescribed as his or her most important duty.

It is to be presumed that each President will nominate a dynamic leader to occupy the Cabinet-level position of the Office of the U.S. Trade Representative. And, of course, the President will nominate the strongest possible candidate for Secretary of the Department of Trade and Commerce.

With two such vigorous proponents of fair interpretation and enforcement of all of the trade rules plus whatever may be done regarding agriculture, the United States would be postured before the world as seriously and strongly structured to see its way through the ground rules that help make up the competitive environment of tomorrow.

Both the Export-Import Bank and the Overseas Private Investment Corporation should be part of the Department of Trade and Commerce to assure full coordination and their continued maximum effectiveness. Both, however, could retain autonomy—including separate

budgeting and management—although the Secretary of Trade and Commerce should be a voting member and, therefore, an official member of the boards of both organizations.

Finally, the consultive process with industry must be continued. The Office of the U.S. Trade Representative or the Department of Trade and Commerce should be obliged to maintain and operate a system of consultation with industry similar to the sector and policies committees which served well during the negotiation phase of the multilateral trade negotiations.

This concludes my formal statement, Mr. Chairman.

At this time, I would be happy to answer any questions.

Again, I appreciate the opportunity to testify.

Senator PERCY. Thank you very much.

You indicated that you believed that the President would nominate the strongest possible candidate for Secretary of the Department of Trade and Commerce.

Let's look at the Department of Commerce as it is now structured, look at the succession of Secretaries that we have had, not quite as many as the Attorneys General, but 13 in the 13 years since I have been here. The turnover has been very rapid.

Would you leave Motorola to accept a position as Secretary of the present Department of Commerce? I presume your answer is, "No." [Laughter.]

Mr. GALVIN. I think that responsible people like to feel that they have the opportunity of exercising responsibility. It would be clearly more appealing for such vigorous-type leaders to be enticed to accept a role such as I have described where such a Secretary would have a very strong influence and be engaged in the administration of major foreign-trade and investment issues. It would be an encouragement to attract even stronger persons.

Senator PERCY. Do you feel the present Department of Commerce is not structured so as to attract a truly strong, dynamic person or, if someone is of that inclination, that they might even be making quite a sacrifice and realize a great deal of frustration when they took over this sort of heterogeneous Department that we have called the Department of Commerce?

Mr. GALVIN. Yes.

I am not a sufficient expert on the real structure of the Department. I feel more in the perception that I pick up through others that, regrettably, Commerce is so diverse in its multiple responsibilities—each of which, of course, is worthy—that, somehow or other, it doesn't have a major-thrust effect and, therefore, it is not looked upon as being one of the senior influences on our society.

But if we now elect, as the President said this morning in the signing of the trade bill—and he was echoed by other important leaders of Government—that trade is now very important—then I think if you, the Congress, will define a role wherein the Secretary of a Trade and Commerce Department has some really effective duties to perform and doesn't have to look to Treasury, State, and other places, I think that person can become very influential and effective.

Senator PERCY. In other words, you feel that by restructuring and organizing trade functions, we would be better able to attract a very high-quality and dynamic person, who would recognize that he did have authority and did have the ability to get something done?

Mr. GALVIN. Yes, sir.

Senator PERCY. Looking at our principal competitors abroad, our allies and friends—the Japanese, the Germans, the British—do you feel that we are structured in our governmental organization at the Federal level, as well as they are in offering real services and assistance to their organizations and companies or—whether they be manufactured goods or services—assisting them in getting business in the interest of their companies, but also essentially in the national interest? Are we as well organized as they are?

Mr. GALVIN. We are not.

American business feels as if it essentially has to carry all of its own message and its own influence on an individual-party basis. We obviously cannot do it in consolidation with our domestic competitors for other trade regulation reasons. We really need someone who will be our ally and our spokesman. The influence and the importance of such people in other countries can be, in a secondary way, illustrative of the fact that, even though it would be a comparatively small Department, it could produce dynamic leaders. It is interesting to note that the Prime Minister of France, either in his last or very recent responsibility, was the head of the Foreign Trade Ministry of France. So, here was a person in an activity of great importance to France. It was literally the training ground for the man to become the Prime Minister of the country.

The people—the culture—the philosophy is that the governments have to be allies, not as investors, not as business managers, but as advocates that must interface vis-a-vis the other government roles.

Senator PERCY. Senator Chiles, we are happy to welcome you.

Mr. Galvin has finished his testimony, and I have started to question him.

Senator Roth will be back as quickly as he can.

I have commended Senators Ribicoff and Roth for the leadership they displayed in trying to structure a bill. I have said to them that I could not justify the creation of yet another Department of Trade.

I just think the proliferation, the number of people reporting to the President, is just getting so unmanageable that we have got to restructure this in some way, even though I realize there are great problems in building on the Commerce Department, with its weaknesses in this area. We ought to structure ourselves in such a way so that we put them under a regrouping, have a Department of Trade and Commerce.

I take it that that is now the administration's proposal, in a sense, but that some changes should be made. And I think you have made some excellent suggestions that we can incorporate. As I interpret your testimony, you can live with either a separate Department of Trade, keeping the Department of Commerce, or a combined Department of Trade and Commerce.

Do you have any preference? Or is the proliferation problem bothering you—the problem of setting up just another bureau?

Mr. GALVIN. As an idealist, in terms of organization, which I recognize is not politically real, I would still prefer the conversion to a Department of Trade and Industry or the pure entity, such as the Ribicoff proposal, and then the redistribution of the other activities that have been a part of Commerce elsewhere into the administration of our Government.

I recognize this is unlikely and politically may be unreal.

So, yes; as a practical matter, I find myself comfortable with the second alternative if amended by interposing the strengthening of the Trade Representative in his policy determinations, in his negotiating responsibilities, possibly even including giving him all the commercial attaches who could interplay even on bilateral negotiations, but at least they all should be moved into a Department of Trade and Commerce if that Department is further strengthened and. if the responsibility for trade and commerce is particularly vested in the Secretary and is not delegated.

Senator PERCY. When I came back from the service in 1946, I took over the International Division of Bell & Howell, and then became the chief executive officer. Why is it that in all those years in working in international development, building factories around the world, opening up sales offices around the world, I can't ever recall ever going to the Department of Commerce or the State Department or any Embassy abroad and asking for help? That was 12 or 15 years ago, at the end of that era. What was happened in the international trade process that now causes businessmen such as yourself, who really have struggled all their lives to hold down government and make it smaller rather than larger, to want a much stronger centralized organization and structure at the Federal level to assist and help our American business community?

I suppose we can just look at OPEC and see how the world has changed and how you really deal with governments now for instance.

But have any other thoughts occurred to you as to why it is much more necessary now to centralize trade functions than it was a couple of decades ago?

Mr. GALVIN. First, the countries with which we interface are themselves bigger and stronger.

Second, many of their enterprises have become mature and capable competitors.

Third, some of their enterprises are government-owned enterprises.

Fourth, their governments, as a matter of active advocacy, are out striving to assist those companies, be they private or government owned, to be eminently successful for all of the pragmatic reasons of earning wealth, creating jobs, et cetera.

The rules are made by the other governments. And we private enterprisers, who 20 years ago, maybe, could earn almost all of our business on the pure merit of our quality, our technology, our cost, what-have-you, are now finding that there are other reasons that sometimes are more senior to the quality or the technology. And these other governments can shape, twist, apply policy regulations in a fashion that we, as straightforward private competitors, cannot overcome.

This could have been a practice 20 years ago. But we had such an overwhelming competitive advantage at that time that we could overcome it on sheer merit. Today many of us are rather equal in our business qualities. And if the increment is the favoritism of the government-owned company, if it is a twisting or tailoring of the rules, we can't beat that system. So vis-a-vis those governments, we must have a stronger interface from the United States than we have had in the past.

If the Government will neutralize the other governments, then we can compete with the private enterprises or even, maybe, in the public enterprises.

Senator PERCY. The last question:

When trade matters were debated in the Congress in the fifties—and I recall testimony before Ways and Means and Finance—they were highly emotional issues. The votes were close. We won a big vote, I remember, by two votes in the House of Representatives, that determined the national trade policy of this country in the Eisenhower administration. And the battles for protectionism and so forth ranged up and down, whether it was strawberries or whatever it might be.

Certainly, you come from an industry that has had a tremendous amount of competition in some of its consumer products, particularly from Japan. And, yet, you testify asking for, as an advocate of free trade so long as it is fair trade, which is an enlightened position. On the floor of the Senate this week, just before the final vote, I counted only three of us arguing with respect to the big trade negotiations we have been carrying on for years in the MTN.

It was ratified, not by a close vote, but 94 to 4, as I recall that vote.

Remarkable testimony—the way we have moved to become a free trade country, believing the world has to be our market and we have got to import as well as export.

Do you feel that there is any danger that by pulling together in one Department all of these functions to restructure, revise, revitalize the Department of Commerce, that there would be any tendency for protectionism to start to swing us away from a policy which, I think, is eminently right for us even though it is discomforting to many business interests in this country because of the tough competition we are up against now?

Mr. GALVIN. I would consider that the risk is slight. And, obviously, people can move in biases. However, I think the risk is slight, because so much of the direction of policy is well instititionalized by the treaty, by the codes, which I consider to be well drafted as a major initial first step, which codes, I think, do not speak of an encouragement of protectionism. So, it would be presumed that we are going to work this new system, this new mechanism of Government, to institutionalize the codes, to accomplish what will be derived from the dispute mechanisms, et cetera. I do not see where there is a large propensity toward protectionism as a function of centralization or anything dealing with the application of these codes. I think it is actually a countervailing influence.

Further, I think there has been a mood developed as a function of the excellent process that we have gone through in the last 3 years, which has been an educational process, among other things, for private as well as Government people, that this would be a very low risk.

Senator PERCY. Mr. Galvin, I want to thank you very much, indeed. I want to express appreciation to you and to the Industry Policy Advisory Committee for the advice and counsel we have received.

I can assure you this is a matter of very high priority to Senator Ribicoff, the chairman, Senator Roth, Senator Chiles, and myself, and other members of the committee. And we certainly take this as a matter of great responsibility in order to see we are structured and organized properly.

I think your practical advice is fundamentally sound, and I appreciate it very much.

Mr. GALVIN. Thank you.

Senator CHILES. Mr. Galvin, you were the Chairman of the Industry Policy Advisory Committee. How effective was the role of this committee in the recent Multilateral Trade Negotiations?

Mr. GALVIN. The Special Trade Representative's office and the associates from the Department of Commerce were eminently receptive. Sufficient opportunities for interfacing with the officials on the various aims of these offices were continuing to be existent. I feel that there was good listenership on the part of the Government officials.

We got a chance to put our words and our thoughts into the proposals, and I feel that a sufficient number of our recommendations were accommodated.

Senator CHILES. It was more than just listenership?

Mr. GALVIN. Yes, sir, I think that the process was good. And I would commend the operative officials—the Wolff's and the MacDonald's and all of the people under them with whom we interfaced at the policy and sectorial committee levels. I think it was a noble experiment, and it worked.

That is one of the reasons why I emphasize in my testimony that the consultative process must be continued. Maybe it can be improved. But it certainly got off to a good start.

Senator CHILES. I note that you said that in your testimony. How should that be set up in the reorganization we are talking about?

Mr. GALVIN. I am not a student of such a precise recommendation. But I think that the pattern that we have had is a superb place to start and rather close to what we are going to need.

We are sectorially organized. There ought to be continuing sectorial committees. There ought to be some kind of a regularization of these groups meeting with officials.

It does not have to be as intensely done as during certain of the critical periods of the negotiations. But there should be a requirement that there be a report to the Congress by the senior agency, the central agency that would be looking over this whole situation, that they have meetings on some periodic basis, like once a year, and the opportunity for informal consultation.

I think the pattern as established under the Trade Act would develop into a rather good system for the future.

Senator CHILES. I note that section 301 in the Trade Act of 1974 is one of the enforcement methods for unfair trade practices. Under the administration's plan, the new Commerce Department would handle the staffing for the section 301 cases. But STR would retain the final decisionmaking authority.

Do you think that is going to work?

Mr. GALVIN. I am not a sufficient expert, sir, in Government structuring and details of how things work.

I will say that the evidence that I saw of cooperation between the STR office and the Department of Commerce, who have staffed many of the positions in the negotiating and the advisory functions, appeared to be effective, practical, and cooperative. Whether behind the scenes there were many other difficulties that were not observed by us, my impression is that that would likely work.

Senator CHILES. Do you think that you could separate the policy-making from the policy implementation and still have a workable system?

Mr. GALVIN. I would prefer it otherwise. I think it would work better if it were centralized.

That is the reason why on a priority basis, I come down on the proposition that I would prefer that there be a single Department of Trade and Industry, structured a la a Roth-Ribicoff proposal. But I think the other can be effective.

Senator CHILES. I understand the administration has proposed transferring some, but not all, of the commercial attachés from the State Department to the Commerce Department. Eventually the attachés for the 30 major industrial countries would go to Commerce. All the others would remain in State.

You have suggested, I think, putting them all in the STR.

What are your thoughts on either leaving them all in State or moving them all to Commerce? How do you view splitting them?

Mr. GALVIN. I think we ought to move every person—I know there are places where two hats are worn. I think that every separable person who is a commercial attaché should be moved to one of the two agencies, the Department of Commerce or to the STR. I can make a case where they could be in either place.

If they were appointed to the Department of Commerce, they might be a little freer to act, in effect, as the surrogate or the agent of American business in that country, to a freer degree than if they were a part of the official negotiating Department of the STR or the Trade Representative's office.

I can make a case for the proposition that, well, these people should be more than just representatives of business and intelligence-acquiring entity. Why not have them be the deputy of the Trade Representative in the country engaging in the, let's say, subparts of the negotiations or the early stages of the negotiations? Wouldn't this attract better commercial attachés if they were not just a representative but really had some major functional negotiating responsibility?

I can make it both ways.

I find myself currently as a newcomer to analyzing this situation, rather favoring putting them into the negotiating phase as well as the representative phase. I find myself suggesting at least the new idea or at least I haven't seen it written that they should be considered as maybe being part of the STR. I would be comfortable if they were a part of the Department of Commerce as well.

Senator CHILES. Like so many of my colleagues, I voted for the multilateral trade bill. I spent a good deal of time working on the international procurement code part of the agreement. I listened to Senator Percy's comments on a number of provisions of the trade bill.

I happened to believe that, had it not been for the potential breakthroughs we have in these codes, you wouldn't have seen the kind of vote we had on the Senate floor. I think you would have heard many arguments for protectionist policies. And I might have been one of the people arguing that way. I had become so disillusioned with the fact that "free trade" no longer seemed to mean "fair trade."

I noticed in your statement that you felt that in most instances American businesses do not compete on an equal footing. They did not

have the backing of our Government where they did compete. Where, there were violations, nothing was ever done about them. As a result, other countries, in my opinion continually took advantage of the situation in their dealing with the United States.

I thought that we had reached the point where, if we were not going to redress some of these issues, we really had much less to lose in a protectionist battle than many of our principal competitors.

I think that Bob Strauss did a good negotiating job, especially with the international procurement code. But now I also wonder whether it all will go for naught. Unless we have enforcement, unless we demonstrate the ability and the desire to enforce the agreements, until we show that to ourselves and to our trading partners, then I'm worried that it was all for naught.

What do you think should go into setting up an effective enforcement capability in a government? Have you had a chance to focus on that?

Mr. GALVIN. I can't speak in terms of job titles and things of that kind. I can speak in terms of direction of policy or objective.

In terms of enforcement, I think we are going to require that the Department of Trade and Commerce, if it is the entity where this will be housed, must hear a clear-cut statement of objective from the Congress that it expects fair interpretation.

So, I find that my thoughts begin with the instruction that the Department gets from the Congress, the very messages that you say were required at the time of the effecting of the positions of the Congress months ago. I think they have got to be restated very clearly.

So, the first thing is to state that is our purpose, that is our legislative intent. From there on, then I think we have got to institutionalize where we put enough people into the process, who can receive the complaints. They must be reasonably centralized. They must be responsive in terms of an early and timely response. There has to be a goal of timeliness in terms of the effecting of the enforcement procedure.

Senator CHILES. Enforcement actions will occur when our domestic industries are injured by trading violations. Because of this, do you see any advantage of placing these enforcement actions in a reorganized Commerce Department? That Department would also be responsible for the well-being of domestic agencies and would have a number of programs available to help domestic industries.

Mr. GALVIN. I am sorry; I don't think I understand the interpretation of that question. I am sure you asked it well.

Senator CHILES. For an enforcement action to occur, you must have an injury, to start with, to the domestic industry. Commerce already has some tools, lending tools, and other tools, to help a domestic industry that is having troubles. Would putting another implementing tool, the enforcement authority, in Commerce be of some benefit to domestic industry?

Mr. GALVIN. I think it will be of benefit. But here I am not informed with sufficient detail to what may be some outboard responsibilities of the International Trade Commission. Where I think there still is a judicial responsibility outboard of the Department of Commerce and Trade, and whether or not that should remain outboard or whether it should further be centralized because it is there that some of the determinations of injury must be treated, I understand.

So we may not even yet have identified all of the collection of things that should be brought under the responsibility of either the Trade Representative or the Department of Commerce.

Senator CHILES. If advisory committees are continued under the administration's reorganized proposal, it is not clear whether those groups should concentrate their efforts on STR, which is policy oriented, or on the restructured Commerce Department, which would focus on program implementation.

Which entity do you feel the advisory committee should principally address?

Mr. GALVIN. I think an advisory committee should be privileged to advise on any relevant subject and I think it could be relatively unimportant through which agency or through which entity we communicated.

We found that both entities listened in the prior consultative process, even though we met in the Department of Commerce, the STR came over and sat, and so forth. So I would say the consultative process could be vested in either one as long as there is a receptivity to seriously listen on the part of the other party.

Senator CHILES. Mr. Galvin, I have completed the questions that I had that I wished to ask you.

[The information follows:]

ADDENDUM TO STATEMENT OF ROBERT W. GALVIN, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Mr. Chairman, if I could be granted a few more minutes to speak on a subject which I feel is most important, because it was brought to my attention in a conversation yesterday with one of my fellow IPAC members. Again, however, these will be my own thoughts. This particular subject concerns our overseas commercial attaches. First, let me say that, if any of these are to be moved out of the State Department, I feel all of them should be moved, not just those in the major posts. It should be remembered that both ourselves and our overseas competitors will be continually expanding our trade with the lesser developed countries and it is important that our government's commercial office be represented there as well as in the countries of our major trading partners.

I feel that these commercial attaches should not be placed in the Trade and Commerce Department as suggested by the Administration, but rather should report to the Office of the U.S. Trade Representative. If this corps of commercial officers functions in the way that would be most beneficial to the country, they would constantly oversee trade in their host countries for any possible violations of the codes; they would carry on day-to-day bilateral negotiations and seek out trade intelligence that could enhance the U.S. trade position. This is in addition to promoting U.S. business interests abroad.

The vast amount of information that would be gathered would have some bearing on our trade policy. Therefore, direct lines of communication between the policy maker, the U.S. Trade Representative and our front line overseas posts is essential. I would suggest that these attaches be rotated through various posts during their careers in order that they can obtain the greatest exposure to the world trade environment.

Again, thank you Mr. Chairman.

Senator CHILES. Thank you, very much.

Mr. GALVIN. Thank you.

Senator CHILES. We will suspend the meetings for 10 or 15 minutes, until Senator Roth is able to return.

[Brief recess.]

Senator ROTH. At this time, the subcommittee will reconvene. We will call upon Robert Peabody in behalf of the American Iron & Steel Institute and he is accompanied by Mr. Richard Schubert, the president, Bethlehem Steel Corp.

TESTIMONY OF ROBERT B. PEABODY, ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE, ACCOMPANIED BY RICHARD F. SCHUBERT, PRESIDENT, BETHLEHEM STEEL CORP.

Mr. Peabody. Thank you, sir. Our testimony today is on behalf of the American Iron & Steel Institute, whose 63 domestic member companies represent 93 percent of the American steel production.

We wish to speak today to one element of the trade reorganization proposals being considered by the committee, the enforcement of our trade laws.

Congress, working with the administration, has in the new Trade Agreements Act, demonstrated as clearly as possible, the necessity for strong, effective enforcement of our trading laws.

The past dismal history of enforcement has been reviewed and properly discarded as a model for the future. The procedures have been tightened, the time schedules for action improved and the rules clarified.

In brief, Congress has provided for a good enforcement system; the problem now is to make it work. And that is what we want to speak to today.

In our view, the location of the trade laws enforcement office should be dictated by the following considerations:

1. The responsibility for trade law enforcement should be depoliticized as much as possible. That means to us that:

The office should be located as high in the hierarchy as possible, reporting directly to a secretary.

The office should be headed by an official who is nominated by the President and confirmed by the Senate.

The office should be one of stature and substance. It should have a separate budget. Those who work for it should be professionals. It should be of a status that it will, particularly if there are to be persons from existing organizations who are desired to be transferred to it, be recognized as an important, meaningful organization which can advance and recognize good career people. The model of IRS or FBI is one to follow.

The head of the office, perhaps called "Commissioner" or "Administrator" should have a term of office which rotates for perhaps 6 years; that is, to clearly demonstrate that, while responsible to Congress and the executive branch, it is beyond day-to-day political influence.

In short, trade law enforcement should be based upon criteria specified by law and not by political considerations to the extent possible.

2. The responsibility for trade law enforcement should not be structured so that it is affected by the governmental organization which is responsible for international trade law negotiations or export promotion.

To do so will have the inevitable effect of causing day-to-day enforcement to be the subject of pressures relating to other, equally important but totally unrelated considerations. To be avoided are those situations where a foreign interest attempts to affect the enforcement process by promises of actions in some other, different, area of commerce.

Nonetheless, having stated these principles, we nevertheless believe that there will be those enforcement situations where the special expertise of those in STR will be required.

The new Trade Act, for the first time, has created the statutory authority for the suspension and discontinuance of enforcement proceedings. In the "big case" particularly the special expertise of STR should be employed.

Specifically, we believe that where there are suspension or discontinuance negotiations, they should be conducted by STR. The enforcement agency need not develop that special negotiating expertise; it is already available.

The effect of separating enforcement and settlement negotiations in this manner will, we submit, facilitate both enforcement and help insure reasonable settlements. It will strengthen the negotiator's hands: They will be, properly, perceived by those across the international table from them as not being able to politically affect enforcement through tradeoffs of unrelated matters but only able to terminate the enforcement process by substantial, meaningful settlements related to the trade matter at issue.

Mr. Chairman, we believe that Congress has as its goal fair trade and fair enforcement of that fair trade. To mix enforcement and negotiation, to mix enforcement and export promotion, to mix enforcement and political considerations, will, in our judgment, adversely affect the good work accomplished by the new Trade Act. Conversely, the combination of enforcement and negotiation will diminish and detract from the ability of our trade negotiators to negotiate.

We respectfully submit that the best way to achieve the fair enforcement desired by Congress is to separate the two very important but distinct functions, enforcement and negotiation, in the manner we have indicated.

Our interest is to separate the enforcement and negotiation process, separate the process of export promotion, to separate the process of negotiation from the process of enforcement.

We think that is crucial to the success of the bill which is, I guess, today now a law that Congress has seen fit to provide to the administration.

Our belief is that the best way to do this is to separate the enforcement mechanism from other considerations.

That is our statement, sir.

Senator ROTH. Thank you, Mr. Peabody.

Let me start out by saying that one of my principal concerns in whatever mechanism we develop is that we do have strong enforcement of our rights. I think that has been a problem in the past in the Treasury Department in particular. I am not at all persuaded that the Commerce Department will be more effective.

I might say it is not only a question of our countervailing and other laws that we have on our books, but I am also concerned about our having the will to administer the so-called nontariff codes. They are much more general. They are much more ambiguous and it does seem to me that we have to develop some kind of mechanism in that area. We need an aggressive agency that will protect our rights and will also help implement them in such a manner that promotes American trade interests.

I don't know of any way we can separate that aspect of the enforcement, if you want to call it, from the lead agency.

In the case of countervailing, it seems to me your statement would rule out that it be in either the Department of Commerce or the Special Trade Representative office; is that correct?

Mr. PEABODY. We don't go quite that far, Senator. We have to take, so to speak, the word as it comes down.

Senator ROTH. We all find that.

Mr. PEABODY. If it is the President's reorganization plan or if it is your bill. Our ultimate interest is not so much that this be an independent agency, like some that are around, but rather that to the extent that it is politically and practically possible that the enforcement be along the lines I have described.

If it is in a department, if it is in Commerce, if it is in Treasury, if it is in STR, which I personally think that it should not be with STR, it should in any event be slotted so that the reports into the head of the agency, not to the deputy assistant, not to an assistant, not to an undersecretary, export promotion or what have you.

Senator ROTH. Let me ask you this: In other words, do you think it should be included as obviously it is going to have to be included somewhere—maybe the answer is that we could give it sufficient independence?

Mr. PEABODY. That is what we are shooting for.

Senator ROTH. Within the entity, and I must say I happen to think it must be in STR.

Mr. PEABODY. I said that with some deference.

Senator ROTH. One of the points that you raise that seems a little bit in conflict with your other testimony is that you want it to be relatively independent and yet you want it to report to the top guy or gal, as the case may be. That sort of argues the other way because I suppose the political decision would tend to be made by the top person.

Mr. SCHUBERT. Mr. Chairman, if I might respond to that, what I think we are really saying is that it ought to be treated as a law enforcement agency. This element, this subdivision of whatever department in which it is located should be treated as what we believe the law has now meant it to be, to wit: A law enforcement mechanism or agency.

I personally have had experience for 5 years or so at the Labor Department. Going back to my own experience there are a number of law enforcement programs there that report directly to the Secretary, and indeed function as I believe this should, given the nature of the legislature as impacted by the bill that was signed into law this morning.

It ought to function as a legal law enforcement agency. The definitions are such that it is predictable enforcement pattern. The Secretary must, in terms of budget and overall responsibility, have some monitoring function, but it is a law to be enforced.

Mr. PEABODY. For example, Senator, there is a certain amount of freedom that is given just in the concept of separate line item budget.

Senator ROTH. This is a very critical question, and I have a great deal of sympathy for what you are saying, because I am dissatisfied with the job that has been done in the past.

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I think there is great merit wherever we put it, and I have some preferences that we create some autonomy. I will have to say, based on some of the other problems we are having in Government, I am not sure I am totally for autonomy, but I am not sure what some of these other regulatory agencies do in an independent fashion, so that we really have no national policy.

Mr. PEABODY. That is why we refrain from setting it up like the Federal Trade Commission or something of that nature.

Senator ROTH. We find that in many cases the independent agencies act in their own direction irrespective of who is in the White House or the will of the Congress. We have a delicate balance, I think is what I am saying. I am sure you have heard me say this point, but I will say it again, that we are going to be trying to develop a solid approach and this is going to be a key question.

I would urge and ask that you keep in contact with our people so that we can try to meet the best balance in this area.

From the standpoint of consolidation, do you agree that there ought to be a restructuring so that we have a more activist American policy promoting trade?

Mr. PEABODY. Yes, sir.

Senator ROTH. One of my concerns, in all candor, is that even though your steel industry in many cases is very large, it is pretty difficult for them to compete in world trade, even large business organizations, when foreign companies work hand in hand with the Government.

I would like to see us come again around to the point where we are ultimately doing a great deal of exporting of steel products.

Mr. PEABODY. Ultimately our problem is in some considerable part that so much of the steel industry in the rest of the world is either nationalized or quasi-nationalized and in any event subsidized.

Mr. SCHUBERT. But we can, Mr. Chairman, maintain a strong, viable steel industry which supplies the needs of American users and consumers, provides a stable employment base if we have a fair shot at our own market.

We have the biggest, most attractive market in the world by far. All we are asking for is a fair shot at our own market. We have not had that kind of fair shot given the subsidies that we have had to contend with and the mix of the economies that we are competing with constantly.

We believe that the new law has sufficient teeth in it to permit and enforce mechanism and process to adequately protect that market.

If we cannot—we have said very candidly, Mr. Chairman, that if we cannot compete in our own market against fair trade from abroad, we ought not be in the business.

Senator ROTH. No. 1, I think as a leading nation, we have to have an effective steel industry. We cannot discharge our responsibility as a free leader of the world without it.

Second, as you point out that one of the problems is that the competition is if not Government subsidized, then Government owned.

This is an area where it seems to me that our nontariff codes conceivably should be of great importance to you in protecting and promoting a sound steel industry.

I would say to you that I would hope that not only are you actively interested in selling here, but the world market is growing so rapidly during the next 10 years that we take an increasing share of that.

I have confidence in your management skills that this is possible if we are structured in Government to help out.

Mr. SCHUBERT. Mr. Chairman, you should know that we project the growth of our economy and steel demand in this country, unless we can turn around in respect to capital formation and profitability we won't be able to supply the 85 or 80 percent of domestic needs, much less supply significant steel from abroad.

The trend has been just the other way. There has been a reduction in capacity over the last 10 years, of very significant proportions.

Senator ROTH. I regret that I had to be absent for an extended period of time, but one of the reasons was that I was attending a press conference where one of the principal thrusts of what we were releasing was the need to have tax reductions for both personal and capital formation that will help you secure the investments capital necessary for that growth. I agree with you. That is a critical need of this country.

Mr. PEABODY. Thank you, sir.

Senator ROTH. Gentlemen, I appreciate your being here and as I said, I would hope particularly on this delicate question, because I think it is two sided. We would welcome your help and suggestions.

Thank you.

At this time I would like to call on Mr. Carlson, who is testifying on behalf of the Associated General Contractors of America. He is a member of the M. M. Sundt Construction Co.

TESTIMONY OF JOHN E. CARLSON, VICE PRESIDENT, M. M. SUNDT CONSTRUCTION CO., ON BEHALF OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA; ACCOMPANIED BY GEORGE E. STOCKTON, DIRECTOR, AGC'S INTERNATIONAL CONSTRUCTION DIVISION; AND MS. BARBRO A. OWENS, ASSISTANT DIRECTOR OF THE CONSTRUCTION DIVISION

Mr. CARLSON. Mr. Chairman, members of the committee, ladies and gentlemen, I am John Carlson, vice president of the M. M. Sundt Construction Co. and a member of the International Construction Committee of the Associated General Contractors of America.

My firm has been active in the overseas market construction market for over 4 years, and we are presently performing construction in Saudi Arabia.

I am accompanied today by Mr. George Stockton, director of AGC's international construction division and Ms. Barbro Owens, the assistant director of that division.

The Associated General Contractors of America and its 113 chapters nationwide is comprised of approximately 30,000 firms, including more than 8,000 of the Nation's leading general contracting companies that perform more than $100 billion of construction annually. AGC members also perform approximately 50 percent of the contract construction by American firms in more than 100 countries abroad.

Mr. Chairman, AGC is here today to present the position of our international contractors on the various proposals to reorganize U.S. Government trade functions. In doing so, we believe it is necessary to examine not only the functional organization of U.S. trade policy, but the substantive content as well.

First, let me briefly remind you where we stand today in terms of our trade balance. The U.S. trade deficit in 1978 reached $34.2 billion, resulting in increased inflation, a weaker dollar and less employment for Americans.

This year, prior to the June OPEC price hike, we were running monthly trade deficits suggesting a 1979 total deficit of around $2.35 billion. Unfortunately, OPEC prices could add another $10 billion to previous estimates of this year's oil imports, bringing the deficit close to last year's record level.

The current trade imbalance is directly related to our heavy reliance on foreign oil imports and coincides with the loss of overseas export markets due to the eroding competitiveness of U.S. export industries.

In the course of only 3 years, U.S. contractors have dropped from first to fifth place in terms of new contracts awarded in the international construction market. From a market share of 15 percent in 1976, U.S. contractors fell to an estimated 7.9 percent in 1978, and traditional American markets, such as Saudi Arabia, are increasingly being overtaken by our Asian and European competitors.

The loss of construction business abroad translates directly into reduced benefits for the U.S. domestic economy. Construction contracts typically result in the expenditure of 40 to 60 percent of the total contract volume of U.S. goods and services, or what we count as direct exports.

The job-generating effects of construction exports are substantial. The $50 billion of overseas construction awarded to U.S. contractors in the period 1975 to 1977 equals between 800,000 and 1.2 million Americans employed domestically, applying the generally accepted formula that every $1 billion of U.S. exports creates an additional 40,000 jobs.

This does not include the many Americans employed overseas by the U.S. construction industry. In addition to employment, exports of U.S. construction services create overseas sales of U.S. merchandise and insure a spare parts market for years to come.

The initial design and construction of industrial facilities and civil works by the U.S. engineering and construction industry increases the likelihood that future plant expansion and development will also be procured in the United States. It is therefore in the interest of the Nation as a whole that the U.S. construction industry be capable of successfully competing in world construction markets in the future.

As a means of balancing our trade account, import reduction is not a viable alternative at this point, with our heavy dependence on foreign oil and our commitment to liberalized world trade as expressed in the recently concluded MTN Treaty, which, incidentally, according to the STR, only covers government procured manufactured goods and not construction services.

Realistically speaking, we have only one choice: To substantially increase exports of U.S. goods and services. The fundamental question that we are thus facing is: What can the U.S. Government do in order to bring about a sizable increase in exports?

U.S. trade policy can be divided into two different categories of Government involvement affecting the export industries: Export disincentives and export promotion.

Let us look at export disincentives first and see what the U.S. Government could do in this area to reduce the unfavorable impact on exports.

By export disincentives, we mean such impediments to trade as the noncompetitive taxation of U.S. citizens abroad, antiboycott, antitrust, and antibribery legislation, environmental reviews and human rights considerations.

Trade has increasingly become a tool for foreign policy purposes, and no accurate figures are available on the trade costs associated with each new trade regulation. In short, there is a myriad of unrelated laws and regulations that produce a series of stumbling blocks and an aura of uncertainty that, in turn, produces a chilling effect on anyone's plans for doing business overseas. These costs probably cannot be quantified.

However, there are certain trade costs which can be identified and measured in a quantitive sense. We believe that any trade reorganization should be accompanied by a statutory requirement which would direct the designated lead agency on international trade to prepare trade impact assessments—TIA—identifying the trade costs of all major existing and proposed legislation and regulations affecting U.S. trade.

National security and foreign policy considerations are today receiving disproportionate attention relative to our trading interests. This is partially because the trade argument has been so poorly presented. We need an improvement in this respect.

We recognize that legitimate national security and foreign policy considerations in certain situations must receive first priority, even if a loss in trade is apparent and inevitable. However, we must insure that the trade argument is coherently presented and empirically supported in order to avoid that marginal political gains be considered more important than substantial losses in trade.

We need the trade impact assessment mechanism to provide a necessary and desirable broadening of the factual basis upon which Congress considers the merits of any given legislative or regulatory proposal affecting trade.

We need the trade impact assessments so that the trade costs, ultimately borne by the American consumer, are clearly understood and taken into account when foreign policy initiatives are contemplated.

A much greater effort must be made in the future to seek policy alternative which satisfy foreign policy objectives which keeping lost overseas business to a minimum.

We are witnessing a growing interdependence between security, foreign policy, and trading objectives. A strong trading posture for the United States is becoming both a national security and foreign policy necessity.

It is for these reasons that we respectfully submit for the consideration of this committee the following proposed amendment to whatever form of trade reorganization legislation comes out of these hearings:

The Secretary, in carrying out the purposes of this Act shall, among his responsibilities, undertake the creation of the Office of Trade Impact Assessments in the Department of Trade and Commerce.

The Office of Trade Impact Assessments shall hold as its sole responsibility the preparation of the trade impact assessments identifying the trade costs associated

with major existing and proposed legislative or regulatory measures affecting the U.S. trade performance.

Such measures shall be identified by the Secretary in consultation with Congress. The Trade Impact assessments shall be made available to Congress at least ninety days prior to the final consideration of proposed legislative measures and on an annual basis on existing major legislative and regulatory measures affecting U.S. trade performance.

Mr. Chairman, we have presented what we feel to be a constructive proposal to deal with export disincentives, and we can now turn to the export promotion efforts of the U.S. Government. There are two forms of export promotion. Indirect or general trade promotion and direct or specific trade promotion.

The indirect or general trade promotion consists of the traditional work done by the Commerce Department and the commercial officers at our embassies abroad. This remains an important part of the overall effort by the U.S. Government to promote trade, even though the results of this form of trade promotion are difficult to quantify in terms of dollars. The various trade reorganization proposals direct themselves to this general level of trade promotion.

The direct or specific type of trade promotion operates at the level of actually getting the business, signing the contract, and completing the job. In the final analysis, this direct form of government promotion is the more important for U.S. contractors competing for construction projects overseas.

Competitive project financing, competitive taxation, loan guarantees, performance bonds, political risk insurance, feasibility finance—these are the services that we need from our Government to be competitive abroad. We predict that no matter how much the Government reorganizes its general trade functions, we will experience very little export expansion unless these specific tools of trade are identified and substantially improved.

The U.S. construction industry has traditionally been opposed to the principle of Government subsidies to private industry, but we must concede that in order to be competitive in the overseas markets, we need U.S. Government policies and programs which improve our competitive posture.

The Export-Import Bank is doing an effective job given its limitations; but it should have substantially increased lending authority. We need adequate project finance at competitive rates equal to what other governments offer their construction exporters. With insufficient bank funds, higher risk construction projects in developing nations must today compete for finance against lower risk commodity sales or manufactured goods, with the construction projects receiving lower priority. We believe that such competition for bank funding should be eliminated, perhaps by earmarking adequate percentages of bank funds solely for project finance.

The amazing fact is that instead of experiencing a steady increase in funds to respond to the growing needs, Eximbank's direct credit authorization dropped from $3.8 billion in 1974, corresponding to an export value of $8 billion, to a low of only $700 million in 1977 direct credits, supporting $1.4 billion in export value. The Bank is not expected to exceed its 1974 lending authority until 1980.

Expansion of the Eximbank and the maintenance of its present independence is one of the most cost-effective methods of securing

new export business; and, in our opinion, this requires tripling or quadrupling the proposed funding level of $4.1 billion for fiscal year 1980. Competitive project financing is quickly becoming the most important aspect of a successful bid.

Mr. Chairman, we have talked about the need for direct and specific trade promotion, of which the programs of Eximbank are one example. Rather than take the committee's time to discuss additional programs, we would ask that the attached appendices outlining these suggestions be entered into the hearing record.

Senator ROTH. Without objection.

[The documents referred to follow:]

APPENDIX 1

International Construction Division

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
1957 E Street, N.W. Washington, D.C. 20006 (202) 393-2040

June 26, 1979

PROPOSAL TO DEVELOP GOVERNMENT FACILITY FOR GRANT-IN-AID FUNDING OF FEASIBILITY STUDIES FOR MAJOR CAPITAL PROJECTS OVERSEAS

In response to the increased use of mixed credits on the part of the industrialized nations of Europe and Asia in the financing of major capital projects in the developing world, and recognizing Eximbank's limited ability to effectively counteract these practices on behalf of U.S. exporters, the following proposal suggests one possible means of improving the competitive position of U.S. companies pursuing such projects.

Nature of Project Feasibility Studies

The key element in the successful development of large industrial and civil infrastructure projects in both industrialized and developing nations is the preparation of the project feasibility study. The feasibility study identifies for the project's promoters, owners and financial backers the economic and social benefits which can be expected to accrue from a given project, as well as the costs associated with the financing of the work and operating the completed facilities. The feasibility study is, in fact, the primary evaluative tool for proposed projects and is the basis upon which implementation decisions are made. The costs of feasibility studies vary from project to project; however, a standard approximation of their costs falls in the range of between 1% and 3% of the total project costs. In many cases, these costs prohibit a developing country owner from proceeding with many categories of low priority, yet financially viable, development projects.

International contractors interested in carrying out these projects must then assist such owners in sourcing competitive financing for the required feasibility studies. This assistance takes several forms, ranging from government-backed credits with low rates of interest, to outright grants from the bilateral lending agencies of a contractor's country of origin.

The willingness of these government agencies to concessionally finance the feasibility study stems from the increased likelihood that the project itself will be awarded to a contractor from the same country which prepared the project feasibility study. This correlation is due to the high degree of compatibility between the conceptual framework of the project as identified in the feasibility study and the follow-on engineering design. If standard U.S. technological applications are specified in the feasibility study, the design and construction can be carried out more efficiently by a U.S. contractor familiar with the applications. Some countries reportedly will grant the feasibility study if the client agrees to contract the follow-on design and construction with a contractor from the country. The export credit agencies of these nations will also arrange project financing for the project itself, provided that a majority of the procurement for the project is tied.

While Eximbank is empowered to respond to such mixed credit competition, budgetary limitations prohibit them from effectively counteracting these practices (total lending authority, $3.6 billion for FY 1979). In short, the Bank has limited funding available for grant or concessional financing operations, and is also directed by statute to be self-sustaining and thereby cannot afford to engage in concessional financing to any major extent.

With the exception of the loans and grants made under the Security Supporting Assistance program (SSA), the Agency for International Development (AID) has dramatically reduced the level of AID financing for capital projects. AID's decision to get out of the construction business is consistent with the New Directions program emphasizing basic human needs (BHN) rather than the "trickle-down" theory of capital-intensive development. The office of Reimbursable Services (RS) in AID has funding available for feasibility studies, but the level (approximately $3 million) is not large enough to meet the competitive needs of the industry.

Consequently, U.S. contractors competing for major capital projects in developing nations are at a decided disadvantage due to the lack of an effective export credit/foreign assistance facility. Due to the substantial trade benefits associated with these projects, both in terms of initial procurement as well as the follow-on spare parts market they create, the following proposal is offered for consideration.

Eximbank/AID Co-Financing Facility for Feasibility Studies

A U.S. contractor pursuing a project in a developing country would approach the Ministry of Planning and map out the basis of the project and reach an agreement on the preparation of a feasibility study. The contractor and the client would then apply for financing under the proposed facility, which would involve a short-term Eximbank credit at the official rate, to be repaid by a grant-in-aid funding from AID. The Bank would, in effect, be extending fully guaranteed short-term credit to the client for the feasibility study and thereby experience limited budgetary impact; AID would be supporting the foreign entity with a grant to repay the foreign exchange costs of the feasibility study. The feasibility preparation would involve, to the greatest extent

possible, the participation and training of the client country nationals and would, therefore, be consistent with AID's BHN criteria. The likelihood that AID's participation in the feasibility would eventually lead to a major capital project with probable U.S. participation might necessitate the channeling of the AID funding through the Security Supporting Assistance program, due to its aforementioned construction emphasis. The SSA monies would be drawn from a ready fund approximating an appropriate percentage of the SSA annual budget (1-2%; SSA authorizations for FY 1980 are approximately $2 billion). During the preparation of the feasibility study, alternative sources for project finance would be identified, making possible use of existing Bank programs, the private capital markets, or, if the project warranted, future SSA authorizations.

The project would then be put out to competitive bidding or negotiations and would be tied to U.S. procurement to ensure the desired trade effect.

APPENDIX 2

International Construction Division

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
1957 E Street, N.W. Washington, D.C. 20006 (202) 393-2040

POLITICAL RISK INSURANCE FOR
OVERSEAS CONSTRUCTION CONTRACTS

The volume of work performed abroad by the U.S. construction industry, which very materially improves our presently unfavorable balance of trade, could not be obtained if it were not for the political risk insurance which, in the past, has been provided by the Overseas Private Investment Corporation. Furthermore, this volume could be increased if the political risk insurance program is improved.

AGC does not favor one agency over another to provide political risk insurance for overseas construction contractors, even though our five year experience with the program under the Overseas Private Investment Corporation was viewed favorably by the industry. However, the country per capita income and company sales volume policy limitations adopted by the OPIC Board of Directors in September, 1977 drastically reduced the availability of the program in several key construction markets, and thus materially reduced its value. Recognizing the incompatibility of OPIC's developmental objectives with the export assistance requirements of international contractors, AGC recommended to the Congress on March 16, 1978, during the consideration of the U.S. Export-Import Bank legislation, that the program be transferred to the Export-Import Bank.

Following AGC's testimony, the report of the Committee on Banking, Finance and Urban Affairs included a recommendation for the development of a Construction Services Insurance Program at the Bank. During the process which led up to the actual transfer of the program on July 1, 1978, AGC contractors participated in a series of meetings with Eximbank staff concerning the program and its composition. On April 25th, AGC provided the members of the National Advisory Council (NAC) with a memorandum outlining the nature of construction exports and the specific areas of exposure in a typical construction contract.

On June 9th, the Board of Directors of the Export-Import Bank were presented with a final program proposal, and it was unanimously adopted.

Since the adoption of the program by the Export-Import Bank, approximately 30 project registrations have been filed. However, due to the low awards ratio for U.S. contractors overseas, only a small number of policies have been issued to date. The low award ratios reflect the overall noncompetitiveness of the U.S. construction industry in the international markets, and do not relate to the program or to the Bank's administration of it. However, there are several features of the program as presently administered which do not further the export promotional intent of the Congress, nor adequately address the needs of the U.S. construction industry.

The requirement by the Bank for an investment guarantee bilateral agreement between the U.S. government and the foreign government in advance of issuing coverage for a project has limited the availability of the program in several major markets. The program proposal approved by the Board of the Export-Import Bank called for the following policy with respect to the bilateral agreement eligibility requirement:

(1) Eximbank should utilize the OPIC bilaterals to the extent that they are available.

(2) Otherwise, Eximbank should obtain satisfactory evidence that the host government has approved the project and that Eximbank would be recognized as succeeding to the rights of the guaranteed U.S. firm in the event of the payment of a claim by Eximbank.

From everything we can gather about the Bank's administration of the program to date, the emphasis has been placed on the first recommendation, and they have effectively adopted the OPIC country list. Consequently, the country expansion of the program of the Bank has not occurred. The Bank's counterparts in the countries of Europe are offering similar coverages to their respective construction industries on an unlimited country basis, and they are doing so without the benefit of rights of subrogation or arbitration agreements.

Therefore, we recommend that the Bank be directed to expand the availability of the coverage in a manner more responsive to the competitive needs of the U.S. construction industry.

07/25/79

APPENDIX A

NEAR EAST BUREAU Contracts by Code 941 firms (Korean only)

Firm	Project	Loan
Jordan		
1. Shin Seung (Korean)	Jordan Valley Village Development (Buildings)	$14 mil.
2. Cho Suk (Korean)	East Ghor Canal	$10 mil.
3. Cho Suk (Korean)	Zarqa Triangle Irrigation	$ 4.5 mil.

ASIAN BUREAU Contracts by Code 941 firms (Korean only)

		Contract Amt.
Indonesia		
1. Hun Dai (Korean)	Djakarta-Bogar Road	$33.2 mil.
Bangladesh		
1. KDC (Korean)	Ashuganj Fertilizer	$ 4.6 mil.

NOTE: Vinnell (U.S.) bid against KDC on this contract and lost.

Korea, Taiwan and India have been major suppliers of equipment and materials on AID funded work through Code 941 eligibility. Current estimates of annual Code 941 sales are put at $25 million per year.

III. DISCRIMINATORY IMPACT ON U.S. SMALL BUSINESS

As the Administration continues to examine ways to improve our trade performance, considerable discussion has centered on the necessity of increasing the involvement of U.S. small business in the export markets. Procurement under the AID program constitutes an ideal entry vehicle for smaller firms in that the tied nature of the program serves to insulate these companies from the highly competitive field of international bidders. Upon penetrating a given market through AID-financed work, U.S. exporters may then, at a much lower operating cost, explore additional regional opportunities. However, if the presence of government-subsidized competition in the AID program persists, there will be limited or no opportunity afforded U.S. small business.

This commercial perspective of the AID program would recognizably lack support in the purely developmental context; however, the consistent and increasing use of mixed credits on the part of the principal trading nations of the world lends credence to this argument. U.S. exporters are facing bidding situations where foreign counterparts are providing export financing which includes varying percentages of grand-in-aid or highly concessional interest rates. Eximbank is not empowered, in any effective sense, to respond to such mixed credit competition, and therefore, measures should be taken to ensure a substantial U.S. trade effect in our existing foreign assistance programs.

Recommendation - To better serve the interests of the U.S. small business community, AID should reevaluate the eligibility of subsidized ADC nations and endeavor to substantially increase its efforts in publicizing upcoming tenders, working in closer liaison with the export promotional offices of the U.S. Department of Commerce and the Small Business Administration.

Attachments
GES/cec

APPENDIX 3

International Construction Division

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
1957 E Street, N.W. Washington, D.C. 20006 (202) 393-2040

MEMORANDUM

June 20, 1979

TO: Members of the Bilateral Subcommittee of the Development Coordination Committee

FROM: George E. Stockton, Director of International Construction

SUBJECT: Code 941 Competition in the U.S. AID Program

The Associated General Contractors of America and its 113 chapters nationwide is comprised of approximately 30,000 firms, including more than 8,000 of the nation's leading general contracting companies that perform more than $100 billion of construction annually. AGC members also perform approximately 50% of the contract construction by American firms in more than 100 other countries.

AGC members have long recognized and actively supported the vital role carried out by the Agency for International Development (AID) in assisting the poorer nations of the world in their respective development programs. Over the last several years, AID-financed construction projects have contributed substantially to the demand for U.S. construction services abroad, and U.S. contractors have accomplished a highly satisfactory performance record within the AID program.

It is our belief that such direct bilateral assistance is a far more effective means of implementing U.S. foreign assistance policy than is the multilateral alternative. Bilateral assistance ensures a greater degree of control over the end use of foreign assistance appropriations and tends to minimize the negative impact on our trade accounts from the outflow of capital through the tying of procurement to U.S. source and origin. The economic returns accruing from the U.S. AID program should not be discounted, particularly in light of the present environment of budgetary austerity.

On the issue of non-U.S. bidding eligibility on U.S. Government-financed construction projects abroad, AGC has adopted the following policy:

> "AGC believes that all construction and engineering projects in foreign countries, financed in whole or in part by any agency of the U.S. Government, be limited to bona fide host country construction and engineering firms or bona fide U.S. construction or engineering firms or a combination thereof."

With respect to Code 941 procurement policy, we recognize and acknowledge the greater developmental considerations supporting the principle of untying; however, we object to the policy for the following reasons:

(1) Inequitable distribution of benefits among Code 941 nations;
(2) Unfair nature of Code 941 ADC competition; and
(3) Discriminatory impact on U.S. small business.

In the following consideration of Code 941 procurement, we have confined our comments to the effects of the policy on the U.S. construction industry. We have done so because competition in the construction program differs materially from that in the AID programs devoted to the procurement of commodities or food. Unlike the international commodity and food markets, which are relatively open, competition in increasing sectors of the global construction market is becoming closed due to the introduction of export subsidies and non-tariff barriers by principle trading nations, including several Code 941 advanced developing countries (ADC's). Therefore, as we intend to illustrate, Code 941 procurement policy creates competitive distortions which uniquely and disproportionately impact the U.S. construction industry.

I. INEQUITABLE DISTRIBUTION OF BENEFITS AMONG CODE 941 NATIONS

We understand that Code 941 procurement policy was developed during the early 1970's, and reflected the Nixon Administration's belief that the untying of AID procurement to qualified Code 941 countries would accomplish a more equitable distribution of benefits of U.S. foreign assistance. There is evidence that the various benefits intended to accrue to the Code 941 nations through the untying of AID-financed construction projects, such as training, capital formation and eventual self-sufficiency, are not being shared equally among eligible nations. In fact, an analysis of Code 941 participation in the AID construction program indicates that the policy has accomplished little more than a skewing of the benefits to a very small number of ADC nations. Since 1973, five major contract awards totaling $66.3 million have gone to Korean contractors; and Korea, India and Taiwan have also been major suppliers of equipment and material -- current estimates of these sales are put at $25 million per year (for breakdown, see Appendix A).

While the success of the Koreans in the AID program might appear substantial, it is insignificant when compared to their overall accomplishments in the global development markets, particularly in the OPEC nations. In 1978, Korean overseas contract volume topped $6 billion, and projections for 1979 are in excess of $10 billion. Several other Asian ADC nations, including Taiwan, the Philippines and Thailand, are also following the Korean overseas construction model (see Appendix B). The $10 billion projection for Korea, which is almost three times the total AID outlays for FY 1980, suggests that they are no longer in need of the U.S. tax-supported AID construction program.

It has been suggested that continued Korean participation in the AID program is necessary due to a waning interest on the part of the U.S. and other Code 941 contractors. We submit that this waning interest comes about as a direct result of Korean bidding eligibility. For many of the reasons identified in section 2

of this paper, both the U.S. and Code 941 contractors have learned that competing against a Korean firm is not worth the cost of bid preparation. This dominance of the AID program by the Koreans reflects a level of capability which dramatically exceeds the Code 941 norm. The guaranteed effect of continued Korean eligibility will be the denial of opportunity to a more deserving category of nations.

This widening gulf of opportunity between the ADC and LDC nations was a recurring theme during the fifth meeting of the United Nations' Conference on Trade and Development (UNCTAD V) which recently concluded in Manila. The division and frustration which characterized the proceedings prompted a member of the U.S. delegation to comment: "The advanced developing nations sooner or later must recognize that less preferential treatment for them would mean more benefits could be passed on to the least developed countries." (See Appendix C).

Recommendation - We submit that a reevaluation of the eligibility of certain ADC Code 941 nations is tantamount to the meaningful implementation of the AID program, not only from the standpoint of U.S. participation, but also for truly qualified Code 941 countries as well.

II. UNFAIR NATURE OF CODE 941 ADC COMPETITION

The aforementioned success of the Koreans and other developing Asian nations has not come about without vigorous levels of support from their respective governments. These supports vary from country to country, but typically take the form of lenient tax treatments, outright financial subsidies, government control of competition, recruitment and training of labor, and restriction of labor supply (see Appendix B). The Korean example is the most visible and by far the most effective of the subsidy programs, and we will therefore confine our comments in this section to Korea.

In the aftermath of the 1973 oil embargo, the Korean government became committed to a program of export expansion to meet the rising cost of energy. The most efficient formula was soon identified to be the export of construction and engineering services to the OPEC development markets. While serving a brief apprenticeship as labor and trade subcontractors to U.S. and European contractors in the region, the Koreans proved to be a quick study in the categories of building construction and civil works. Subsequent joint ventures with Western contractors eventually led the way to prime and turnkey contracts for several emerging companies. It was at this point that evidence of government support and outright control emerged. During this period, the Korean construction industry was undercapitalized and under traditional competitive procedures would have found it impossible to post the large bank guarantees (on-demand letters of credit) required for bid, performance and advance payment bonds on jumbo Mideast contracts tendered during 1975 to 1978. However, the Korean exchange bank interceded on their behalf and posted unconditional counterguarantees to Western bank-led syndicates providing bank guarantees for Korean contractors. (A list of these major syndicated guarantees is attached, as well as a telex from Citibank, Seoul confirming the counterguarantee mechanism on one of the syndicates - see Appendix D).

Further evidence of government control over its contractors became increasingly apparent, particularly in the area of export permits. As a particular project would near the tender stage, contractors in the region would often enter into joint venture relationships with foreign counterparts in order to minimize the risks associated with the project. In several documented cases, U.S. contractors had entered into joint venture agreements with Korean contractors. However, they soon found that their partner was no longer interested in pursuing the work after another Korean contractor became prequalified to bid the same project as a single entity. When pressed on the issue, the former partners revealed that their government had denied them a permit needed to secure the necessary bank guarantees required to bid the particular job.

In a meeting between a Korean construction delegation and the AGC, held in Washington on October 23, 1978, the AGC officially protested this practice on the grounds that it was anti-competitive. Mr. Park Sung Bak, Director of the Overseas Cooperation Bureau of the Korean Ministry of Construction, responded to the protest by stating that the Government of Korea felt that such restrictive procedures were necessary in order to avoid "ruinous competition between Korean firms." (See Appendix E). During the same meeting, AGC questioned Mr. Park about the government's restriction of the use of Korean labor to Korean firms. This practice was also confirmed and defended as being necessary to avoid labor shortages at home. This involvement on the part of the government is augmented with several other programs designed to improve a Korean contractor's export competitiveness, such as a 50% corporate tax exemption, a total income exclusion for expatriate workers, and a five-year tax holiday on exported construction materials. The government is also involved in the recruitment and training of overseas construction labor, and has reportedly converted several military bases into training centers. Korean Army regulars are also offered early discharges if they sign up for overseas construction projects (see Appendix F).

There is also evidence that the Korean government supports bid collusion among certain segments of its construction industry. Under what is reported to be direct government supervision, approximately 30 Korean contractors have formed the Korean Overseas Construction Corporation (KOCC). KOCC's formula for success (present contract volume in excess of $1 billion) involves the collective pursuit of work, including a central bidding office which farms out various portions of a project to individual members of the association upon receiving an award. KOCC in turn charges a fee of 1% of the net profits for its services.

The effect of these procedures has been the dramatic ascension of the Korean construction industry from obscurity to global leadership in the short span of six years. Competing against the Koreans on certain categories of work has become futile; and on many recent projects, the competitive field has been comprised entirely of Koreans (as was the case on the AID-financed Jordan Valley Projects). There are also reports from the field that the Koreans are now raising their prices after gaining large segments of the market, suggesting that earlier projects may have been dumped. We are presently gathering data on project awards spanning the 1975-78 period to determine if there exists hard evidence of dumping trends or patterns.

Recommendation - We submit that the subsidization of Code 941 source contractors by their governments is inconsistent with free and fair competition in the AID construction program, and we recommend that AID terminate the procurement eligibility of any nation found to be engaging in such practices.

APPENDIX B

INVASION OF THE MIDDLE EAST
(From ENR, November 23, 1978)

A formidable new competitive force has put a whole new look on international construction in the past few years.

International construction has become a significant source of income, a balance-of-payments factor, for oil-buying countries around the world. For some developing countries the use of construction to recapture petro-dollars has become a matter of national policy.

American, European and Canadian companies, which once dominated third-world construction, have had Japan to compete with since its first forays into foreign reparations projects following World War II.

Now, the U.S., Europe and Japan have to compete with Mideast companies working beyond their national borders, with occasional Russian, Yugoslavian and other eastern bloc venturers abroad, and most recently with the entry of Brazilians into big-league overseas contracting.

But the toughest new contenders in the fight for construction contracts in the Mideast, where most of the new business concentrates, are from Asian countries—developing Asian countries.

Their impact on international construction is strikingly apparent but difficult to quantify, for it is constantly changing, and it varies, country to country. In an effort to size up the situation as it appears today, ENR visited the Asian countries from which the large and growing competition comes.

Japan

Population: 113 million
Gross Domestic Product: $555 billion
Per Capita Income: $4,960

It is useful to look first at Japan. Asia's most highly industrialized nation, it has been building abroad 25 years.

A decade ago, Japan's giant firms—its Big Five—were variously involved abroad and ready for a bigger push (ENR 12/11/69 p. 36).

Their work then concentrated in Southeast Asia. Taisei Construction Co. alone among the Big Five had a Mideast office—in Lebanon.

Today there are 60 members of the Overseas Construction Association of Japan, Inc. (OCAJI). A list published this year of their overseas contracts totals 46 major jobs—almost half of them in Southeast Asia, with large concentrations in Malaysia and Singapore. But there is a shift—certainly in the dollar volume of work—toward the Mideast.

Takeo Atsumi, president of OCAJI (and chairman of Kajima Corp.), says association members' pre-1974 foreign volume doubled in worth by 1975 with the oil price rise. Growth has been constant ever since. By 1976, the dollar volume of Japanese contracts in the Mideast outstripped the volume in Southeast Asia.

According to Atsumi, by 1977 Japanese contractors were doing about $3.9 billion overseas, 49% of it in the Mideast, 36% in Southeast Asia.

In the Mideast, Iran accounted for 34 Japanese contracts valued at a total $235.9 million; Iraq, 20 contracts totaling $202.3 million; Kuwait, six jobs worth $56.5 million; Qatar, 11 worth $26.3 million; the United Arab Emirates, five worth $51.3 million; Egypt, nine worth $127.8 million; and Saudi Arabia, 16 worth $189.6 million.

Limits on growth. The Japanese, with their $1.9-billion total of work in the Mideast were not highest among the world's leading competitors there in 1977. In fact, they are running a poor second to their neighbors across the Sea of Japan, the Koreans. "The Mideast is a difficult market for the Japanese," says Atsumi.

They suffer language problems overseas; relatively few of them use a second language well. They also suffer the same high labor costs that impact Americans and Europeans, making it uneconomic to take many workers abroad.

Unable to compete with the cheaper labor contractors, they've seen their steady early growth of Mideast business slowed. They look to future high-technology projects as their best place to compete. Atsumi cites as an example Japan's great strength in seismic design—and Iran's earthquake problems.

Taisei Corp., long a leader among Japanese builders abroad, has 10% of its current backlog in overseas work, almost $500 million worth. But according to Taisei president Hideo Sugasawa, their work has concentrated in such relatively high-technology projects as a powerplant in Iraq and a steel mill in Qatar for Japan's Kobe Steel. (On the steel mill Taisei subcontracted to Koreans.)

Construction, recently as much as 20% of Japan's GNP, has suffered domestically along with the rest of the economy. Big construction companies, seeing their profits squeezed by a low rate of capital investment, look to the government to trigger the economy with its 1978 boost of 30% in public works spending.

They also keep looking abroad—and at "the remarkable progress" of the Koreans. For a while, when Korean labor rates were 40% of theirs, they looked for Koreans as subcontractors. But now, says Taisei's Sugasawa, Korea's rates are up to 70% of Japan's; and the Koreans are precluded by their government from subcontracting where they can compete as prime contractors instead.

Next April 21-22 (tentatively) OCAJI will host in Tokyo a third annual meeting with the Overseas Contractors Association of Korea. OCAJI president Atsumi says the two groups have been close and have enjoyed "a great deal of cooperation."

But the pronouncement out of last year's meeting that Japan's high technology would be joined with Korea's skilled manpower apparently hasn't amounted to much. The Koreans will meet again with the Japanese, but they also traveled abroad last month to meet with Canadians and Americans, whose management skills as well as technology they appear to prefer as more marketable.

For the purpose of this survey of international construction's Asian competition, therefore, it is logical to look first at Japan, as the oldest in the field, the most highly industrialized. But Japan is not the leader. Korea is.

Korea

Population: 35.9 million
Gross Domestic Product: $25.3 billion
Per Capita Income: $496

The Koreans pictured on ENR's cover this week are learning to be welders. They are paid by Hyundai Construction Co., Ltd., to learn welding and another related trade by going to school six hours a day for three months. It's only six hours a day because the school runs two shifts.

After three months of schooling, these

workers learn on the job in Korea for three more months. Then, they are ready to be sent to the Mideast, where many observers rate the quality of Korean construction as the best.

Hyundai training schools presently have over 1,500 students enrolled and will turn out about 5,000 in a year. And Hyundai, Korea's largest constructor, is but one of dozens of companies working overseas required by government decree to train at least some of the manpower needed to staff their overeas work.

By the end of this year there will be 70,000 to 80,000 Korean workers abroad—all but about 5,000 of them in the Mideast and almost all of them in construction (See "The Koreans are coming!" ENR 3/31/77 p. 16).

With skilled, hardworking manpower its stock in trade, Korea's construction industry captured $3.5 billion in overseas contracts in 1977, set $4 billion as its target for '78, and passed the $6-billion mark at midyear. The 1979 goal is $10 billion.

This means that in five fast and furious years of competing abroad Korea is now well ahead of Japan. And its $3.5 billion in foreign contracts in 1977—virtually all Mideast—compared impressively with $6.1 billion worth won by U.S. contractors in the Mideast that year.

Korea may be the only nation in history to have a construction industry with 70% of its volume overseas—this despite a domestic construction boom that's keeping pace with an economy with growth estimated at 14% this year.

Government support. A Ministry of Construction watches over it all, policing and promoting. Construction exports have become an integral part of Korea's economic development, its balance of payments and therefore its foreign policy. Mideast construction alone more than covers the cost of oil imports. And, increasingly, constructors are venturing into lands where Korea lacks but wants diplomatic relations.

Korea's exports next year will total about $20 billion and half of that will be construction.

Apart from their work in South Vietnam in the '60s, it all started abroad for Koreans in 1973 when Sam Whan Corp. won a $24-million piece of road work between Jeddah and Khamis Mushayt, a job that wound up costing $30 million and probably cost the Koreans money.

In those days, according to one Saudi hand, "the Koreans bailed out the Corps of Engineers" by bidding near if not under its estimates, when Americans and others were bidding well above.

Trying to get Americans into the picture, the Corps at the time encouraged joint ventures, and Sam Whan found De Matteis Construction Co., New York City, for the $206-million National Guard headquarters buildings at Riyadh.

Koreans have been taking hundred-million-dollar jobs ever since—most of them lately as prime contractors.

Sensing now that much of Saudi's civil works program is done and seeing much more architectural and sophisticated industrial work ahead, Koreans are now actively seeking American joint ventures in the Mideast (while being wooed to joint venture with Canadians anywhere in the world).

Organized effort. Korean Overseas Contractors Association (KOCA) executive vice president J. D. Chung lists 122 companies licensed by the government to work overseas under an Overseas Construction Promotion Law. Eighty-five are construction contractors and 80 of those actually have work abroad; six are consulting engineers; eight are in electrical-telecommunications areas.

KOCA recommends contractors for overseas licenses and then the Ministry of Construction has a hand in deciding who qualifies for a specific project abroad. All who are licensed are capitalized to at least $20 million. KOCA categorizes them as to their financial capability, then, just as contractors anywhere, they must qualify for and buy bid and performance bonds.

The big difference is that it's a government bank whose guarantee is needed. The government therefore can control who bids any given job, can prevent more than one Korean firm from competing for a given job, and can prevent subcontracting or joint venturing where it would rather see a Korean as prime contractor. Bank guarantees, once granted, are as good as the credit of the government.

With this kind of backing, Hyundai, the giant conglomerate of which construction is the largest part, went from No. 278 to No. 98 last year with the biggest growth of any on FORTUNE magazine's ranking of non-U.S. corporations.

Miryung Construction Co. has boomed from its beginnings as a bus company with a small construction arm.

Samsung Co., another huge manufacturing conglomerate, is only now building and flexing its construction muscle, having acquired Shinwon Construction and Development Co. Ltd., last July

The biggest, in order, after Hyundai include Dong Ah Construction Co., DaeLim Industrial Co., Sam Whan, and Chin Hung International.

Ganging up. And when no one of these companies is big enough to take the risk, Korean Overseas Construction Corp. (KOCC) can move in. This is a private corporation formed by 36 top Korean contractors. When KOCC bids and wins a contract (it has won over $1 billion worth since 1975), it assigns or subcontracts the work to one of its member companies and takes 1% of the proceeds from the job. This money covers costs of bidding other jobs and prospecting for work in more risky areas, such as Iraq or Nigeria.

The only apparent brake on the Korean construction juggernaut is its ultimate limit on manpower—particularly engineers and managers. Construction labor is already approaching short supply, and the government restricts its use abroad to Korean companies.

One industry source in Seoul told ENR that Korea can't possibly double its overseas work, as projected, without spreading its managers too thin. Thus the interest in joint venturing with Americans or others who will help them develop managers.

Over 30 colleges in Korea teach engineering and they are now jammed with students (42 students per professor, compared to 10 to 1 in the U.S.), all looking to earn big money abroad. By one estimate there are 40,000 graduate engineers, but too many of them are too new and inexperienced for overseas duty.

To help fill the need for managers and highly trained executives, Chung-Ang University in Seoul has already put 680 men from 60 companies through an overseas construction managers program—a 200-hour after-work course (CPM, specifications, legal, shipping, Arabic)—flunking out another 150. Top executives get a 30-hour course, concentrated into one Friday-to-Monday weekend.

As KOCA's Chung says, summing it up: "We have entrepreneurial spirit, good labor, high productivity and government support."

Still in a state of war, South Koreans are a serious people. They smile a lot, but they mean business.

Taiwan

Population: 16.1 million
Gross Domestic Product: $17.3 billion
Per Capita Income: $800

Stephen D. Bechtel, Sr., in Seoul on his company's business earlier this fall, told ENR: "These people [the Koreans] and the Taiwanese are the hardest working people in the world." He was referring

principally to domestic construction in the two countries, but the description applies as well to their work abroad.

Americans in the Mideast rate Taiwanese close to the Koreans in productivity and quality of work; Koreans rate the Taiwanese as major competitors.

The principal Taiwanese competitor company is Ret-Ser Engineering Agency (RSEA). Ret-Ser means Retired Servicemen; and RSEA, formed 22 years ago by the government to provide training and jobs for veterans, still has over 7,000 armed forces veterans among its 12,400 employees. About 1,600 are engineers.

Half of RSEA's work currently is overseas, and most of that is in Saudi Arabia. Starting there with feeder roads and moving into highways, airports and onshore and offshore naval facilities, the company has contracted for $620 million worth of projects over the past three years, the largest of them in the $200-million range.

The company has an office and two highway projects in Jordan, and its president, H. C. Yen, looks toward working in more places, including the United Arab Emirates.

Second in size among Taiwan's constructors abroad is BES Engineering Corp., which won its first Saudi Arabian job—Jeddah sewers—in late 1975. By 1976 it was bidding and winning jobs in the $40-million to $50-million range.

BES has succeeded in contracting to build industrial parks designed for Saudi cities by Sinotech Engineering Consultants, also of Taiwan.

Taiwan Power Co. has the $153-million contract on a regional electrification project—a job on which the Saudis rejected high European and Japanese bids.

New Asia Construction & Development Corp., among the leaders in domestic construction in Taiwan, has a Jeddah office and a job to build an office building there for the Saudi contractor REDEC. Earlier it set up a prestressed concrete plant in Jeddah for RSEA.

Taiwan is a relatively high technology Asian country with engineers and constructors experienced in industrial plants, nuclear facilities and refineries, as well as heavy, civil works construction.

As a nation, however, Taiwan is limited in the number of countries with which it has diplomatic relations.

Philippines

Population: 43.8 million
Gross Domestic Product: $17.5 billion
Per Capita Income: $325

Filipino contractors are running to catch up with the Koreans. But by their own estimate they are at least two years behind. They lack the organizational unity and government support one sees in Seoul.

There are a few large Filipino contractors and some smaller ones now in the Mideast, but they are still at the stage of working as subcontractors. Construction & Development Corp. of the Philippines (CDCP) is Southeast Asia's biggest contractor and is into Saudi Arabia on two projects for more than $200 million. But on one it is subcontractor to REDEC and the other to Bin Ladin, both big Saudi contractors.

The Philippine government has taken steps to position its contractors more competitively. In moves apparently patterned on Korean success, President Ferdinand E. Marcos in June, 1977, set forth regulations to stimulate an "aggressive" overseas effort, to fix tax credits and incentives, to control which contractors work abroad, and to "avoid ruinous competition between [Filipino] contractors engaged in overseas construction." An Overseas Construction Board (OCB)

was established in the President's office.

But contractors say their government's help stops short. A Philippine Foreign Loan Guarantee Corp. backs commercial bank guarantees up to 70% in a form of reinsurance. "Why not 100%?" says a Manila contractor. "That 30% could break your back."

Two years ago, 23 companies joined into the Filipino Contractors International Corp. (FCIC) in an effort to emulate Korea's KOCC. FCIC is supposed to designate which among its members will undertake a given job. It was to restrain competition, but it doesn't, according to sources in Manila.

Of 37 contractors certified by the Philippine Contractors Association to work abroad and registered with OCB, 11 have jobs overseas, mostly subcontracts.

Export strategy. A government that long had an aggressive "people export" policy tries now to push a "corporate export strategy," looking to add overhead and materials exports to the receipts of foreign exchange from workers' remittances. The goal for this year is over one-half-billion dollars.

An Overseas Employment Development Board (OEDB) formed in 1974 promotes the "people export" program—people are the Philippines' fifth largest export. There are 1.3 million Filipinos working in 102 countries today from stevedores and domestic workers to nurses and doctors.

In the Mideast alone there are about 60,000. Over half of those are in Saudi Arabia, where they are mostly doing construction or stevedoring.

Against a vigorous past program of encouraging the foreign hire of individual workers, it has been difficult for Filipino contractors to hold onto their good workers. They have been reluctant to run programs to train new workers, as one contractor put it, "for Jones, Sundt, Brown & Root, Bechtel or some Korean."

Now, only contractors registered with the Bureau of Employment Services may deploy construction workers overseas, and the Ministry of Labor can keep passports from workers not employed by registered Filipino firms. So, the happy hunting grounds foreigners had for skilled, English-speaking workers (and even Moslems from Mindanao to work in Mecca) is closing down. Americans and others needing workers in the Mideast had better come to Manila now looking for a partner, joint-venturer or subcontractor. (So far, the recruiting restrictions apply only to the Mideast.)

FCIC executive vice president Gregorio R. Vigilar says, "We can't compete with the Americans [for our own workers] unless we ourselves go overseas." He looks long range at all the operation and maintenance work to be contracted in the Mideast as construction tapers off.

Vigilar says that on a scale of 10, giving Koreans 10 and Taiwanese nine points as the top two Asian contractors in the Mideast, Filipinos rate seven points and can improve to eight points because of their knowledge of English.

Somewhere lower on his scale are the contractors from India and Pakistan.

India

Population: 629 million
Gross Domestic Product: $87.8 billion
Per Capita Income: $143

Harcharan Singh Dugal, four-term president of the Builders Association of India (BIA) and second generation leader of his private contracting company in New Delhi, speaks articulately of the strengths and weaknesses of Indian contractors in the Mideast:

"India enjoys good will in the Gulf, partly for supporting displaced Palestin-

ians. . . . The Gulf States were once administered from Bombay. India has traditional, historical and proximity ties. . . . India can export 1.5 million trained technicians without hurting its home economy. Engineers come at one-quarter to one-third the cost of U.S. or European engineers. . . . India can supply hardware, steel, plywood, tiles, plumbing."

On the minus side, Dugal says Indian construction "still has no successful oreign competitors, except for special items. . . . Emphasis is still on labor intensive construction. . . . Time is limited if we are to cash in on the Mideast market."

Almost three years ago Dugal's BIA (India's version of the Associated General Contractors) organized an Overseas Construction Council (OCC), headquartered in Bombay. OCC lists general contractors and subcontractors approved for contracts abroad. About 30 of them have contracts, according to Dugal. The total value of work they do in the Mideast currently is reported at $125 million. Much of it is in Iraq. (Beyond the Mideast, Indians do an interesting amount of work in Libya.)

State-run companies. Contracting—as other industries in India—has public companies as well as private. The state-run companies have a definite edge in competition, for as a spokesman for one organization told ENR: "We can bid 0.1% for profit."

Large contracts won by public companies are sometimes divided and subcontracted to private companies.

A given public company, such as Engineering Projects (India) Ltd., may be a combine of manufacturing and construction units.

Industrialized as it is, India has constructors experienced in steel plants, atomic facilities, refineries, chemical and fertilizer plants and waterfront work. Those companies, such as Products & Equipment Corp. and National Projects Construction Corp., lay heavy stress on their ability to do turnkey work on industrial plants. They stress their technology and want to supply their manufactured products more than their manpower.

Still, other companies continue to seek jobs that are labor intensive to which they can bring relatively cheap labor.

A recent government enforcement of a year-old decree increasing what Indian workers must earn abroad is being contested by Indian contractors as diminishing their main competitive edge. Doubling past rates, the new wages would put Indians' pay above Koreans', according to the contractors protesting the move.

Indian manpower goes abroad in huge numbers whether or not Indian construction contractors succeed. Remittances from 3 million Indians abroad are a big factor in improved balance of payments.

Contractor Dugal in New Delhi sums it up for India's contractors: "The opportunity is large; we have the skills; but the competition is tough."

Pakistan

Population: 72.4 million
Gross Domestic Product: $11.5 billion
Per Capita Income: $149

For construction in Pakistan, overseas means the Mideast, but it is still mostly individual workers, and not so much construction contractors, that go abroad.

The five-year-old public company, National Construction Co. (Pakistan) Ltd. (NC), bases its overseas operations in Abu Dhabi, where it has done major work. Its biggest claim to fame is its $166.7-million joint venture contract with George A. Fuller Co., New York City, on the Peace Hawk project of the Royal Saudi Air Force.

Another public company, Mechanized Construction of Pakistan, has had projects including about $100 million in irrigation projects in Iraq.

Two other Pakistani companies working abroad—Gammon Pakistan Ltd. and Conforce Ltd.—round out the list. In total, Pakistanis claim over $500 million in contracts.

So, Pakistan, with a large population that includes skilled construction workers as well as engineers, is trying with some success to compete for construction business. It is, more significantly, a big source of West Asian workers for the Mideast, Moslems eager to visit their holy cities in Saudi Arabia, and to earn that big overseas pay.

Thailand

Population: 43 million
Gross Domestic Product: $15.9 billion
Per Capita Income: $318

This Asian country is supplying good construction workers, but has not yet won any construction contracts. However, it shouldn't be long before it does.

The planes heading west out of Bangkok can be as full of uniformed construction workers as those from Manila, Taipei or Seoul. The Thai government estimates there are already 40,000 Thais in the Mideast, and they are mostly in construction. Industry sources say over 1,000 workers fly westward each month, many who have been recruited by U.S. companies.

Last month, following many months of discussion, members of the Thai Contractors Association incorporated a $5-million combine organized to undertake $50 million worth of work and sent a delegation to the Mideast to look for jobs to bid.

Thailand has the same strength in construction as the Philippines and Korea, thanks to the presence of the American military in years past.

To a significant extent, therefore, out of Asia to compete in the Mideast come a number of construction organizations, as well as individual workers, that were given their starts by Americans.

They're a new power to be reckoned with in international construction. ■

APPENDIX C

Less Developed, More Divided

The LDCs lower their expectations for a new economic order

United by poverty, Third World nations have long called for a "new international economic order"—a grand transfer of wealth, resources and economic decision-making power from the industrial countries to the poorer lands. But lately, changes among Third World members have divided the once harmonious group into a company of often competing soloists. The divisions were apparent in Manila at the fifth meeting of the United Nations Conference on Trade and Development (UNCTAD V), the forum where the developing countries present their complaints to the wealthier nations. After a month of sometimes heated dialogue, the conference ended last week in division, indecision and frustration. TIME's *Hong Kong Correspondent Ross H. Munro reports:*

The past quarter-century of uneven growth and the recent meteoric rise in oil prices have made the Third World a more disparate group of nations than ever. For many of them, the catchall appellation of less-developed countries (LDCs) has become outdated or at least incomplete. New subclassifications have become necessary: advanced-developing countries and least-developed countries; socialist LDCs and neocapitalist LDCs; non-oil LDCs and OPEC LDCs.

Such rapidly industrializing, fairly affluent and capitalistic countries as Singapore, Taiwan, South Korea and Malaysia have totally different problems and priorities from many dirt poor and authoritarian African nations. Although the LDCs presented a façade of commonality on the floor of the conference, their changing interests were obvious. Calls for a new economic order were often ignored by the advanced-developing countries.

Also the growing rift between oil haves and have-nots widened further at the conference. Recent oil price increases will swell the collective current-accounts deficit of the non-OPEC LDCs this year by $5 billion, to a total $57 billion, and additional raises will grossly enlarge the gap. The Costa Rican delegation mustered some support from other oil-deficient Latin American countries for its proposal that OPEC consult with the importing LDCs before it raises prices again. But African and Asian delegations squelched the resolution partly out of fear that the OPEC nations might reduce their aid to any country daring to challenge them.

Since UNCTAD last met in Kenya three years ago, several Latin American governments as well as Sri Lanka, India and others have moved toward more reliance on free market economics. A resolution calling for the industrialized nations to cancel or suspend debts of the LDCs was quietly suppressed by some of the capitalistic advanced-developing countries. Although the U.S. had already written off $500 million in debts owed by 15 of the poorest nations, ADCs like South Korea, Singapore and Brazil have feared that any further write-off would make them appear to be poor credit risks and that international lenders might push up interest rates or hold back on future loans.

There have also been second thoughts about a world commodity fund to stabilize prices by buying when prices fell and selling when they rose. Delegates of many commodity-producing LDCs argued that such a resolution would help the developed countries more than the undeveloped because some 60% of all commodities and raw materials originate in

five developed countries: the U.S., Canada, the Soviet Union, Australia and South Africa.

Many Third World nations discovered common ground on the subject of protectionism. One speaker after another attacked the West's "new protectionism" of quotas, marketing agreements and restrictions against the developing countries' textiles, television sets and other products. An additional resolution called for the Soviet bloc to lower its more rigid protectionist barriers. Delegates from many of the LDCs said they were tiring of the Eastern Europeans' illogical claims that they cannot be accused of protectionism because their centrally directed socialist governments simply ban unwanted goods.

The poorest nations, including Chad and Afghanistan, called for more help from the richest countries. But delegates for those industrial nations felt the advanced-developing countries must also be willing to help. Their argument was that as the ADCs prospered they should not only lower their own tariffs against the least-developing nations but should also give up some of the special tariff preferences they receive from industrial countries. Said one U.S. delegate about the conference: "The advanced-developing nations sooner or later must recognize that less preferential treatment for them would mean more benefits could be passed on to the least-developed countries."

The overall mood of the conference was disappointment. Fortunately, most nations backed a resolution calling for substantially increased aid to the 30 poorest countries; two-thirds of them are in Africa and others include Haiti, Bangladesh, Laos and Yemen. Sometimes described as Fourth World or "basket cases," they constitute still a further division among the developing nations—and a growing problem that the rest of the world will have to address. ■

APPENDIX D

Financing the big projects

JUN 8 [illegible]

MAJOR PUBLICIZED SYNDICATED GUARANTEES

Contractor	Project	Amount (million)	Lead managers	Date
Korean Construction Industry	Various Middle Eastern projects (stand by facility)	$100 (Saudi riyal equivalent)	Citicorp International Group Bank of America NT & SA Manufacturers Hanover Trust Bankers Trust Chemical Bank DG Bank First International Bancshares	March 1976
Continental Electronics, Edak, Eter	Northern stations radio transmitting project for Saudi Arabian Ministry of Information	SR129.1	First Chicago Ltd	August 1976
Hyundai Construction Co (Korea)	Jubail Harbour Industrial Port Project, Saudi Arabia	SR750	National Commercial Bank Bank of America NT & SA	December 1976
Hyundai Construction Co (Korea)	New port at Ras Al Ghar (Saudi Arabia)	SR231.5	Citicorp International Group National Commercial Bank Westdeutsche Landesbank Girozentrale	March 1977
Consolidated Contractors (Lebanon)	Extensions to University of Petroleum & Minerals, Dhahran, & construction of water storage & distribution systems at Medina, Saudi Arabia	SR206.7*	Arab Bank First Boston AG National Commercial Bank National Bank of Kuwait	September 1977
Ballast Nedam Groep (Holland)	RSAF domestic accommodation, Saudi Arabia	SR1,675	Amsterdam-Rotterdam Bank Algemene Bank Nederland Citibank NA Bank of America NT & SA	October 1977
Lockheed Corporation (United States)	Various projects in Saudi Arabia (stand-by facility)	$50 (Saudi riyal equivalent)	Kredietbank, Luxembourg	December 1977
Sogey Int Ltd	Four desalination plants & power plant, Saline Water Conversion Corp, in Jeddah	SR376.8	Bank America International Group BCCI	December 1977
Telefonaktiebolaget L.M. Ericsson (Sweden)	Automatic telephone project, Saudi Arabia	SR916.8	Citicorp International Group Skandinaviska Enskilda Banken Svenska Handelsbanken	January 1978
N.V. Philips	Automatic telephone project, Saudi Arabia	SR908.9	Amsterdam-Rotterdam Bank Algemene Bank Nederland	January 1978
Hyundai Construction Co (Korea)	Various projects in Saudi Arabia	SR347.8	Citicorp International Group Manufacturers Hanover Asia Morgan Guaranty Trust Westdeutsche Landesbank Girozentrale	January 1978
Lockheed Corporation (United States)	Activities in Saudi Arabia	$100	BAII Algemene Bank Nederland Banque Nationale de Paris	May 1978
Hyundai Construction Co (Korea)	Projects undertaken for government ministries and government-related agencies	$300	Citicorp International Group BA Asia Chase Manhattan Asia Manufacturers Hanover Asia Morgan Guaranty Trust National Commercial Bank	June 1978

CITIBANK
SEOUL, KOREA

ATTENTION: K. S. LEE

CITIBANK NEW YORK ADVISES THAT YOU MIGHT BE ABLE TO CONFIRM KOREAN GOVERNMENT GUARANTEE OF JUNE 1978 LETTER OF CREDIT SYNDICATION FOR HYUNDAI, INC. (AMOUNT: 300 MILLION U.S. DOLLARS).

PLEASE ADVISE AS SOON AS POSSIBLE.

REGARDS,
GEORGE E. STOCKTON, DIRECTOR OF INTERNATIONAL CONSTRUCTION
ASSOCIATED GENERAL CONTRACTORS OF AMERICA
WASHINGTON, DC
TWX 7109551134 AGC AGTN

JUNE 7, 1979

CITIBK K23293.....

TO ASSOCIATED GENERAL CONTRACTORS OF AMERICA WASHINGTON DC
FM CITIBANK SEOUL
JUN08/79

ATTN GEORGE E STOCKTON DIRECTOR OF INTL CONSTRUCTION

CITICORP INTERNATIONAL GROUP(CITIBANK AND APCO) ORGANIZED AND MADE A USD300 MILLION(EQ IN SAUDI RIYAL-)- SYNDICATED BOND GUARANTY FACILITIES FOR HYUNDAI CONSTRUCTION CO LTD AROUND JUNE 1978 X KOREA EXCHANGE BANK COUNTER GUARANTIED STOP
REGARDS
KS LEE
NNNN

AGC AGTN

CITIBK K23293...

APPENDIX E

Korean-American confrontation—
Traveling Korean contractors, visiting at the Associated General Contractors of America (AGC) in Washington, D.C., last week, expressed interest in joint venturing with Americans abroad. They don't see themselves operating in the U.S. as previously reported (ENR 10/12 p. 3), but they wouldn't turn down any good deal. A good deal in their view is a joint venture that helps them qualify to bid a job or adds to their management and technology capability in doing the work. AGC members expressed concern about loss of a Korean joint venture partner precluded by his government from joining in competition against a Korean company bidding alone.

APPENDIX F

(from the Wall Street Journal)

South Korea Has Become Major Builder In Mideast by Use of Skilled Manpower

By LINDA MATHEWS
Special to THE WALL STREET JOURNAL

SEOUL—South Korea, a country once so isolated that it was known as the "Hermit Kingdom," has moved aggressively into the Middle East and established itself as the major builder for the region's newly rich sheikhs and shahs.

Capitalizing on the desire of Middle East nations for overnight modernization, South Korean construction companies this year already have secured building contracts valued at the equivalent of $2.2 billion, often beating out U.S. concerns for the jobs.

The total could approach $3 billion by year-end when, according to Deputy Prime Minister Nam Duck Woo, about 20,000 South Koreans will be employed in the Middle East, building an industrial harbor and a naval base in Saudi Arabia, a shipyard in Bahrain, public housing in Iran and several dozen other projects throughout the area.

South Korean construction companies are at work in 30 other countries around the world, too, but they are concentrating on Saudi Arabia and other Persian Gulf states. The reasons aren't hard to figure out.

"No one else in the world has as much money to spend on industrialization as the Gulf states," says one South Korean construction executive. "And no one else is burdened with such a lazy labor force," he adds. "If those countries had to depend on their own workers, they'd never get anything done."

South Korea has taken advantage of the opening Middle East opportunities by exploiting the one natural resource it has in abundance, skilled manpower. Its growing labor exports have played a major role in the country's recovery from the shock of increased oil prices in 1973-1974, which hit South Korea hard. The construction boom has helped South Korea replenish its badly

depleted foreign reserves, finance its own ambitious internal development and pay its ever-increasing oil bills.

The construction companies that landed the first few Middle East contracts tried to cut costs by relying completely on local labor. But they quickly discovered, the companies say, that the locals were hard to train and often didn't put in a full day's work. Currently, the 28 South Korean companies doing business in the Middle East import all their workers from Korea, even though it means erecting housing compounds for them and keeping them supplied with hard-to-get items such as kimchi, a fiery pickled cabbage that is a staple of the South Korean diet.

"Our workers are our best selling point," boasts Park Moon Young, director for overseas cooperation in the ministry of construction. "They're tough, they work hard and they never complain." Adds another construction ministry official: "South Koreans work as hard as the Americans used to."

That isn't surprising, because South Korean companies learned U.S. construction techniques 20 years ago when, with U.S. aid, they were rebuilding their country after the devastation of the Korean war.

The host countries of the Middle East are equally enthusiastic about South Korean labor. "They're the best workers we've ever had here," says Yousuf A. Shirawi, Bahrain's minister of development and industry. "They know how to do a job and they're doing it."

In fact, South Korean diligence is almost legendary throughout the Mideast. An Iranian official once reported, in disbelief, that South Koreans hired to unclog the busy port at Khorramshahr arrived at the job site at 11 a.m. and were at work by midafternoon.

Shortly before his death, King Faisal also became a devotee of Korean labor. The king was returning late at night to Jidda and saw a crew from the Samwhan Construction Co. finishing a road-beautification project under floodlights. He suggested that the next contract, too, go to South Koreans, and it did.

Key W. Kim, an official at the Korean Foundation for Middle East Studies, attributes South Korea's success in the Arab world to the "complementarity of resources between our country and the Middle East. To be frank, all they have is an investment fund from their oil sales. We're resource poor, but we do have the skilled manpower and the technology they lack. It was a happy coincidence."

Despite Mr. Kim's diffidence, the South Korean penetration of the Middle East market is hardly an accident. It is the result of a well-coordinated nationwide drive, fully supported and generously financed by the government of President Park Chung Hee, to transform South Korea into a major overseas builder.

Under government supervision, 28 South Korean companies have joined Korean Overseas Construction Corp., which dispenses tips on new projects in the Middle East and advice about bidding techniques.

All companies that land overseas contracts become eligible for low-interest loans, a 50% corporate tax exemption and a five-year tax holiday on exported construction materials. And if a construction company runs into problems abroad, such as difficulty in getting its equipment through the Middle East's perpetually congested ports, it can appeal to a special government task force, headed by President Park, that will intervene at high diplomatic levels to find a solution.

The government also has turned several military bases into training centers for construction workers. It has even done much of the recruiting, offering South Korean soldiers an early discharge if they sign up for the Middle East.

At the management level, orientation chores are handled by the Korean Foundation for Middle East Studies, a think tank set up 11 months ago by President Park, with 15 professional staff members of its own and 15 economists drafted under government orders from Seoul's leading banks.

The South Korean government has ample motives for promoting the construction industry. The country desperately needs the foreign exchange to pay for its development plans and for its whopping oil bill, which soared from $277 million in 1973 to about $1.6 billion this year. Because most of the construction contracts are paid in U.S. dollars or other hard currency, even unprofitable contracts—there have been some—can add substantially to the foreign-exchange reserves.

Mr. CARLSON. Mr. Chairman, if we may sum up on the question of reorganization, we are of the belief that the ulitmate purpose of any reorganization of trade functions must be to first, elevate trade policy to a more appropriate level in the decisionmaking process; and, second, to initiate both general and specific trade promotional programs designed solely to improve out export performance; and, finally, to insure cross-agency, cross-legislative coordination and point responsibility so that one action is not negating or inhibiting another trade promotion action.

These objectives clearly require the consolidation of trade responsibilities under the auspices of a single lead agency and one cabinet level spokesman. However, we have interpreted the current mood in the administration and on the Hill to suggest that something less than a new department is a more realistic aspiration at this point. While we ultimately support the notion of one Government agency combining both trade policy and its implementation, we will restrict our comments today to the administration's reorganization proposal.

In our opinion, the administration scheme has serious shortcomings. It does not go far enough in consolidating trade functions. We urge this committee to critically assess the wisdom of the proposed separation of functional implementation and policymaking, keeping in mind that this very separation and fragmentation of policy and implementation is, in large part, responsible for our current trade dilemma.

The suggested concentration of policymaking power in the STR and operational responsibilities in the new Department of Trade and Commerce could potentially result in undesirable tensions between these two agencies, with damaging effects on U.S. trading interests.

We question whether the administration's proposal will have any significant beneficial effects on U.S. trade, and we can view it only as a politically expedient first step toward the eventual goal of placing policy and operations under the same roof, the way it is done in all other major industrialized countries.

In this context, we want to emphasize once more that no consolidation of trade functions will adequately serve the interests of trade expansion unless accompanied by the statutory requirement of Trade Impact Assessments as outlined earlier.

Finally, Mr. Chairman, it must be clearly understood that what the U.S. construction industry wants the reorganization to generate is a flexible trade policy approach designed to meet specific industry needs, making it possible for us to expand our exports in the 1980's.

Thank you, very much.

Senator ROTH. Thank you, Mr. Carlson.

As you probably know, I agree with much of what you said. I certainly feel that the administration proposal is not the answer—I even question whether it is that first step. What I am hoping that you may be able to do, and you have heard me ask this earlier, is consolidate much of these functions in the STR. The STR does have Cabinet status. It doesn't mean you are creating a new agency.

You see that as a major step forward if we could consolidate much of both policy and implementation within that industrumentality?

Mr. CARLSON. I think it is absolutely vital. I think that is basically what is wrong today. It is one part of the Government pulling the other part the wrong way.

Senator ROTH. We talked a great deal about these advisory committees. You mentioned at the very end that we need a reorganization

to generate a flexible trade policy designed to meet specific industry needs.

Did the construction industry have any kind of advisory committee on the MTM?

Mr. CARLSON. No. We weren't invited to participate here.

Mr. STOCKTON. I might interject that we forced our way into that process rather belatedly and made our comments known to the STR's office on what we perceived to be the undesirable impacts of the MTN. As a result of our discussions, our problems were carried forward to Geneva prior to the conclusion of the negotiations and it was decided, that construction services would not be covered in the code owing to the fact that it would be very difficult for enforcement purposes to separate the services aspects of the procurement from the procurement of merchandise.

Senator ROTH. We are hoping to build into the new organization the advisory committees or industry generally, labor, and small business. It would seem to me essential that recognition be given the construction industry as well.

Mr. CARLSON. Mr. Chairman, if I could expand on that, we had a personal incident on a construction job for the U.S. Department of Interior. The job was located in Las Vegas, Nev. and was bid by one of our subsidiaries.

The winning bidder was a Japanese pump manufacturer. This is an American construction job. We contested the award, however our protest was rejected by the General Accounting Office and be that as it may, the point there is that here is a pump manufacturer competing without license or experience in the American construction market, subsidizing and competing against the U.S. construction industry.

We are not asking for a quid pro quo. I don't think we want to go over to Tokyo and wade through that horrible jungle over there where they will slash you to bits, but we do think that the American pump manufacturers ought to have access to the Japanese market.

With this quid pro quo, there are not too many quids coming back to the pro quo, but basically our Government has separated the procurement of these large items like the pumps from the general construction work and the installation of the pumps.

By putting them into one package, they not only have frozen the American pump manufacturer out, but in essence allowed the Japanese construction industry to come into this country.

We are subsidizing our own debt in that particular thing. So it is these types of things that I speak to.

We cannot always do it the way they do it over there. Our biggest competitor in Saudi Arabia is the Hyunadi Corp. They are a huge conglomorate, they are founded by the government with government loans. They have cement works, they produce steel and iron, they produce trucks and yet they are in the construction business also.

They have the banking and the financing, the guarantees come out of the banking system and the ironic fact was in the performance guarantee of some $300 million of U.S. bank guaranteed their performance in Saudi Arabia with a bank guaranteed from their central bank position.

To me it is an irony and a shame that the American banking community cannot support us in a like manner on a competitive basis. I think my point is that we love the way our society is structured

but we have got to be in the position where we can compete. We just cannot under the present circumstance.

Senator ROTH. I was in the Middle East last Easter, and I was shocked to learn what a small percentage of the construction in Saudi Arabia was with American contractors.

Has your organization or association gathered together in any manner the various help and aid, I mean specifically? Other governments are giving their contractors this?

Mr. CARLSON. We are redoing this right now and trying to put in logical sequence. We did a great deal of that when we were fighting for section 911 and the Tax Reform Act last year.

Senator ROTH. Whenever you complete that, I would be interested in securing that. Senator Stevenson and I have formed what we call a Senate Export Caucus, and we really want specifics. For example, recently I was told by an American businessman that even though they had the contract they had to buy from the French certain products because the French Government was guaranteeing the product for 5 years.

Mr. CARLSON. Those type of things.

Senator ROTH. I think we need to know what these practices and experiences are. So that would be very helpful if you would supply that to us.

Mr. CARLSON. We certainly will.

Senator ROTH. One of the reasons of course that I am so interested in the reorganization is that I think we do need someone to actively publicize the impact of various legislative proposals on trade. And you have an interesting suggestion that we have some kind of an impact statement.

I will have to say I am a little concerned. We are developing so many impact statements, which are becoming so expensive and in many cases are not listened to anyway, that I am not sure whether that is the answer or not; but it is an interesting suggestion.

I do think—let me make this statement—the whole purpose of this is that when some of these proposals that act as disincentives come up in, say, the Finance Committee, there is somebody to speak out on the impact on trade.

Every ambassador of every country that I visited as well as the business groups indicated that probably they lose more trade through Government disincentives than through any other one factor.

I think that is the kind of fact we have to bring out by one device or another. I see we have another vote.

I would like to conclude with the same thing I said earlier. I don't think enough attention has been paid to trade in the Congress. When we think about trade, we really don't think about construction any more than we do the service industry. So we would ask your association to keep in communication as we try to arrive at a consensus to make sure that we will promote American contracting services outside of the United States. We find your statement very helpful and very useful, and I apologize for making you wait.

Mr. CARLSON. Fine. We will get those statistics to you.

Thank you, sir.

Senator ROTH. Thank you very much.

The committee is in recess subject to the call of the Chair.

[Whereupon, at 3:40 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

REORGANIZING THE GOVERNMENT'S INTERNATIONAL TRADE AND INVESTMENT FUNCTIONS

THURSDAY, OCTOBER 18, 1979

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 3302 Dirksen Senate Office Building, Hon. Abraham Ribicoff (chairman), presiding.

Present. Senators Ribicoff, Roth, Levin, Javits.

Chairman RIBICOFF. The committee will be in order.

OPENING STATEMENT OF SENATOR RIBICOFF

Chairman RIBICOFF. Today we conclude our current hearings on trade reorganization. The Treasury Department now estimates that the 1979 trade deficit will only be about $4 billion less than the record $34 billion trade deficit recorded last year.

For the United States to do well at home and abroad in the 1980's, the country must become more successful exporters. To achieve a first-rate record in trade, the Government needs a first-rate reorganization.

The President submitted a trade reorganization plan last month to meet this challenge.[1] I appreciate the willingness of the administration to include in the proposed plan some of the suggestions made by Members of Congress, including Senator Roth and myself. The reorganization plan now places the U.S. Trade Representative clearly in charge of developing and coordinating the implementation of overall trade policy. It gives the U.S. Trade Representative specific authority to determine what the U.S. policies will be in a wide range of trade-related issues. Operational responsibilities for nonagricultural trade matters will be centralized in Commerce.

The reorganization, as submitted, represents a first step. The possibility certainly remains that further reorganization will later prove to be necessary. I am, in fact, sure that with this first step, there are going to have to be further reorganization proposals in the near future. This plan represents the most we could have gotten from the administration at this stage. I am going to leave it up to Senator Roth to continue to persevere the goal until Congress and this or a future administration completes the job.

Senator Roth?

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Thank you, Mr. Chairman. As you well know, I do not support this trade reorgaization plan, but I will not oppose it.

[1] The President's message transmitting Plan No. 3 of 1979 and the text of the plan begins at p. 432.

In my judgment, it is anemic and inadequate, the best we can do now, given the unwlllingness of the administration to think in bold and creative terms.

You, Mr. Chairman, and I fought for a Department of International Trade and Investment to consolidate the key trade functions into one cabinet entity. We will continue this effort.

Our department would have combined planning, policy formulation and implementation; it would join export promotion with negotiations and the monitoring of the results of those negotiations. It would have given enforcement of trade laws to a cabinet department with stature and an incentive in strong enforcement. It would have made one official primarily responsible and accountable to Congress for trade. It would have given the United States the kind of effective trade policy apparatus which other industrialized countries have to defend their trade interests and to promote their costs.

Most importantly, the new department would have helped provide the leadership needed to make the United States a trade conscious Nation without creating additional bureaucracy or regulations.

The Department of International Trade and Investment would be a tiger. Instead we got a turkey. I think we made some improvements in the subsequent negotiations although we are still far short of our ultimate objectives. The policy role of the USTR has been clarified. In strong hands and with effective Presidential backing, the USTR has the potential to provide coherence and leadership in international trade policy.

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. The State of Alaska is vitally interested in the President's trade reorganization plan. Alaska is richly endowed with resources for which a substantial market exists throughout the world.

Alaska has been active in many export activities, particularly in the export of liquified natural gas and forest and fisheries products. More can be done. Vast natural resources from Alaska can and should be exported. Alaska exports a substantial amount given Alaska's small population and lack of any industrial base. Much greater exports can be achieved. Vast resources, high unemployment, and a close proximity to densely populated Asian markets make an expanded export effort particularly important to Alaska.

Alaskans support reasonable steps to enhance this country's export capabilities. Too long America has ignored export opportunities and depended on its vast domestic market. Inflation, a serious balance-of-payments deficit, and increasingly agressive trade competitors all demonstrate that a greater export effort is required. The United States is the only major industrial country without a single Government overall responsibility to promote exports. The result has been a fragmentation of authority, which has too often led to inconsistent trade policy.

Alaskans are closely reviewing the plan offered by the President as well as those offered by Members of Congress and will support a plan which will create a more aggressive, coordinated, and effective export effort.

The key flaw remains the artificial division between policy and operation. In my judgment, this will lead to duplication, fragmenta-

tion, and frustration. I think we can do better. I will be working hard to insure this plan represents only a short interim step toward a true consolidation in a Department of International Trade and Investment.

Thank you, Mr. Chairman.

Chairman RIBICOFF. Thank you, Senator Roth.

You may proceed, Mr. McIntyre.

TESTIMONY OF JAMES T. McINTYRE, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY HARRISON WELLFORD, EXECUTIVE ASSOCIATE DIRECTOR FOR REORGANIZATION AND MANAGEMENT; AND ERIC L. HIRSCHHORN, DEPUTY ASSOCIATE DIRECTOR FOR INTERNATIONAL AFFAIRS AND TRADE ORGANIZATION

Mr. McINTYRE. Thank you, Mr. Chairman.

Mr. Chairman, I have a prepared statement that is fairly lengthy describing the plan. I would like to submit that for the record.

Chairman RIBICOFF. Without objection, the entire statement will be incorporated into the record at the conclusion of your testimony.

Mr. McINTYRE. I agree with your observation and Senator Roth's that this is not a perfect plan, but I do think that it is a significant first step. It is important to realize that international trade is a very complex and controversial area; and based upon our consultations with the Congress and with representatives from the various groups around this country that have an interest in our international trade position, we think this is the best plan that this Congress would accept.

And, Senator Roth, just in response to your observation, if I thought we had 5 years to bring the Congress and the various interest groups along to your position, then I would certainly be in a much more receptive frame of mind about your proposal——

Chairman RIBICOFF. If you will yield at that point, I think you misread the Congress. I am confident that the Roth-Ribicoff proposal could have passed the Senate overwhelmingly, and I think once past the Senate it would also have passed the House.

Mr. McINTYRE. Mr. Chairman, I understand that there is a difference of opinion over how receptive the House, particularly, might have been to a much broader proposal.

Senator ROTH. I would just like to add this comment: To go back when we started the MTN trade negotiations, I think most of us were fearful about the problems we would have in the Congress. We thought it would be one of the most controversial issues that would come up. But due to strong leadership on the part of the President and Bob Strauss, and our chairman, as well as others, the implementing legislation went through overwhelmingly. I couldn't agree more strongly with Senator Ribicoff that the same kind of leadership, I think, would have resulted in meaningful legislation.

Mr. McINTYRE. We recognize that this is not the perfect solution to our problems, but we do think it is a significant first step. That is the spirit in which this reorganization proposal is being presented. It does have the enthusiastic endorsement of virtually all business and trade groups which are concerned with international trade issues. I will submit a list of those groups for the record.

TRADE REORGANIZATION ENDORSEMENTS

BUSINESS

Business Round Table.
U.S. Chamber of Commerce.
American Textile Manufacturers Institute.
Emergency Committee for American Trade.
American Paper Institute.
U.S. Apparel Council.
National Foreign Trade Council.
American Society of Association Executives.
Ad Hoc Subsidies Coalition.
National Machine Tool Builders' Association.
American Apparel Manufacturers Association.
American Yarn Spinners Association.
Man-made Fiber Producers Association.
National Knitted Outerwear Association.
Work Glove Manufacturers Association.
Textile Distributors Association.
National Association of Uniform Manufacturers.
National Knitwear Manufacturers.
National Association of Hosiery Manufacturers.

INDIVIDUAL FIRMS

Union Carbide.
General Electric.
Westinghouse.
Gold Kist.

UNION

AFL-CIO.
Amalgamated Clothing and Textile Workers Union.
International Ladies' Garment Workers Union.
United Hatters Union.

AGRICULTURE

National Grange.
National Council of Farmer Cooperatives.
Millers' National Federation.
American Farm Bureau Federation.
National Cotton Council of America.

OPPOSITION

American Foreign Service Association.
American Retail Federation.

Mr. McINTYRE. Mr. Chairman, just briefly, let me highlight some of the recommendations contained in this plan. Recent events, including our negative trade balance, our increased dependence on foreign oil, and the resulting pressure on the dollar, have focused much attention on the vitality of our international trade position and on the way which our trade machinery is organized.

New challenges, such as MTN implementation and trade with State economies, will further test our Government organization.

The primary goal of this reorganization is to improve the Government's capacity to strengthen the export performance and import competitiveness of U.S. industry. It provides an effective mechanism for shaping the disparate, legitimate views of the numerous executive branch agencies into an effective, comprehensive U.S. trade policy.

We have chosen to place policy coordination and negotiation—those aspects of the trade function that most require comprehensiveness, clout, an Government-wide perspective—in the Executive Office of the President, and we have decided to locate operational and

implementation responsibilities, which are staff intensive, in line departments that have the requisite resources as well as knowledge of and ties to major industrial, agricultural, and service sectors of our economy.

In doing so, we have chosen deliberately to build on the strengths of existing institutions rather than create separate new trade bureaucracies.

The reorganization proposal was shaped by the following considerations: First, our trade structure must take into account the intimate relationship between our trade position and a multitude of domestic policies that affect industry competitiveness.

Second, organizational arrangements must reflect that trade is a legitimate concern of agencies that have primary responsibility for other, sometimes competing, national policies and objectives.

Third, these legitimate multiple interests require a neutral broker, located in the Executive Office of the President.

Finally, we believe that operational functions are best handled outside the Executive Office by those departments that have necessary technical resources and that deal on a day-to-day basis with the relevant sectors of our economy.

The reorganization plan now before the Congress has two basic facets. First, it enhances the Special Trade Representative, to be renamed the U.S. Trade Representative, by centralizing in it U.S. foreign trade policy development, coordination, and negotiation functions. The mandate of the Trade Representative, and of the interagency Trade Policy Committee that advises him, will be broadened to include a wide range of new and existing trade policy coordination functions.

Second, it makes the Department of Commerce the focus of operational responsibilities for nonagricultural trade, adding to its existing export promotion duties those of commercial representation abroad, antidumping and countervailing duty cases, the nonagricultural aspects of MTN implementation, national security investigations, and embargoes.

Complementary action by Commerce to strengthen its industry and service sector analysis capability will further enhance that agency's contribution to our trade expansion efforts.

I believe that the plan is an important first step and that its contribution will be significant. It will provide us with unified policy direction, improve the application of our trade laws, focus attention on major problem areas, enable the United States to negotiate with foreign governments from a position of strength, and provide a strong institutional base for the new trade order created by the MTN agreements.

Mr. Chairman, a major strength of this proposal is the close cooperation between the Congress and the executive branch that has accompanied its development, and we look forward to continuing to work closely with you, Senator Roth, and your colleagues as we move forward with its implementation.

I will be glad to try to answer your questions.

Chairman RIBICOFF. Thank you very much. There are a series of questions that both Senator Stevenson and Senator Cannon would like

answered.[1] We will get those questions together, submit those to you, Mr. McIntyre, and I would hope that you would answer them as soon as possible so they could be part of the permanent record of this hearing.

Mr. McINTYRE. We will.

Senator RIBICOFF. The executive order further implementing portions of the plan is an important part of this reorganization. Do you have with you a draft of this executive order to be placed in the record at this point?

Mr. McINTYRE. Mr. Chairman, we have just concluded the last issue involved in this executive order this morning. I would be prepared to submit it to the committee no later than tomorrow.

Senator RIBICOFF. Will you make sure that gets done?

Mr. McINTYRE. Yes.

[The document referred to follows:]

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[1] See questions submitted for the record by certain Senators, p. 376.

10/24/79

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Executive Order

INTERNATIONAL TRADE FUNCTIONS

By the authority vested in me by the Trade Agreements Act of 1979, the Trade Act of 1974, the Trade Expansion Act of 1962, section 350 of the Tariff Act of 1930, Reorganization Plan No. 3 of 1979, and section 301 of title 3 of the United States Code and as President of the United States, it is hereby ordered as follows:

Section 1-101. The United States Trade Representative.

(a) Except as may be otherwise expressly provided by law, the United States Trade Representative (hereinafter referred to as the "Trade Representative") shall be chief representative of the United States for:

(i) all activities of, or under the auspices of, the General Agreement on tariffs and Trade (GATT);

(ii) discussions, meetings, and negotiations in the Organization for Economic Cooperation and Development when trade or commodity issues are the primary issues under consideration;

(iii) negotiations in the United Nations Conference on Trade and Development and other multilateral institutions when trade or commodity issues are the primary issues under consideration;

(iv) other bilateral or multilateral negotiations when trade, including East-West trade, or commodities is the primary issue under consideration;

(v) negotiations under sections 704 and 734 of the Tariff Act of 1930;

(vi) negotiations concerning direct investment incentives and disincentives and bilateral investment issues concerning barriers to investment.

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For purposes of this subsection, the term "negotiations" includes discussions and meetings with foreign governments and instrumentalities primarily concerning preparations for formal negotiations and policies regarding implementation of agreements resulting from such negotiations.

(b) The Trade Representative shall invite such members of the Trade Negotiating Committee and representatives of other departments or agencies as may be appropriate to participate in the negotiations and other activities listed in subsection (a).

(c) The Trade Representative may delegate to any member of the Trade Negotiating Committee, or any other department or agency as may be appropriate, primary responsibility for representing the United States in any of the negotiations and other activities set forth in subsection (a).

(d) The Trade Representative or any other department of agency to whom responsibility for representing the United States in a negotiation or other activity has been delegated pursuant to subsection (c) hereof, shall consult with the Trade Policy Committee on the policy issues arising in connection with the negotiations and other activities listed in subsection (a).

Section 1-102. The Trade Policy Committee.

(a) As provided by section 242 of the Trade Expansion Act of 1962 (19 U.S.C. 1872), the Trade Policy Committee (hereinafter referred to as the "Committee") is continued. The Committee shall have the functions specified by law or by the President, including those specified in section 1(b)(3) of Reorganization Plan No. 3 of 1979.

(b) The Committee shall be composed of the following:

(i) The Trade Representative, who shall be chair

(ii) The Secretary of State

(iii) The Secretary of the Treasury

(iv) The Secretary of Defense

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(v) The Attorney General

(vi) The Secretary of the Interior

(vii) The Secretary of Agriculture

(viii) The Secretary of Commerce

(xi) The Secretary of Labor

(x) The Secretary of Energy

(xi) The Director of the Office of Management and Budget

(xii) The Chairman of the Council of Economic Advisers

(xiii) The Assistant to the President for National Security Affairs

(xiv) The Director of the United States International Development Cooperation Agency

Each member of the Committee may designate an officer of his agency, whose status is not below that of an Assistant Secretary, to serve in his stead when he is unable to attend any meetings of the Committee. The Chair may invite representatives from other agencies to attend the meetings of the Committee.

(c)(1) There is established, as a subcommittee of the Committee, a Trade Negotiating Committee which shall advise the Trade Representative on the management of negotiations referred to in section 1-101(a) of this order. The Committee chair, the Secretary of State, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Labor, the Secretary of Commerce.

(2) The Trade Representative, with the advice of the Committee, may create additional subcommittees thereof.

(d) In advising the President on international trade and related matters, the Trade Representative shall take into account and reflect the views of the members of the Committee and of other interested agencies.

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Section 1-103. Prior Executive Orders.

(a) Sections 2(b), 3(a), the first sentence of (c), (e) and (f), and 6 of Executive Order 11846 of March 27, 1975, are revoked.

(b) Executive Order of is revoked (temporary GATT order).

(c) Section 1(b) of Executive Order 11269 of February 14, 1966, is amended by adding "the United States Trade Representative," after "the Secretary of State,".

(d) (possible amendment of Executive Order 11703 of February 7, 1973).

Senator RIBICOFF. The committee hasn't received to date any indication of the total number of additional positions that the Office of the U.S. Trade Representative will receive. I want to make sure that USTR is given the personnel needed to do the job.

The committee is going to want to know, I think the Congress is going to want to know, the projected size of the office before it meets to consider the plan. Could you provide specific figures to the committee within the next 2 weeks as to what your staffing plans are?

Mr. MCINTYRE. I am working with Ambassador Askew. We are going over his personnel needs and his financial needs to carry out the enhanced responsibilities of his office.

I believe we can provide the committee with at least a general ballpark figure; and if we can get our figures specific, we will be prepared to do that. In any event, I intend to recommend to the President that we send a budget amendment up which would contain the additional recommendations for the STR just as soon as we can get those identified and agreed upon.

[Mr. McIntyre subsequently supplied the following information for the record:]

We expect to transmit a supplemental fiscal year 1980 appropriation request for the Office of the Special Trade Representative within a few days.

The request will seek a personnel level for the office of the USTR for fiscal year 1980 of 116, at an additional cost of $4.456 million in addition to the $4 million already approved for fiscal year 1980.

Chairman RIBICOFF. Under your proposed reorganization, it is inevitable that there will be need from time to time to further define the exact allocation of responsibility between the various agencies involved in trade matters.

Would USTR's responsibility as the principal trade adviser to the President and chief coordinator of trade matters include resolving these problems with the advice of the Trade Policy Committee.

Mr. MCINTYRE. To the extent that those decisions can be resolved, yes. Obviously there are some cases where there would be a disagreement on those issues that would have to go to the President and the President would resolve those type of conflicts.

Chairman RIBICOFF. You do anticipate that the ultimate decision will be made by the President——

Mr. MCINTYRE. Yes.

Mr. RIBICOFF. If there is a question.

Mr. MCINTYRE. Yes.

Chairman RIBICOFF. When the USTR issues policy guidance in accordance with section 1(b)(3) of the plan, would all other agencies and departments be under a clear obligation to comply with such directives?

Mr. MCINTYRE. Yes; they will.

Chairman RIBICOFF. The proposed plan makes USTR vice chairman of OPIC and the head of IDCA the chairman of OPIC. I still would prefer to see it the other way around.

In any event, is it your intent that any matter involving the budget personnel, or policy of OPIC be discussed in advance by USTR and IDCA and a joint position reached whenever possible between IDCA and the USTR?

Mr. McINTYRE. I hope that the Director of IDCA and the trade representative will work closely together on issues involving trade, and I believe that they will. There is one fundamental policy question with respect to OPIC that I think is beyond the scope of the reorganization authority to resolve.

The 1978 amendments to the OPIC Organic Act direct OPIC to evaluate proposals before it on the basis of their "economic and social development impact and the benefits and the ways in which such a project complements or is compatible with other development assistance programs or projects to the United States or other donors."

To put that another way, the Congress, in the Organic Act, in my judgment, determined that OPIC's primary responsibilities would be developmental in nature. To the extent they have an impact on trade, I think the trade representative has to be active and that his points of view will get serious consideration.

Chairman RIBICOFF. The United States can't increase its exports unless it has something to trade. Productivity, including technology and industrial innovation, will directly affect the ability of the United States to export. What policy and organizational changes are the Commerce Department and the USTR going to make as soon as reorganization goes into effect to improve the Government study and involvement in this complex area?

Mr. McINTYRE. Mr. Chairman, we have a National Productivity Council in the executive branch. The Department of Commerce serves as a member of the Council, and it participates as a representative of the private sector as well as a major Government agency in the deliberations of the Council.

The Commerce Department provides data collection and analysis that is very important in looking at productivity trends, what is happening in various industries throughout this country and would continue to provide that data collection and analysis.

We have underway in the executive branch an industrial innovation study in which the Commerce Department is one of the lead agencies. The report should be out sometime in the next few weeks. I would expect the President to sign off on the recommendations in that report sometime this month.

The Commerce Department is continuing to play a key role in the governmental discussions on how to improve productivity and would continue its data collection role. I would like to provide for the record some of the Department's future plans concerning how productivity improvements will fit within this organizational structure.

I have that information available but it is fairly lengthy and I would like to present it for the record.

Chairman RIBICOFF. I think it should be made part of the record because the key to our competitiveness in international trade would depend certainly on catching up to Japan, West Germany, and other countries that are running rings around the United States in productivity, and consequently can outsell us around the world.

[The information referred to follows:]

Question. What does the Department of Commerce do now in the area of productivity improvement?

Answer. Productivity improvement in the private sector has always been a major concern of the Department, as part of its primary mission. In addition, the Department has recently been assigned additional responsibilities by the President, in the areas of technological innovation and data collection and dissemination.

Many of the Department's major elements have significant productivity-related activities, including:

The Office of the Chief Economist, including BEA and Census, provides data and analyses of productivity trends, such as the analysis of the decline in productivity prepared for the National Productivity Council, and a program of econometric research on the productivity of individual industries.

The Assistant Secretary for Science and Technology, including NBS, Patent and Trademarks, and NTIS, develops and disseminates information on a wide range of technological activities which can significantly affect private sector productivity. NBS has a series of programs developing research in the area of computer-aided design and manufacturing. NTIS has established a Productivity Clearinghouse (a function formerly with the National Center for Productivity and Quality of Working Life) to collect and disseminate productivity information and to be a contact point with private and non-profit productivity organizations.

The Maritime Administration operates a series of research programs to develop more efficient cargo ships, operating methods, and port facilities.

EDA and the Minority Business Development Agency assist economically-impacted areas, industries, and firms to improve productivity through financial and technical assistance.

The Assistant Secretary for Policy reviews and monitors Federal regulations for adverse impact on private sector productivity, and seeks to eliminate or reduce that impact, and analyzes overall policy of the Department and the Government concerning productivity improvement.

In addition, much of the ongoing activity of the Department is designed, directly or indirectly, to improve the productivity of the United States.

The Department is a major participant in the National Productivity Council, and has developed a series of recommendations to the Council to close important gaps concerning national productivity.

The Domestic Policy Review of Industrial Innovation, now under consideration at the White House, may result in increased productivity-related responsibilities for the Department.

Question. What productivity functions will the Department get from the trade reorganization?

Answer. The Department will get responsibilities rather than functions, as a part of the reorganization. That is, the President has stated that "Fostering the international competitiveness of American industry will become the principal mission of the Department." A key element in competitiveness is improved productivity.

As part of the reorganization, the Department will establish the Bureau of Industrial Analysis. A part of its role will be provision of sector-specific and cross-sector information and analysis dealing with productivity and factors affecting productivity.

Other elements of the Department will have increased responsibilities, and resources, for dealing with productivity improvement matters, including the Assistant Secretary for Science and Technology, and the Deputy Under Secretary for Regional Affairs.

Question. What are the Department's future plans concerning its productivity-improvement responsibilities?

Answer. It is anticipated that the Task Force studying this question will identify two principal functions for the Department with respect to productivity: (1) Expanded analysis of overall productivity issues and individual industry productivity problems, and (2) an action program to improve departmental assistance to industries (through technology enhancing measures) and to specific firms (by providing technical assistance).

It is not possible to predict exactly where in the Department these functions will ultimately reside, nor the size of the office or offices devoted to these exercises. However, given the Department's wholesale restructuring to accommodate new trade functions and the high level of interest in productivity, you may be assured that the commitment will be meaningful.

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Senator Roth?

Senator ROTH. I will be very brief, Mr. Chairman.

I do want to clarify one of the earlier statements with respect to unified business opposition. Actually there was much of the private sector that was opposed to this reorganization plan. Many of them encouraged me not to go along with the administration's proposal. When the decision was made to go ahead, then I think most people said, well, that's the best we are going to get. The record should reflect that there was a division within the private sector.

Mr. Chairman, I don't intend to ask a series of questions. My views are well known. I would ask just one. I had a meeting recently with a high union official who expressed concern about the lack of an aggressive export policy on the part of this country. He pointed out that one of his concerns was that our commercial attaches, which are now in the Department of Commerce, too often were concerned in helping foreign companies sell in the United States rather than the reverse, helping American businessmen selling abroad.

I would hope that with this change that there would be some reorientation along those lines that the principal purpose of these commercial attaches is to help the export of American-made products. I wonder if you will look into that.

Mr. MCINTYRE. Yes, Senator Roth, we certainly will. I will make two observations. One, the commercial attaches are being transferred from the Department of State to the Commerce Department. This would give us a direct link between the domestic regional offices that the Commerce Department already has and the foreign markets. I think that is an important change because we now will have that entire system, from the domestic markets to the foreign markets, under the supervision of one Cabinet Secretary.

The second observation I would make is that one of the missions of the Department of Commerce is to enhance our exports. I think that this mission, coupled with this new linkage of domestic offices to the foreign market, will provide that type of incentive.

Senator ROTH. I would like to underscore what our chairman said with respect to the staffing of the USTR. I think this is a matter of great concern to all of us who are interested in trade, that they be staffed adequately so that they can assume the leadership role as intended.

In closing, Mr. Chairman, I would just like to emphasize once again that for this reorganization to have any success whatsoever, it seems to me that there has to be the closest of cooperation and coordination between the Department of Commerce and USTR as well as your own office, plus the President, and I would hope that you would make a primary responsibility of yours as well as others to see that this does become a close-knit team.

Thank you.

Chairman RIBICOFF. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman. The first question relates to a subject Senator Roth has raised. Under the proposal, which consolidates a number of trade programs within the expanded Department of Commerce, will comprehensive export assistance to small businesses finally be brought under one roof?

Mr. MCINTYRE. Yes.

Senator LEVIN. Would you supply this committee a chart showing all of the agencies that presently are involved in supplying assistance to small business now and how this coordination would bring them under one roof?

[The material referred to follows:]

BENEFITS TO SMALL BUSINESSES OF THE TRADE REORGANIZATION PLAN

The Trade Reorganization Plan is designed to improve the capacity of the Government to strengthen the export performance of U.S. business including small business. It will do this in four ways:

1. *Enforcement of the multilateral trade negotiation agreements.*—Activities in this area by the Department of Commerce will include monitoring the agreements and targeting problems; operating a Trade Complaint Center where private business can receive advice as to recourse and remedies available; providing American business with basic information on foreign laws, regulations and procedures; education and promotion programs regarding the provisions of the agreements; and general analytical support.

This function did not exist before the signing of the MTN agreements and is therefore newly established in the Department of Commerce. Its area of responsibility includes provision of assistance to small businesses.

2. *International trade development and assistance.*—Under this function the Department will provide direct assistance to businesses, including small businesses, in their export activities.

The Foreign Commercial Service, being transferred from the State Department, the U.S. Commercial Service, and the Department's trade development organizations will combine, for the first time, to provide complete coverage of export matters overseas, in field locations throughout the U.S., and in Washington.

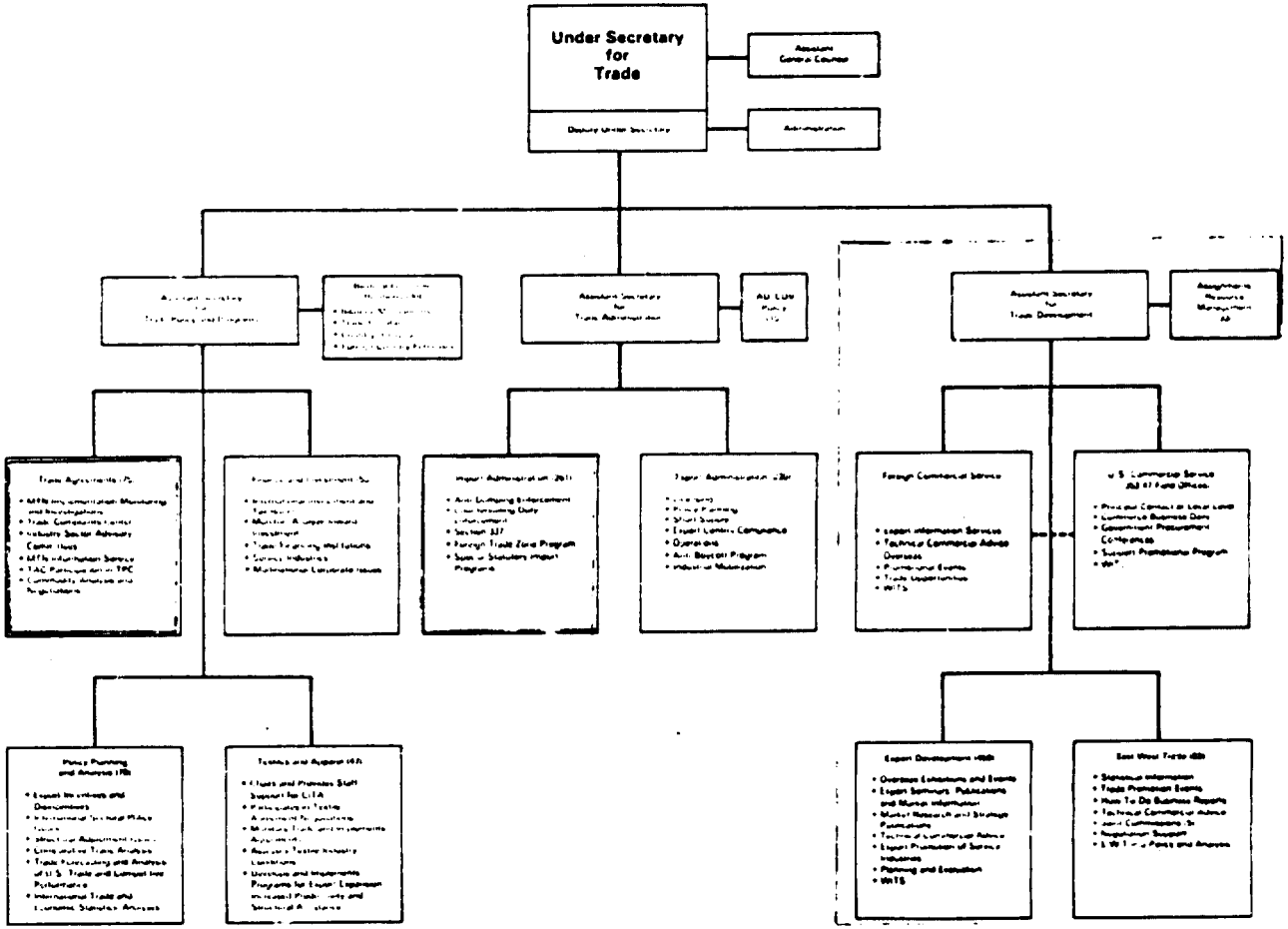
Included are trade missions, trade fairs, development of overseas market information, counseling and technical information to U.S. firms through 43 district offices, seminars and conferences. Also a part of this function will be the Worldwide Information and Trade System which, as a result of the reorganization, will be able to assemble marketing and commercial information from throughout the world and disseminate it rapidly to U.S. business, including small businesses, throughout the country.

3. *Prevention of unfair import competition.*—The Department will act to prevent unfair import competition to American business, including small business. As a part of this function, the Anti-Dumping and Countervailing Duty responsibilities will be transferred to the Department of the Treasury.

4. *More effective analyses and data.*—As a part of the Trade Reorganization, but not within the international trade organization unit, there will be established in the Department of Commerce a new Bureau of Industrial Analysis. This Bureau will support the export expansion activities by providing objective and professional sector-specific and cross-sector information and analysis. By developing data on specific industries it will provide information on export development targeting, short supply and import administration requirements. It will complement the activities of the Bureau of Economic Analysis, which has provided information and analyses on a macroeconomic basis, by providing the microeconomic analyses and information vital to specific sectors and industries, including in particular those industries which consist substantially of small businesses.

The attached chart shows the proposed organization for the international trade function, marked to show the location of the first three functions discussed above. (The Bureau of Industrial Analysis is now shown.)

Proposed Trade Component of the Department of Trade and Commerce



Mr. McINTYRE. Yes; I will. Let me clarify that. Obviously the Small Business Administration will still deal and make loans to small business. But there will be, under the Department of Commerce, the responsibility of providing the technical assistance, the information, and the statistics that are necessary to assist small businesses that want to get into the export markets.

Second, some of the financing mechanisms in the Federal Government will not be under this Department. For example, the Export-Import Bank will continue to be a separate entity.

Senator LEVIN. I am not sure that I see what difference it is going to make in the life of a small businessperson. If you think it will make a difference, will you supply us the chart showing us presently what is offered, and what changes would be made as a result of this reorganization?

Mr. McINTYRE. All right.

Senator LEVIN. Identify the functions in each of the agencies presently operating, show us that those functions might change as well as where they may be located.

The only other question I have this morning is this one: It seems plausible that the Commerce Department's ability to enforce the antidumping and countervailing duty laws effectively would be jeopardized if the STR office established new precedents or interpreted present regulations while cases were pending. Some have suggested that statutory requirements be added to require the STR to support the enforcement of legitimate claims of unfair trade practices.

Do you have any objections to that suggestion?

Mr. McINTYRE. I am not an expert on the Trade Act. My understanding is that kind of an issue is dealt with in the Trade Act.

Senator LEVIN. If it is not dealt with, would you have any objections?

Mr. McINTYRE. I would have to talk to those people who are expert in that law. I will be glad to answer that question for the record.

Chairman RIBICOFF. If the Senator would yield, I noticed Mr. Cassidy, the new general counsel of STR, who probably knows more about this new Trade Act than anyone else.

Would you have any response to Senator Levin's inquiry, Mr. Cassidy?

Mr. CASSIDY. Senator, under the new law, the ability of the Government to suspend an investigation by reason of a negotiated agreement, which is the only administrative aspect of countervailing and antidumping where the USTR office will have an operational role is severely restricted. You can have all two kinds of an agreement. These are all spelled out in the statute. One is an agreement completely eliminating the injurious effect of the dumping or subsidies. It is a very——

Senator LEVIN. I can't quite hear you.

Mr. CASSIDY. I was saying under the new statute that the ability to suspend an investigation by reason of a negotiated agreement with the foreign government or a foreign company is the only area where the new STR has an operational role under this action and is there still subject to acceptance by the Secretary of Commerce. But even as to what can be negotiated, it is severely restricted by the new statute. An agreement has to meet one of two tests.

One is that the agreement has to completely eliminate the injurious effect of the dumping or subsidies, which is a very tough test. The alternative is that you may accept an agreement if at least 85 percent of the margin of dumping or the total subsidy is eliminated which is also an exceedingly tough test and the statute has no room. You have very little room to move in this in any case.

I don't personally think, although we can discuss this further, that you need any other assurance like this. Both of these tests would be subject to judicial review if the subject is to be raised.

Senator LEVIN. Thank you.

Chairman RIBICOFF. Mr. Wellford, Senator Javits has a question and Mr. McIntyre got away. Maybe you could answer that question.

Senator JAVITS. Either answer it or take it back and give us the answer in writing.

Mr. WELLFORD. Thank you.

Senator JAVITS. May I explain that I am tied up in a markup on SALT II upstairs. I am very interested in the export credit negotiations and the authority for those, whether they should go from Treasury to the trade representative, and my reason is that we have just now lost two big export deals, one in Egypt for a telecommunications system and the other respecting certain helicopters here in the United States. Because of the credit situation, we are being skinned alive.

And so I would feel, absent a very good reason to the contrary, that it ought to be transferred to the trade unit from the Treasury Department, and I think in that way the United States would be more flexible and more likely to have the operational capacity to meet this competition.

But apparently that is not being done. I don't know if it is a final decision or what, but I think we ought to know what is the rationale for not making that transfer.

Mr. WELLFORD. Senator Javits, that was an issue that we considered very carefully and at length over the last few months. As you know, we have given STR a role on the Eximbank Board. We have made it clear that export credit issues can be brought before the TPC and be discussed there. Of course, the STR can advise the President on the results of those discussions. We did not make a formal transfer of export credit negotiating responsibility from Treasury to STR. We did not think we had to go that far in view of the Secretary of the Treasury's strong belief that the trade elements of those issues are intermixed with other international economic monetary policy concerns that Treasury is more experienced in handling.

We had a discussion among the various parties and that was the way we came out. It was a close one. I think giving STR the role that we have done certainly will guarantee that the trade aspects of export credit decisions will be more carefully understood and more fully advocated in the forums in which these decisions are made.

Senator JAVITS. Mr. Wellford, it sounds to me like simply an accommodation within the bureaucracy—I don't say that invidiously—rather than responsive to the actuality of export markets and export opportunities. I am asking you substantively, why? STR is the one that has flexibility to negotiate. Treasury has a thousand other things

to do. This is far from its main role and yet it is costing us an enormous amount of export business, in my opinion. The more ideal situation is that we would have years ago harmonized our credit policies with those of our allies. Really I should say they would have harmonized with us, because they are really the guilty parties. So I really think the matter needs to be rethought there and here.

Is there any other substantive reason, other than your judgment that it is more to the convenience of the executive department? Is there a substantive reason?

Mr. WELLFORD. What I am arguing is not simply bureaucratic convenience. I am saying that the expertise and the experience in these matters is now in Treasury and it would require some disruption to transfer that staff and rebuild that experience in another agency, particularly where the trade issues are not only the only issues involved in these negotiations. We have tried to accommodate the concern by giving STR a larger role in export credit policy forms.

If you have, if you would like for us to provide a more extensive comment on the record, we would be glad to do that. If you will get your questions to us——

Senator JAVITS. Would you do that, Mr. Wellford?

And one further thing, would you be able to tell us, perhaps now or in writing, that you are going to try this out, let's give it a year. If it doesn't work, you are prepared to take the other course. I don't know that you can decide that here and now.

Mr. WELLFORD. I certainly will discuss that with the people involved.

Senator JAVITS. I have no desire to cross you. It is no foray of mine. Really, we are being taken to the cleaners on these credit terms. It really shouldn't be, but it is. I just want to put us in the best position because we have got to have these exports.

Chairman RIBICOFF. Senator Javits, your question, indicating your implied criticism, is actually well taken. Senator Roth and I, over a period of long negotiations, advocated the position you are taking. We have felt, and we still feel, that this is only a first step, that within a short period of time you are really going to have to consolidate all these programs in the Department of Trade and International Investments. There is no question about it.

We feel that the administration has only taken a timid step forward, requiring many more steps. I would say we have just seen the beginning of reorganization in the trade field and international investment field. I would anticipate in the next few years, we are going to have to go much further along the lines you suggest.

[The material received for the record follows:]

This is to explain more fully why lead responsibility for negotiating international export credit understandings should not be transferred to the U.S. Trade Representative (USTR). While many trade negotiating functions have been transferred to USTR, we have concluded that this function should remain with Treasury.

At the same time, we want to assure you that in export credit negotiations, the Treasury Department will make use, as appropriate, of all the tools available to the Trade Representative in other negotiations. Further, Treasury will involve the Trade Representative in such negotiations to assure that trade policy implications are fully understood and considered. Also, the Trade Representative will become (1) a member of the Export-Import Bank Board of Directors, (2) the Vice Chair of the Overseas Private Investment Corporation Board, and (3) a member of the National Advisory Council on International Monetary and Financial Policy.

Export credit understandings are designed to influence the degree to which governments do or do not intervene in the financing of trade. A thorough understanding of world capital markets, the role of financial intermediation, monetary interrelationships, and imperfections in the international financial system are of paramount importance in establishing a reasonable and effective set of guidelines. Treasury has the requisite expertise in both international trade and international finance.

Our strategy in the export credit negotiations is two-pronged: first, to establish international limits on financial subsidies to exports; and second, to aggressively promote U.S. export expansion within those limits. We have made progress in both the multilateral and unilateral areas of our strategy, and we are confident that further progress will be made in 1980.

Multilateral Efforts

International cooperation to impose discipline on official export credit financing began in 1976 with seven countries. By 1978, we had persuaded twenty-two major trading countries to join the international understanding. The International Arrangement on Export Credits (Annexed) provides for minimum cash payment, minimum interest rates and maximum maturities with a procedure spelled out to provide prior information on terms offered by export credit agencies. It is a carefully drafted instrument, drawn with the high degree of precision required to make meaningful discipline work in this sphere. It has been most useful in preventing an all out, and very expensive, export credit war. But still it needs substantial improvement.

As you may know, changes in the Arrangement require unanimity. Because of divergent views within the European Economic Community and its inability to agree internally on meaningful concessions, the U.S. Government decided in February 1979 to terminate the negotiations and institute a policy of aggressive export credit financing. As a result, we now see a greater international willingness to negotiate a strengthened Arrangement.

An interest rate study has been launched in the framework of the participants to the International Arrangement. Our preliminary discussions indicate a widespread recognition that the interest rate provisions of the existing Arrangement are inadequate and need modification. The study will be presented to the participants in the Arrangement early next year. The Treasury Department is clearly the agency best qualified to lead the U.S. team in discussing and negotiating on this subject.

The Treasury Department has also been responsible for increasing the awareness of their counterparts abroad, who also are responsible for these negotiations, that there is a need to avoid costly and self-defeating official export credit competition. In this connection, agreement has been reached to seek a common line which relates the interest rate on official export credit financing to market interest rates for some products.

In the interest of economy and maximizing market forces, Treasury is committed to reducing subsidies on exports internationally. Hence, Treasury pushes as hard as is possible on other governments to reduce their export subsidies. Progress has been made and we expect further progress in the near future.

Unilateral Efforts

On the domestic front Treasury has been, and will continue to be, very active in expanding exports. For example, it was Treasury that encouraged Eximbank to take radical action in matching export credit subsidies on a selective basis. Their efforts bore fruit when a $100 million mixed credit to Tunisia was approved by the Eximbank Board recently.

The Tunisian market has long been closed to U.S. business because of French mixed credit practices. That is why we chose this country to match French mixed credits.

Treasury has been, and will continue to be, acutely aware of the need to improve our nation's export performance. We are fully able to initiate the use of all measures at the disposal of the Government -- such as countervailing duties, anti-dumping procedures, and Section 301 of the Trade Act -- should they become necessary to insure greater discipline in official trade finance.

For example, Treasury was not hesitant to inform the U.K. that it would use the full arsenal of trade measures available when the British Government provided subsidized credit to Rolls-Royce in competition with GE and Pratt & Whitney for a sale to Pan Am. Feeling strongly that governments should not compete with the private sector, we threatened countervailing duty action against the British, even though industry refused to file a complaint. As you know, it is most unusual for the U.S. Government to initiate countervailing duty action without an industry complaint.

As you know, Section 1912 of the Export-Import Bank Act authorizes the Secretary of the Treasury to investigate similar situations in the future and, if the foreign government does not withdraw such an offer, to authorize the Eximbank to provide competing United States sellers with financing to match that available through the foreign official export financing entity. Treasury's involvement by act of Congress indicates the confidence that Congress and the business community have in the Treasury to provide sound guidance in these cases.

Thus, while we recognize that export credit negotiations have a significant trade component, we believe that financial considerations are more central. Accordingly, we have decided to retain the lead in such negotiations in the Treasury Department with the understanding that the U.S. Trade Representative also will be involved to a significant degree.

Annex Detailing U.S. Government Actions to Improve the International Arrangement on Export Credits and Provide Competitive Official Export Credit Financing

Background

Consistent with the legislative mandate contained in Section 2 of the Export-Import Bank Act in 1977, the U.S. Government proposed new negotiations to create a firmer set of international guidelines to minimize the subsidy elements in officially supported export credits. Certain ground rules had existed since 1976 when some of the major OECD trading nations agreed upon an "Export Credit Consensus". However, the generality of the Consensus and the absence of a uniform text made further definition and improvement desirable to prevent uneconomic allocation of resources, budgetary waste and the political frictions which inevitably accompany excessive international economic competition among governments. After an intensive series of meetings, agreement was reached on a new International Arrangement on Export Credits. The Arrangement came into effect on April 1, 1978, with 22 participating countries.

The strength of the Arrangement lies in a detailed statement of procedures designed to enable each export credit agency to operate on the basis of greater knowledge about the credit offers of its competitor agencies in other countries. Although the system is not flawless, the resulting "transparency" has been an important factor in alleviating an escalation of export credit terms. Any country now has a greater opportunity to match, on a timely basis, excessively concessional offers of another participant -- hence deterring such offers.

In addition, the Arrangement codified the minimum export credit terms which would normally be offered by each export credit agency. These minimum terms and other key features of the Arrangement are:

1. A cash payment of at least 15 percent of the export contract value is required.

2. Repayment terms cannot exceed 8 1/2 years for relatively rich countries and intermediate countries, and 10 years for relatively poor countries. The repayment of official export credits should normally be in equal and regular installments, payable not less frequently than every six months.

3. In the case of direct or re-financed loans by an export credit agency, the minimum interest rate, exclusive of insurance premiums and bank fees, ranges from 7.25 percent to 8.00 percent based on the number of years in the repayment period and the classification of the country receiving the credit (i.e. relatively rich, intermediate, or relatively poor country). In the case of "pure cover" -- that is, official support limited to an export credit guarantee or insurance -- no minimum interest rate is prescribed since the credit itself is provided by the private banking system at commercial rates.

4. Interest is normally payable not less frequently than every six months during the repayment period, whether official support takes the form of a direct loan or "pure cover".

5. The financing by export credit agencies of local costs connected with an export project (that is, costs incurred in the borrower's country such as labor or construction costs) cannot exceed the cash payment on the associated exports.

6. Prior export credit commitments not in conformity with the Arrangement must be reported under a defined procedure. Similarly, the procedure for reporting derogations (breaches of the Arrangement guidelines) and matching offers by other export credit agencies are set out in detail.

7. Excluded from coverage under the Arrangement are export credits for military equipment, agricultural commodities, aircraft, nuclear power plants and liquified natural gas (LNG) ships. OECD "Standstill" agreements impose some limits of a less precise and less strict nature than those contained in the Arrangement, on the export credit terms available for aircraft and nuclear power plants. An OECD Understanding also limits export credit terms for most ships. Because the United States is not a party to that Understanding, we have agreed to apply the Arrangement terms to ships other than LNG tankers and to notify the participants if we offer terms for LNG tankers which are more favorable than those permitted by the Arrangement.

8. The Arrangement does not prohibit mixed credits, cost inflation risk insurance or exchange risk insurance.

Mixed credits are credits which combine "tied" aid financing on highly concessional terms with export credit financing. The Arrangement requires prior notification of a mixed credit offer when the "grant element" of the combined credit is less than 15 percent. When the grant element is between 15 and 25 percent, prompt notification is required after an offer is made. (The "grant element" measures the concessionality of a credit, using a 10 percent discount factor. Most official export credits contain some grant element, but normally less than 15 percent.)

Export inflation insurance compensates the exporter when the cost of producing the goods or services rises above a specified level because of inflation. Exchange risk insurance compensates the exporter when the exporter accepts payment in a currency other than his own and the value of that currency decreases below a specified level.

The United States presently does not offer export inflation or exchange risk insurance.

9. The Arrangment will be reviewed by the Participants at least once a year. The first review was held in October 1978 and the second review is tentatively scheduled for May 1979.

10. Withdrawal from the Arrangement requires not less than 60 days notice; otherwise, there is no termination date.

Need for Improvement

In testifying before the Congress earlier in the year on the extension of the Eximbank charter, Administration witnesses emphasized that the International Arrangement on Export Credits was a useful forward step. Nevertheless, it had major weaknesses: (1) the element of subsidy in official export credit financing was not significantly reduced; (2) important sectors continued to be excluded from coverage; and (3) certain commercially unsound practices were not dealt with. It was anticipated that the shortcomings in the Arrangement would be addressed in the fall 1978 review of the operation of the Arrangement.

It was hoped that our major trading partners would see the importance of reaching agreement on firmer ground rules on the use and discipline of export finance. The Congress expressed its interest in an improved Arrangement when it passed the "Export-Import Bank Act Amendment of 1978". Section 1908(a) requested the President "to begin negotiations at the ministerial level with other major exporting

countries to end predatory export financing programs and other forms of export subsidies, including mixed credits in third country markets as well as within the United States." Further, it called on the President to report to the Congress on progress toward meeting the goals of this section. As a part of his September 1978 Statement on U.S. Export Policy, the President directed Secretary of the Treasury Blumenthal to undertake immediate consultations with our trading partners to expand the scope and tighten the terms of the existing International Arrangement on Export Credits.

Secretary Blumenthal stressed the need for action in a letter to the Ministers of Finance of the major trading countries. He made specific proposals designed to achieve greater discipline over the subsidy element in much official export credit financing.

Secretary Blumenthal met with Finance Ministers during the annual meeting of the International Monetary Fund/World Bank at the end of September 1978 to emphasize the importance of successful negotiations to improve the Arrangement. Other U.S. Government officials pushed to accelerate the pace and bring participants to the negotiating table. Representatives of the European Economic Community (EEC) and its member states came to Washington to further explore these issues.

In October 1978, Assistant Secretary of the Treasury C. Fred Bergsten and John L. Moore, Jr., President and Chairman of the Export-Import Bank, visited key European countries to discuss the U.S. proposals with senior policy officials in those countries. Teams of U.S. Government officials went to Tokyo and to Ottawa in October to explain to senior government officials the proposals set forth in Secretary Blumenthal's letter to the Finance Ministers. U.S. Government officials went to Brussels twice in 1978 to discuss with the European Economic Community possible improvements in the Arrangement involving some of the excluded sectors.

The U.S. proposals were discussed at meetings of all the participants in the Arrangement in October 1978 and in January 1979. Although there was support for various aspects of the U.S. proposal from many countries, others, including the European Economic Community, had serious difficulty with them. The EEC stated that it had no "mandate" from its Council of Ministers to negotiate any issues except the excluded sectors.

U.S. Proposals

The proposals submitted to the twenty-two participating countries as a basis for negotiation, as subsequently modified and extended during the course of discussions, called for improvements in four basic areas:

1) An increase in the minimum interest rates of the Arrangement (which vary according to length of repayment period and classification of country) ranging from 1/2 to 3/4 of one percent, and two related proposals to update the country groupings and eliminate export credit subsidies on sales to European Community markets;

2) An end to official support for "local costs";

3) Moderation in the use of mixed credits by limiting such financing to the very poor countries and by increasing the element of "transparency" through prior notification of all mixed credit transactions; and

4) Coverage in the Arrangement of sectors presently excluded, namely agriculture, aircraft, nuclear power plants and ships.

Interest Rate Proposals

With a few exceptions, market interest rates in most participating countries are above the levels that existed in 1976 when the first Consensus on export credit was adopted and the minimum interest rates were established. Accordingly, the United States argued there was strong justification for higher minimum interest rates on direct loans by official export credit agencies.

Some countries pointed out, however, that interest rates were falling or were relatively constant in countries such as Germany, Switzerland and Japan, even though interest rates had risen in the United States and most other countries. These countries felt, therefore, that an increase in the interest rate minimums applied to direct loans was not justified.

Some countries also maintained that a higher schedule of minimum interest rates on direct loans would adversely affect their export competitiveness since the understanding is that minimum interest rates in the Arrangement do not apply to cases where the only official export credit support

is "pure cover", that is, insurance or guarantees of private loans against commercial or political credit risks. The exclusion of "pure cover" from the minimum interest rate schedule permits countries with low rates of inflation, and hence low commercial interest rates, to offer simple guarantee or insurance programs where the credit itself is provided by the private banking system and thus contains no element of interest rate subsidy.

Countries with low commercial interest rates (Germany, Switzerland, and Japan) can therefore offer lower interest rates (so long as they limit their official support to "pure cover") than other countries which offer direct export credits. This interest rate difference would be increased if the minimum interest rates on direct loans were raised.

In response to these concerns, the United States expressed the view that it was not normally the function of official export credit agencies to offer below-market rate loans in one currency to match the lower market rate loans extended in the currencies of countries with lower inflation rates (e.g., Germany, Switzerland or Japan). In addition, where a guarantee or insurance is provided for a transaction together with exchange risk insurance, the U.S. view was that the financing package must conform to the terms of the Arrangement.

To address these problems, the United States proposed that the minimum interest rates provided in the Arrangement should also apply to transactions receiving "pure cover" if official exchange risk cover was also provided.

The Participants did instruct the OECD Secretariat, under the leadership of an experienced export credit official and with such expert assistance as he selects, to undertake a study of the appropriateness of the interest rate matrix taking into account, inter alia, varying rates of inflation, exchange rate movements and the disparity of interest rates for different currencies. Format and procedure for this study are to be completed in time for review at the annual Arrangement review meeting in May 1979. The final report is to be completed by the end of 1979, if possible, and no later than May 1980.

Country Graduation

The progress in economic development and per capita income in some of the countries originally classified as "relatively poor" suggests that they should be reclassified to the status of "intermediate" countries, and thus receive slightly harder export credit terms. While there was

recognition of the point by some participants, many felt no action should be taken at this time for the same reasons that they opposed a more general move towards higher interest rates on direct loans.

Elimination of Interest Rate Support on Sales to European Community Countries

The United States proposed adoption by all participants of the European Community's own practice of permitting only "pure cover" (i.e. guarantees or insurance) on sales between the EEC countries. This would mean that all export transactions to the EEC countries -- whether from the United States, Japan, the Nordic countries, or other sources -- would be at market interest rates. This proposal was acceptable to the European Community itself, but attracted an adverse reaction from some of the other participants who believe they would lose a competitive edge in the EEC market.

Local Cost Proposals

Local cost financing constitutes support for goods and services obtained in the buyer's market and involves a domestic rather than a foreign exchange cost, hence it is not an export credit at all. The Arrangement presently permits local cost financing for an amount not exceeding the cash payment, that is 15 percent.

The United States contends that local costs should be financed independently of exports and that local cost support at favorable export credit terms generally amounts to a "sweetener" designed to influence the buyer's decision on the source of procurement. Nevertheless, some participants in the Arrangement are reluctant to restrict the financing of local costs. They assert that importing countries expect this form of support and it is politically difficult to terminate local cost financing.

Mixed Credit Proposals

Mixed credits are credits which couple tied aid financing on highly concessional terms with normal export credits. The "blended" terms can be well below the minimum terms set forth in the Arrangement. France, which is a principal provider of mixed credits, views this practice as an integral aspect of its concessional assistance to developing countries and states that its mixed credit transactions account for a very small part of its exports.

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The United States and many other countries have responded that, whatever the size of the program, mixed credits constitute an unfair practice and should be moderated, if not eliminated. At a minimum, there should be prior disclosure of the offer of such credits.

Sector Proposals

The sector discussions on ships and nuclear power plants focussed on the maximum length of the repayment term and the minimum interest rate. The U.S. position is that longer repayment terms, in the range of 12 to 15 years, are required by the economics of the projects involved in these sectors but that such longer terms should be accompanied by a higher interest rate (8.5 percent) to reflect normal commercial practices. Some other participants preferred a maximum repayment term of 10 years with no increase in interest rates.

In the case of commercial jet aircraft, the United States suggested a maximum repayment period of 10 years for both sales and leases, which would eliminate an important distinction between sales and leases. The United States also proposed an 8.5 percent minimum interest rate in this sector. While there were still some points at issue, such as the minimum interest rate level, agreement appeared close in this sector.

Discussions regarding the inclusion of agricultural commodities in the Arrangement were sparked by international concern over the authority granted by the Agricultural Trade Act of 1978 to the U.S. Commodity Credit Corporation to offer financing with a repayment period of over three years but not more than 10 years for certain agricultural commodities and facilities. Almost all agricultural commodities are now sold for cash or for short-term credit, reflecting the short useful life of such commodities.

Considerable concern was expressed that coverage of agriculture in the Arrangement, which deals with medium- and long-term financing, might imply that past normal commodity financing terms are being changed, thereby forcing all commodity exporting countries to provide longer term credits. Thus, several countries called for periodic reporting of transactions having a repayment term over six months or one year, to permit monitoring of the extent of any changes in commodity financing norms. Some countries also wanted prior notification when the repayment term was longer than two years. The U.S. position was that prior notification could be considered only for certain types of transactions with repayment terms over three years, since normal Commodity Credit Corporation financing often provides for repayment terms up to three years.

Conclusions

The U.S. Government has made every possible effort to obtain substantive improvements in the International Arrangement on Export Credits. Time and again U.S. officials emphasized the international advantages of such improvements. It was clear that the proposals submitted by the United States were negotiable and that meaningful compromises were possible. It is the view of the United States that participants in the Arrangement, other than the European Economic Community, would probably have agreed to the main outlines of the U.S. proposals. Despite extensive effort on the part of all governments and frequent meetings, however, the wide differences between what the U.S. Government could accept and what the European Economic Community offered made further negotiations at this time a fruitless endeavor.

Considering the importance of increased exports to the United States, and the stalemate in the negotiations, it now appears that the only feasible course of action at this time is a re-examination of the export financing programs and policies of the United States to assure that we remain competitive. The Export-Import Bank, operating within the framework of the existing International Arrangement on Export Credits, will therefore provide aggressive export financing support to U.S. exporters.

(The following correspondence on the impact of export audit negotiations occurred between the administration and members of the committee.)

JACOB K. JAVITS
NEW YORK

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November 6, 1979

The President
The White House
Washington, D.C.

Dear Mr. President:

We have noted that the draft Executive Order accompanying your trade reorganization plan leaves responsibility for negotiating international restraints on subsidized export credits in the Treasury Department, while placing responsibility for trade negotiations as well as U.S. trade policy with the Trade Representative.

As export credit subsidies are a growing element in international trade competition, we believe that the United States Trade Representative must have a significant role in the international negotiations assigned by the plan to the Treasury. We believe this role should be greater than envisioned in the response to the questions that were raised on this matter during the Committee's hearing on October 18, which calls for "involvement" by the Trade Representative in the negotiations. Our view of how this should be done would be to give the USTR a policy role to begin with, while leaving the negotiations for the time being in Treasury. But, we believe as the USTR is ready for it, the negotiating authority should be transferred to him as well. This is a phasing concept but we believe it complies with the realities both as to Treasury and the USTR.

With best wishes,

Sincerely,

Abraham Ribicoff

Jacob K. Javits

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

November 8, 1979

Dear Abe:

The President has asked me to reply to your letter concerning the conduct of the export credit negotiations. As you know, the Administration view is that Treasury should retain the lead role in this area. The Treasury has both the financial know-how and the trade background for this task. We have assembled a strong and experienced team to handle these negotiations.

By continuing to maintain responsibility in this area, the Treasury will not be undercutting the U.S. Trade Representative's Office. On the contrary, USTR will not only participate in the negotiations, but also, in its capacity as chair of the Trade Policy Committee, will provide broad policy guidance to the negotiators. Moreover, the USTR will be a member of the National Advisory Council which provides specific guidance on the financial policies and major loans of the Eximbank.

We intend to take full advantage of the negotiating "cards" acquired in other trade fora to accomplish our objective of reducing trade subsidies where they exist in the export finance area. In line with your suggestion, the Administration will monitor carefully the progress of export credit negotiations and the subsidy code implementation process over the next year. If it appears that clear advantages would be gained by having the export credit negotiations led by USTR, or by making other changes in our negotiating procedures, we would certainly consider making those changes.

I also want to share with you our goals in negotiating substantial improvements in the ground rules for official export credit. As you may be aware, the main area for improvement in these ground rules is to establish minimum interest rates which better reflect market conditions for loans in the various currencies of the participants to the international understandings. The present interest rate minimums take into account (1) the term to maturity of loans and (2) the level of development of the borrowing countries. But they do not reflect the market interest rate situation of the lending countries. As a result, some countries can

subsidize exports while others cannot. This is an inequitable and unsatisfactory state of affairs. We now have widespread international realization that something must be done. Treasury has worked closely with other countries to review the problem and to design alternative solutions. While we cannot predict the outcome, we think the negotiations during the next year will present a good opportunity to achieve greater international discipline over subsidized interest rates.

Second, we expect to nail down the terms and conditions for two sectors generally outside the normal ground rules: aircraft and nuclear power. For aircraft a zero interest, ten percent down payment, ten-year loan or twelve-year lease is now theoretically possible. We expect to establish a minimum interest rate and an increase in the down payment. For nuclear power, a fifteen-year loan, again with no minimum interest rate, is permissible. We expect to reduce this term and establish minimum interest rates.

Third, we are devising answers to the mixed credit problem -- cases where aid is mixed with normal export credits. If mixed credits cannot be restrained by international negotiation, the United States will aggressively match these practices in appropriate markets.

Finally, in accordance with the Senate Appropriations Committee report (96-358), Treasury is working closely with OMB and Eximbank in searching for ways to assure an adequate supply of funds are available for Eximbank to support fully the needs of U.S. exporters. In this, I assure you, we are a determined supporter of our export community. It is export expansion -- not import restriction -- which is in the best interest of our producers and consumers alike. I know you share this view, and I look forward to working closely with you and your colleagues in the Congress to accomplish this mutual objective.

Sincerely,

Bill

G. William Miller

The Honorable
Abraham Ribicoff
United States Senate
Washington, D.C. 20510

Senator JAVITS. Mr. Wellford, I don't want to detain you. You know, OPIC is a particular baby of mine. I understand that in the testimony Mr. McIntyre gave, they made something of a point of emphasis in OPIC on development rather than on trade. To me it is at the most 50–50, at the best of preponderance, because our investments abroad generate trade.

Could you include in the writing which you will give us the justification for leaving OPIC in IDCA or not making the U.S. Trade Representative Chairman of the OPIC Board? I think the issue is between making him Chairman or Vice Chairman. Again, because I think we are going to change the law in OPIC, you understand the history, we are under great pressure, particularly from Senator Church, I think that pressure is likely to be off. Give us your view.

Again, I would suggest in the interest of our Nation, let's give it a final trial, and if the law is changed to accommodate it, greater trade generation through OPIC, at least let's recognize in the administration—mind you, none of these things, I am saying, are oppositional or critical, just a common problem.

In this field I most respectfully, like Senator Ribicoff, claim some personal experience. I really feel that we are not going the right way, but I am willing to go with you for a little while so long as we can see that if it doesn't work, we will change it.

Mr. WELLFORD. I will be pleased to give you that statement.

[The following material was subsequently received for the record:]

The 1978 amendments to the OPIC organic act direct OPIC to evaluate proposals before it on the basis of their "economic and social development impact and benefits and the ways in which such a project complements, or is compatible with other development assistance programs or projects of the United States or other donors."

These amendments also direct OPIC to give preferential consideration to projects in countries that have per capita incomes of $520 or less.

Although there are both trade and development aspects to OPIC's activities, the recent Congressional pronouncement on the matter strongly favors the latter. Accordingly, the President decided to create very close links between OPIC and the new IDCA:

The IDCA Director chairs the OPIC Board

The IDCA Director transmits OPIC's budget to OMB and will be looked to for comment as to the relationship of that budget to the overall U.S. development program and budget

The President will look to the IDCA Director for recommendations on filling senior positions in OPIC (e.g., President, Executive Vice President, and Directors)

Because OPIC also has a trade focus, we decided that it was appropriate, in the context of trade reorganization, to make the Trade Representative Vice Chair of the OPIC Board. The Trade Representative, as the President's principal advisor on trade, will of course be free to comment on OPIC's budget or to advise the President on appointments to senior OPIC positions.

Further, both the Trade Representative and the IDCA Director have agreed to try to focus OPIC more heavily on export expansion, and the Administration will reconsider the mission of OPIC in preparing new authorizing legislation for transmission to the Congress early in 1980.

Chairman RIBICOFF. Thank you very much.

There are no further questions for you gentlemen. You are going to remain behind, Mr. Wellford.

[The prepared statement of Mr. McIntyre, with attachments, follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Thursday, October 18, 1979

STATEMENT OF
JAMES T. McINTYRE, JR., DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the President's proposal for reorganization of our international trade functions. I want to emphasize at the outset that although the formal proposal has been transmitted to the Congress by the President, its final form was arrived at after extensive consultations with Members of the House and the Senate. The constructive suggestions of such Members as Chairman Ribicoff, Senator Roth, Senator Byrd, Senator Long, Senator Javits, and Senator Cannon played a large part in shaping the reorganization plan that you are considering today.

Recent events --including our negative trade balance, increasing dependence on foreign oil, and the resulting pressure on the dollar -- have focused much attention on the vitality of our international trade position and on the way our trade machinery is organized. New challenges, such as MTN implementation and trade with state economies, will further test our Government organization.

The primary goal of this reorganization is to improve the Government's capacity to strengthen the export performance and import competitiveness of U.S. industry, taking into account the interests of all elements of our economy. Accordingly, this reorganization is designed to prepare the Federal Government for aggressive enforcement of the MTN codes, which potentially open new markets for U.S. labor, farmers and business. It aims to improve our export promotion activities so that U.S. exporters can better take advantage of trade opportunities and challenges in foreign markets. And it provides an effective mechanism for shaping the disparate, legitimate views of numerous Executive branch agencies into an effective, comprehensive U.S. trade policy.

We in the Executive branch have done a great deal of work on the question of what organization would best promote this country's trade objectives. We have chosen to place policy coordination and negotiation -- those aspects of the trade function that most require comprehensiveness, clout and Government-wide perspective -- in the Executive Office of the President. We have decided to locate operational and implementation responsibilities, which are staff-intensive, in line departments that have requisite resources, as well as knowledge of and ties to major industrial, agricultural, and service sectors of our economy. In doing so, we have chosen deliberately to build on the strengths of existing institutions rather than create a separate new trade bureaucracy.

The Administration reorganization proposal was shaped by the following considerations:

First, our trade structure must take into account the intimate relationship between our trade position and a multitude of domestic policies that affect industry competitiveness. Domestic economic policy, economic development initiatives, energy policy, productivity and innovation

problems, and regulatory programs all affect our trade posture and must be analyzed from that perspective. The isolation of trade policy and programs from these domestic considerations has been a significant problem in the past. As a result of internal reorganization, the Department of Commerce will have an enhanced industry and service sector analysis capability and will take the lead role in establishing a linkage to trade policy and promotion.

Second, organizational arrangements must reflect that trade is a legitimate concern of agencies that have primary responsibility for other, sometimes competing, national policies and objectives. Trade is a critical component of our diplomatic relations with foreign countries, necessitating the State Department's constant attention and involvement. Trade and international monetary matters are intimately linked; therefore, continued Treasury Department presence on the trade scene will be required. USDA's involvement in trade deliberations flows from agriculture's major importance in U.S. trade patterns, and the impact of trade on employment in the U.S. requires careful Labor Department attention to trade matters. The U.S. Government mechanism for trade policy formulation must accommodate these valid interests. Our goal is not to eliminate these differing perspectives, but to provide a means of shaping them, in a timely and definitive manner, into a coherent and balanced national trade policy.

Relying on this experienced group will ensure that the Government's institutional memory and expertise on MTN issues will be utilized fully in implementing the programs that convey the opportunities and challenges of MTN to the U.S. business community.

Finally, to help ensure that export financing policy is consistent with export promotion policy (and trade policy generally), the Secretary of Commerce will be made a non-voting Director of the Export-Import Bank, our principal export financing agency.

Each of these new responsibilities is an important one and, with them, the Department of Commerce will play a principal role in trade policy development. They would nevertheless be incomplete without a simultaneous improvement in our understanding of the problems and prospects of U.S. industry, especially in relation to the growing strength of our competition abroad. The Department of Commerce is planning a number of internal organizational changes, including an upgrading of its ability to analyze the industrial and service sectors, that should enable it not only to improve its analysis of problems in these sectors, but also to lend important support to the performance of its new trade responsibilities.

interests. This Office benefited also from the recognition abroad that STR spoke for the President. Its small, tight organizational structure enabled it to operate efficiently and effectively, tapping agency expertise when needed and not duplicating resources existing elsewhere. These are qualities we must preserve and build on to upgrade our trade apparatus.

Commerce is a department that has significant experience in trade matters, including policy development, regulation, promotion, and implementation of trade agreements. Commerce contributed importantly to the staff support for our MTN effort. Approximately 40 Commerce personnel worked full time on all aspects of the MTN and were crucial to the negotiations. Commerce's work was highly praised by Ambassador Robert Strauss. It is this staff that will form the core of the unit in Commerce responsible for MTN implementation support.

Commerce already helps staff Section 301 unfair trade practice cases, another area where the department has a proven record of effective cooperation with STR. It has both import and export administration experience and is an agency for which trade is a major concern. Commerce also offers the advantage of an already-established network of broad business contacts and domestic field offices. Most important, Commerce activities in the areas of sectoral analysis, economic development, productivity improvement, and industrial

innovation give us the ability to link international trade programs with other efforts that have a direct bearing on the competitiveness of our domestic industries. In the final analysis,we cannot have effective trade programs or improve our trade posture in the long run if we do not have a solid understanding of the strengths and weaknesses of our domestic economic base.

OTHER REORGANIZATION PROPOSALS

In formulating our proposal, we gave close attention to the various Congressional proposals. Indeed, our approach includes many aspects of these proposals:

- it strengthens STR through additional resources and responsibilities;
- it expands the policy mandate of STR and the STR-chaired Trade Policy Committee;
- it centralizes negotiating authority in USTR and establishes USTR as the primary representative of the U.S. in international negotiations;
- it unifies and strengthens export development efforts by linking commercial officers overseas with Commerce's export expansion programs and domestic field offices;
- it consolidates import administration in a department that has trade as its primary concern; and
- it establishes an authoritative voice that can mold the various perspectives of the Executive branch into a coherent national trade policy.

In addition, our approach avoids several major problems of proposals to create a separate trade department or agency. Creation of a separate trade department would isolate trade from programs in Commerce that can have a major positive bearing on American industry's trade competitiveness. Placement of countervailing duty (CVD) and antidumping functions in STR -- whether inside or outside the Executive Office of the President -- creates several problems. The management load involved with these programs is immense and will grow. Placing this responsibility with STR is likely to divert its attention from the policy coordinator and neutral broker roles that most outside constituencies have urged us to protect. Adding to STR the sizable staff necessary to carry out this one responsibility will unbalance STR and risk the effectiveness of the lean and efficient STR operation we have today. In addition, combining lead negotiating responsibility with enforcement could create the appearance that CVD and antidumping cases would be matters for negotiation rather than enforcement. Finally, a trade agency outside the Executive Office -- with or without CVD and antidumping responsibility -- probably would not have sufficient clout to act as an authoritative policy coordinator vis-a-vis the involved departments and agencies.

OVERVIEW OF THE PRESIDENT'S REORGANIZATION PLAN

The reorganization plan now before the Congress has two basic facets.

First, it enhances STR, to be renamed the United States Trade Representative, by centralizing in it U.S. foreign trade policy development, coordination, and negotiation functions. The mandate of the Trade Representative and the Interagency Trade Policy Committee that advises him will be broadened to include a wide range of new and existing trade policy coordination functions.

Secondly, it makes the Department of Commerce the focus of operational responsibilities for non-agricultural trade, adding to its existing export promotion duties those of commercial representation abroad, antidumping and countervailing duty cases, the non-agricultural aspects of MTN implementation, national security investigations, and embargoes. Complementary action by Commerce to strengthen its industry and service sectoral analysis capabilities will further enhance that agency's contribution to our trade expansion efforts.

UNITED STATES TRADE REPRESENTATIVE: POLICY DEVELOPMENT AND COORDINATION

The Trade Representative, with the advice of the Trade Policy Committee, will be responsible for developing and

coordinating United States international trade policy, including commodity matters and, insofar as they are related to international trade policy, direct investment matters. Under the President's plan, the authority of the Trade Representative and the Trade Policy Committee (TPC) will be substantially broadened to include consideration of the following areas:

International agreements. The Trade Representative will provide policy guidance on U.S. implementation of the MTN agreements, as well as U.S. participation in the General Agreement on Tariffs and Trade (GATT). He also will provide policy guidance on U.S. positions on trade and commodity matters coming before the United Nations Conference on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development (OECD), and generally with regard to asserting and protecting the rights of the United States under bilateral and multilateral international trade and commodity agreements.

Import remedies. The Trade Representative will exercise policy oversight of the application of import remedies, review long-term trends in import remedy cases, and recommend appropriate legislative changes. Rather than centering on case-by-case factfinding and determinations, the Trade Representative's coordination of antidumping and countervailing duty matters will be directed toward establishing new precedents, negotiating assurances, and coordinating with other trade concerns.

50-490 O - 79 - 23

East-West trade policy. The Trade Representative will coordinate overall East-West trade policy. The functions of the East-West Foreign Trade Board will be transferred to the Trade Policy Committee, and the Board will be abolished.

International direct investment policy. To the extent that they relate to international trade, the Trade Representative will have the lead responsibility for international direct investment policy issues. These will include matters relating to direct investment by Americans abroad, operations of multinational enterprises, multilateral agreements on international direct investment, and direct foreign investment in the United States.

International commodity policy. The Trade Representative will coordinate U.S. Government commodity policies in the international arena. These responsibilities now reside with the Department of State, which shares them on agricultural commodities with the Department of Agriculture.

Energy trade. While the Departments of Energy and State will continue to share responsibility for international energy issues, trade-related energy matters will be coordinated

by the Trade Representative. To facilitate this coordination, the Department of Energy will become a member of the Trade Policy Committee.

Export expansion policy. To ensure that our export expansion efforts, including the reduction of disincentives to export, are pursued vigorously and coordinated Government-wide, the Trade Representative will have policy oversight of U.S. export expansion activities. The Trade Representative will become the Vice Chair and a voting member of the Board of the Overseas Private Investment Corporation, and a non-voting Director of the Board of the Export-Import Bank of the United States.

TRADE NEGOTIATIONS

In addition to the areas of policy responsibility that I have just outlined, the Trade Representative, acting with the advice of the Trade Policy Committee, will have the lead U.S. Government responsibility for trade negotiations. In fact, his authority in this area will be substantially broadened to include both bilateral and multilateral trade (including East-West trade), commodity, and direct investment negotiations.

The Trade Representative will represent the United States in the GATT, the principal international forum for

implementing and interpreting the MTN agreements. To handle GATT committee and working group meetings, which occur almost continuously, the Trade Representative will maintain a small permanent staff in Geneva.

In some instances, a small number of USTR staff may need to go abroad from time to time to assist in oversight of MTN enforcement. Should such a need arise, appropriate positions will be authorized. Any overseas activities of USTR personnel will be fully coordinated with other elements of our diplomatic missions.

In addition to his role in GATT affairs, the Trade Representative will take the lead on trade and commodity issues before OECD and UNCTAD when they are the primary issues under negotiation. Because of their important roles in these areas, the Trade Representative will work closely with both the Department of State and the International Development Cooperation Agency on any trade and commodity matters that come before UNCTAD and the OECD.

Although the Trade Representative will be charged with the overall management of trade negotiations, he will draw heavily on other U.S. Government agencies with relevant expertise and will delegate his responsibility to such agencies in many instances. Operational aspects of the negotiations will be coordinated through a Trade Negotiating Committee, which the Trade Representative will

chair and which will include representatives of the Departments of Commerce, State, Treasury, Agriculture, and Labor.

The Trade Representative will be concerned not only with ongoing trade negotiations and the coordination of trade policies to deal with specific issues, but also with the development of U.S. trade strategies and policies for the longer term. He will seek to crystallize policy issues and will concentrate the attention of Government agencies on those issues likely to have a major effect on the future U.S. trade posture. He will provide policy guidance on the implementation of the MTN agreements. The Trade Representative and the TPC will raise policy issues relating the effects of economic, energy, foreign and other policies on U.S. trade and will seek the most advantageous framework for the expansion of U.S. exports and a strengthened ability to compete against imports.

To assist him in performing this important function, the Trade Representative will consult with and draw upon the broad perspectives represented by the membership of the Trade Policy Committee. The TPC, as I have mentioned, will serve as the principal advisory body to the Trade Representative. As in the past, the Trade Representative will request and consider the advice of the TPC membership,

and will seek agreement on specific issues among member agencies. Undoubtedly, complex policy issues will arise on which it is impossible to reach a consensus. In such instances the Trade Representative will be called upon to exercise his best judgment in resolving the controversy, subject of course to appeal to the President. This process worked well in the MTN negotiations, for example, and we expect it to continue to do so.

The USTR will have adequate resources to carry out his new responsibilities. I expect that in the next few weeks, the President will ask the Congress for prompt consideration of a supplemental funding request for 1980 to enable the USTR to perform at peak efficiency from the time the plan takes effect.

DEPARTMENT OF COMMERCE: OPERATIONAL FOCUS

The second major facet of the President's reorganization plan will make the Department of Commerce the operational focus for the administration of laws and programs affecting non-agricultural imports and exports. The plan will transfer to Commerce important new responsibilities for administration of countervailing and antidumping duty programs, foreign commercial representation, and MTN implementation.

In so doing, the President's plan assigns these functions to an agency with extensive experience in administering existing trade operations. The Department's new functions

will join its current responsibilities for export promotion, export controls, East-West trade, trade adjustment assistance, trade policy analysis, and monitoring foreign compliance with trade agreements. With the addition of the new responsibilities, the various trade and trade-related functions of the Department of Commerce will be substantially reorganized and will be brought together under a new Under Secretary for International Trade. Related departmental activities in the areas of sectoral analysis, improvement of industrial innovation and productivity, and encouragement of local and regional economic development will be linked closely to an aggressive trade program. Fostering the international competitiveness of American industry will become a principal mission of the Department of Commerce.

Import remedies. The plan transfers to the Department of Commerce responsibility for administration of the countervailing duty and antidumping statutes. A new Assistant Secretary for Trade Administration will administer these programs.

The administration of countervailing duty and antidumping cases has been criticized for delays and for lack of coordination with other trade policies. Assigning these functions to Commerce, which has trade as its primary mission, will afford them a high priority and enable them to be performed efficiently and effectively. The

Trade Representative will have the lead role in negotiations in this area, but Commerce will retain the legal authority to accept assurances on the basis of which investigations may be terminated.

Commercial representation. A recent GAO report on U.S.-Japan trade concluded that "a lack of American export consciousness" is one cause of the trade imbalance between the two nations. A 1977 report of the House Government Operations Committee criticized the friction between Commerce and State over commercial representation responsibilities abroad and concluded that until it was alleviated, "export promotion efforts will continue to be inefficient and ineffective."

The President's plan addresses both of these problems by transferring to the Department of Commerce responsibility for commercial representation abroad. Both domestic and overseas export promotion activities will thus be brought under the umbrella of a single organization, headed by a new Assistant Secretary for Trade Development and charged with aggressively expanding U.S. exports. Communication between commercial officers abroad, who identify export opportunities, and the domestic field offices, which bring them to the attention of U.S. firms, will be enhanced considerably. Placing the Foreign

Commercial Service in the Department of Commerce will enable commercial officers to devote full attention to promoting U.S. exports and providing direct assistance to U.S. firms selling abroad.

Creation of a Foreign Commercial Service in the Department of Commerce will initially involve the transfer from State to Commerce of all full-time American trade promotion and commercial positions overseas, as well as the associated positions held by foreign national employees. Approximately 162 Americans now occupy these positions and are stationed in over 60 countries throughout the world. Over time, the Department of Commerce undoubtedly will review the deployment of commerical officers in light of changing trade circumstances and propose extensions or alterations of coverage of the Foreign Commercial Service.

MTN implementation. One of the most important functions of the Department of Commerce will be the responsibility for implementation support of non-agricultural aspects of the MTN agreements. The President, as he made clear in his message transmitting this reorganization plan, is dedicated to the aggressive implementation of the Multilateral Trade Agreements and to ensuring that the United States seizes its opportunities and enforces its obligations. The Department of Commerce will assign a high priority to this task and will make it a principal

assignment of a new Assistant Secretary for International Economic Policy.

The Assistant Secretary and his staff will pursue these new obligations through the implementation of a variety of programs. They will --

- o monitor agreements and target problems for consultation and negotiation;
- o operate a Trade Information and Complaint Center where the private sector can request trade information and receive advice as to the recourse and remedies available;
- o aid in the settlement of disputes and staff formal complaint cases;
- o identify problem areas for consideration by the Trade Representative and the TPC;
- o conduct educational and promotional programs on the provisions of the agreements and the processes for dealing with problems that arise;
- o provide American business with basic information on foreign trade laws, regulations, and procedures;
- o consult with private sector advisory committees; and
- o provide general analytical support.

The Commerce personnel who provided STR with detailed analytical support through the MTN negotiations will form the core of the unit that will handle these new responsibilities.

Relying on this experienced group will ensure that the Government's institutional memory and expertise on MTN issues will be utilized fully in implementing the programs that convey the opportunities and challenges of MTN to the U.S. business community.

Finally, to help ensure that export financing policy is consistent with export promotion policy (and trade policy generally), the Secretary of Commerce will be made a non-voting Director of the Export-Import Bank, our principal export financing agency.

Each of these new responsibilities is an important one and, with them, the Department of Commerce will play a principal role in trade policy development. They would nevertheless be incomplete without a simultaneous improvement in our understanding of the problems and prospects of U.S. industry, especially in relation to the growing strength of our competition abroad. The Department of Commerce is planning a number of internal organizational changes, including an upgrading of its ability to analyze the industrial and service sectors, that should enable it not only to improve its analysis of problems in these sectors, but also to lend important support to the performance of its new trade responsibilities.

CONCLUSION

The reorganization plan that the President has proposed can only partly address our country's foreign trade problems. Since our organizational structure is not the primary cause of these problems, restructuring our trade organization will not alone reduce our trade deficit or improve the competitive position of American industry.

I believe, however, that the plan is an important first step, and that its contribution will be significant. It will provide us with unified policy direction; improve the application of our trade laws; focus attention on major problem areas; enable the United States to negotiate with foreign governments from a position of strength; and provide a strong institutional base for the new trade order created by the MTN agreements.

Mr. Chairman, a major strength of this proposal is the close cooperation between the Congress and the Executive branch that has accompanied its development. We look forward to continuing to work closely with you and your colleagues as we move toward its implementation.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 29 1979

Honorable Abraham Ribicoff, U.S.S.
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

As you know, Reorganization Plan No. 2 of 1979 made the Director of the International Development Cooperation Agency the Chair of the Board of Directors of the Overseas Private Investment Corporation. Reorganization Plan No. 3 of 1979, now before the Congress, provides that the U.S. Trade Representative shall be Vice Chair of the OPIC Board.

In the course of Congressional consideration of the foreign assistance and trade reorganization proposals, concerns have been expressed about the status and mission of OPIC. I recognize the significant impact of U.S. foreign direct investment on the generation of U.S. exports, and the relationship of the OPIC program to the Government's efforts to increase the volume and value of U.S. exports.

The Administration will be transmitting new authorizing legislation for OPIC early next year. I assure you that in preparing that legislation, we will give careful consideration to the relationship between the OPIC program and the Government's efforts to increase the volume and value of U.S. exports, as well as to the development concerns expressed in the OPIC legislation enacted last year.

I appreciate your continuing cooperation in the trade and other reorganization efforts.

Sincerely,

Jim McIntyre

James T. McIntyre, Jr.
Director

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

October 29, 1979

Honorable Abraham Ribicoff
United States Senate
Washington, D.C. 20510

Dear Senator Ribicoff:

As you are aware, the trade reorganization proposal now before the Congress will make the U.S. Trade Representative the Vice Chair of the Board of Directors of the Overseas Private Investment Corporation.

I recognize the significant impact of U.S. foreign direct investment on the generation of U.S. exports, and the relationship of the OPIC programs to the Government's efforts to increase the volume and value of U.S. exports. I will of course have in mind the impact of OPIC's activities on U.S. exports when participating in OPIC affairs. I intend to participate actively in the affairs of the agency.

I expect to work closely with other senior officials of the Administration next year when the status of OPIC is reexamined in connection with the transmission of new authorizing legislation, particularly in terms of the impact the legislative options would have on this country's international trade position.

Sincerely,

Reubin O'D. Askew

cc: Honorable James T. McIntyre

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON D C 20523

October 29, 1979

The Honorable Abraham A. Ribicoff
Chairman, Committee on Governmental Affairs
Room 3308, Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As Director of the International Development Cooperation Agency, I serve ex officio as Chair of the Board of Directors of the Overseas Private Investment Corporation. As you know, the trade reorganization proposal now before the Congress will make the U.S. Trade Representative the Vice Chair of the OPIC Board.

I recognize the significant impact of U.S. foreign direct investment on the generation of U.S. exports and the relationship of the OPIC program to the Government's efforts to increase the volume and value of U.S. exports. I will of course have this in mind when considering projects and policy issues that come before the OPIC Board. In making recommendations to the President on matters concerning OPIC, I will consider the impact OPIC has on international trade as well as on U.S. development policy.

I want to assure you that I intend to work closely with the Trade Representative to see that OPIC does all it can consistent with the laws governing OPIC, to promote expansion of exports from the United States. I shall afford full consideration of his views on the trade aspects of issues coming before the OPIC Board.

Cordially,

Tom Ehrlich

Thomas Ehrlich

Chairman RIBICOFF. Mr. Regelbrugge, please. You may proceed, sir.

TESTIMONY OF ROGER R. REGELBRUGGE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, KORF INDUSTRIES, INC.

Mr. REGELBRUGGE. Thank you, Mr. Chairman.

My name is Roger Regelbrugge. I am president and chief executive officer of Korf Industries, Inc., headquartered in Charlotte, N.C. Korf is primarily engaged in steel products and steel-related technology which we sell worldwide.

We have, Mr. Chairman, a statement that we have introduced to the committee, which I would respectfully request be submitted for the record.

Chairman RIBICOFF. Without objection, your entire statement will go into the record as if read, at the conclusion of your testimony.

Mr. REGELBRUGGE. In your opening remarks, Mr. Chairman, you referred to our trade balance and concern about our exports and the need to stimulate our export business. Through this reorganization, we hope that this can be accomplished. An important aspect of our trade balance is, of course, the import activity. I want to at the outset very clearly make the point that we are strongly in favor of free trade internationally.

We are free traders and are in both export and import businesses ourselves.

What we are concerned about, however, is the way the proposal for reorganization has been written, that certain problems with respect to the enforcement of laws relating to dumping and countervailing duties may arise and interpretations may at some later date be required in matters which, in fact, through simple language changes could now be remedied.

In submitting this proposed reorganization plan, the President states that the Trade Representative will—

> Exercise policy oversight of the application of import remedies [and] to the extent legally permissible, establish new precedents, negotiate assurances, and coordinate import remedies with other trade matters rather than case by case factfinding.

This commentary raises some issues about the role of the Trade Representative and the role of the Commerce Department.

Senator Levin asked the question relating to the distribution of these roles between the Trade Representative and Commerce as it relates to the antidumping/countervailing duty proceedings.

We are in agreement with the language of the 1979 Trade Act and that it should as such be applied. We are concerned, however, that the reorganization plan as submitted, through the language that I have just read, raises possible problems of interpretation.

We are concerned, first of all, that Commerce in the implementation under the program of their duties with respect to illegal import activities, will have to go back to the Trade Representative to get determinations, to get precedents, or to get remedies.

Second, we are concerned that the Trade Representative will have these particular matters relating to dumping complaints as part of a total negotiation input, that he will be naturally inclined to combine these matters in his negotiations.

We should point out that far from being a bargaining chip, this particular prerogative that the Trade Representative would have would become most likely a very substantial handicap. It can be assumed that a great deal of our import competition, which is illegal, is conducted by companies which are either government controlled or government owned in foreign countries.

We can anticipate that the Trade Representative will, time and again, have dumping complaint issues pending in the United States raised as initial conditions in his negotiations by those foreign governments before any actual negotiation on the real trade matters will take place.

We believe that we should not put the Trade Representative in that position.

Finally, and this is the most important observation, I believe. If we did develop the plan as written and the Trade Representative did find himself in the situation that we have described—that is, compromising claims in the course of broader trade negotiations—industry will, at the proper or improper time, ask for remedies that are much less free trade, much more protectionist and will, in fact, argue in favor of quotas or increase of import barriers. This is precisely the outcome, in our opinion, of the Trade Representative Office functioning with at least the implied rights set forth in the reorganization plan which is in front of you.

We believe and understand that the Government's initiative and intent is not significantly different from that which we seek. Therefore, we seek a couple of relatively small language changes which we have in our written text.

I will not go into the detail here. We believe that these language changes will, first of all, give the Commerce Department the full right and the duty to implement that part of our trade activities which relates to our antidumping legislation and countervailing duty statutes.

Second, it will put our Trade Representative in a situation where he can be uninhibited with law enforcement in these matters and negotiate all other matters. That is precisely what we seek, and in the implementation of this program, we would like Commerce to have the right to indicate to the customs office, which is one of the implementation vehicles presently being used by the Treasury Department in antidumping cases, to require customs to continue to assist and support the implementation of these programs.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Regelbrugge follows:]

50-490 O - 79 - 24

STATEMENT BEFORE THE HEARING ON TRADE REORGANIZATION HELD BY THE COMMITTEE ON GOVERNMENTAL AFFAIRS, UNITED STATES SENATE

My name is Roger R. Regelbrugge. I am President and Chief Executive Officer of Korf Industries, Inc., One NCNB Plaza, Charlotte, North Carolina. Korf Industries is a diversified producer of steel products and steel related technology with principal manufacturing plants in Georgetown, South Carolina and Beaumont, Texas. Our aggregate steel production capacity is approximately 1.3 million tons per year and our primary product line is steel wire rod used in the production of most basic forms of finished wire products. We employ approximately 3,500 persons.

The Trade Reorganization Plan submitted by the President on September 24 and the transmittal statement which accompanied the plan raise questions about the administration of antidumping and countervailing duty laws which we hope will be clarified before the reorganization becomes effective. First, we seek clarification of the role of the United States Trade Representative in relation to claims brought under those statutes. Second, we seek some assurance that the transfer of antidumping responsibility from the Treasury Department to the Commerce Department will include sufficient authority to permit Commerce to utilize and maintain certain functions currently performed by the United States Customs Service.

In transmitting his proposed Reorganization Plan, the President states that the Trade Representative will "exercise policy oversight of the application of import remedies" and will, "to the extent legally permissible," establish "new precedents," negotiate "assurances" and coordinate import remedies "with other trade matters rather than case-by-case fact finding and determinations." This commentary and a certain degree of ambiguity in the language of the Reorganization Plan raise issues about the role of the Trade Representative which must be more precisely addressed and resolved before enactment of the proposed reorganization.

Specifically, we seek assurance that the United States Trade Representative would not be permitted to influence the outcome of an antidumping or countervailing duty proceedings except to the extent the 1979 Trade Act permits suspension of investigation pursuant to agreement. It would be inappropriate in our judgment for the Commerce Department - the administering authority - to be limited in its ability to fully and effectively implement the 1979 Act by subjecting its interpretations and decisions under the countervailing duty and antidumping laws to override by the Trade Representative. Congress has determined that it is the policy of the United States to effectively enforce

import remedies under these laws and this policy should not be undermined by the creation of a two-headed administering authority with one head more important than the other.

If the Trade Representative is literally responsible for "establishment of new precedents" and "interpretations" of the countervailing duty and antidumping laws, the Commerce Department, while nominally the administering authority, will be limited to application of those precedents on a case-by-case basis. We believe this will have some unfortunate consequences.

First, Commerce - the agency having actual experience with petitions and the practical problems raised by foreign unfair import practices - will be denied the ability to respond creatively to the Congressional mandate to effectively enforce the antidumping and countervailing duty laws. Since no two cases are ever identical, Commerce may well find itself incapable of making final determinations without reviewing the legal interpretation with the Trade Representative or seeking a precedent determination. Thus Commerce will be an administering authority in name only.

Second, the Trade Representative in making interpretations and setting precedents will be doing so in the

broader context of its negotiating function. Its interpretations and precedents could reflect negotiating biases and objectives. The ability of the Trade Representative to bargain away legitimate private claims contradicts the intent of Congress in the 1979 Trade Act to ensure an even-handed, non-discretionary enforcement of the antidumping and countervailing duty laws. The administration, enforcement and application of remedies under the antidumping act and countervailing duties laws should properly remain with the administering authority, and should be independent of the influence of foreign governments seeking to limit or terminate privately initiated claims for import remedies through government to government initiative or by linking such claims to unrelated trade issues being negotiated by the Trade Representative.

Third, far from being a "bargaining chip," the apparent ability of the Trade Representative to establish precedents or influence the disposition of pending claims will very likely result in the unwelcome introduction of complex, unrelated, and often emotional issues to the bargaining table. Trade representatives of governments with industries having unfair trade claims pending against them in the United States will ask for relief from these claims as a matter of course. They may ask for termination of such

claims as a condition to any negotiation. Issues of law enforcement subject to resolution by administrative proceedings do not belong at a bargaining table. It is certainly unrealistic to believe that substantive trade concessions would be granted in return for terminating or otherwise negatively influencing such claims. On the other hand, we believe that the clear expression of statutory intent to utilize the Office of the United States Trade Representative to support the enforcement of legitimate claims of unfair trade practices and to resolve some of the problems from which such claims arise will enhance both its bargaining position and its ability to negotiate agreements in the national interest. If it is made clear that the United States Trade Representative is empowered to act only in support, and cannot make a negative disposition, of pending claims, foreign trade representatives are unlikely to raise the claims as a bargaining issue. The United States Trade Representative could however discuss claims on its own initiative and seek resolution of the broader underlying issues.

Finally, if it is perceived by the public that arbitrary disposition of legitimate private claims may be made in pursuit of other trade objectives, companies confronting unfair trade practices may be discouraged from

pursuing statutory remedies. Instead. industry is likely to seek broader protectionist measures which could be far more destructive of the free trade objectives of this Administration than the impartial enforcement of our existing laws. For example, when Bethlehem Steel and Youngstown Sheet and Tube closed major plant facilities, partly in response to competitive pressures of foreign imports, political pressure mounted for drastic remedies, including the negotiation of quotas for imported steel products. In response, the Treasury Department developed an efficient method for detecting and investigating antidumping violations at the point of entry into the United States. The program, which was initiated by Anthony Solomon, the Under Secretary of the Treasury for Monetary Affairs, is known to our industry as the Trigger Price Mechanism (or "TPM"). The TPM operated with considerable success and forestalled an industry-wide movement toward protectionist legislation. At the same time, the TPM has never prevented, restricted or threatened the free movement of imported steel except at prices which importers know to be in violation of our antidumping statutes.

Many people in our industry were surprised when Korf Industries, a transnational company with European ownership, brought antidumping claims against European importers and actively supported the TPM. We did so because we believe

that effective enforcement of fair trade laws, long in existence in this country and well known to our primary trading partners, is a mainstay of our policy of free trade. We must recognize that free trade, like competition, can only work if the rules of the game are enforced equitably and consistently. We must further recognize that the economic system of our country is unique. Governments of Europe and Japan, through ownership or close association, play a direct role in the business conduct of their basic industries. British Steel Corporation, one of the largest steel producers in the world, suffers staggering losses year after year. Nevertheless, because they are owned by the British Government they cannot fail financially (except by an extraordinary act of political will). British Steel Corporation is not constrained by free enterprise economics. When we brought a claim late in 1977 against British Steel for dumping wire rod in United States markets, the results of a preliminary investigation by Treasury disclosed dumping margins of eighty-three percent below fair value! We later dropped our claim in support of the TPM. But we learned a hard lesson. Our two plants in the United States are among the most modern and cost efficient in the world. Yet we cannot compete in our own domestic market with a giant foreign importer willing to sustain deep losses over a long term without regard to the economic consequences.

We respectfully request th t the President's Reorganization Plan adopt the following language changes or equivalent wording to assure that the role of the Trade Representative will support rather than inhibit the enforcement of our antidumping and countervailing duty laws:

First, delete Section 1(b)(3)(D).

Second, add Section 1(b)(5) to read as follows: "The Trade Representative shall provide advice regarding United States trade policy to the Secretary of Commerce and shall support that department in the enforcement of the countervailing duty and antidumping function under Section 303 and Title 7 of the Tariff Act of 1930."

Third, at Section 2(a) at the end of the paragraph add: "and shall be the 'administering authority' for purposes of Section 771 of the Trade Agreements Act."

These changes would ensure the primacy of one agency - Commerce - in implementing the revised antidumping and countervailing duty laws. They would eliminate the potential for erosion of public confidence in the intention of the Executive Department to fully - and even-handedly - implement the expressed will of Congress in providing a clear statutory basis for dealing with dumping and subsidies which have been characterized by the Senate Finance Committee

as two of the most pernicious practices adversely affecting United States commerce.

Our second recommendation is to mandate interagency cooperation to assure the efficient administration of antidumping responsibilities by the Commerce Department. Antidumping enforcement frequently requires the assistance of Customs officials to monitor and transmit information about imported products to the administering authority. As we have indicated, the statistical data and affidavits obtained by the Customs Service at ports of entry into the United States are the keystone of effective enforcement of the Trigger Price Mechanism in the steel industry. While the Customs Service will remain in Treasury, their reporting responsibility in antidumping matters will shift from the Office of Tariff Affairs within the Treasury to an equivalent section of Commerce. We believe it is appropriate to seek some assurance through legislative direction and an implementing interagency agreement, that Customs will continue to carry out its antidumping functions under the authority of the Commerce Department. We therefore respectfully request adoption of the following language change or equivalent wording in the President's Reorganization Plan:

At Section 5(a)(1)(C), line 6 after "Secretary," insert "shall conduct such inquiries and promptly compile and furnish such data as may be directed by the Secretary."

We hope that our recommendations will be viewed as constructive changes in the President's Reorganization Plan. We believe that their implementation will improve the administration of our unfair trade laws and in so doing will enhance the effectiveness of our overall national trade policy.

Chairman RIBICOFF. Thank you very much. I do appreciate you coming to this committee and giving us your practical analysis of this reorganization and some of the problems that business faces. I think your testimony is very valuable. I will have the staff check it out with OMB to see if anything can be done in this respect.

Congress can only vote up or vote down a reorganization as it is. Only the President can amend it. Whether changes can be made at this stage, I do not know. But as you heard there is no question in my opinion, Mr. Regelbrugge, that we will be monitoring this. I am sure there will be changes soon in this whole reorganization, which is only the first step.

Your testimony is very valuable. I appreciate you taking the time to give us your views.

Mr. REGELBRUGGE. Thank you.

Chairman RIBICOFF. Thank you very much, sir.

The hearing will be adjourned.

[Whereupon, at 10:49 a.m., the committee was recessed, to reconvene subject to the consideration of other business.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

QUESTIONS SUBMITTED IN WRITING TO THE ADMINISTRATION BY CERTAIN SENATORS

A. QUESTIONS OF SENATOR RIBICOFF

Question 1. The USTR cannot play a role as the central focus for trade policy in the government unless it has the additional personnel it needs.

How many positions will be transferred from the State Department? How many from Treasury?

How many additional new positions will OMB recommend USTR receive?

Answer. Up to 15 positions may be transferred to USTR from State and up to 5 positions may be transferred to USTR from Treasury.

The question of how many additional positions OMB will recommend for USTR is now being considered in the budget process. The USTR definitely will have adequate resources to carry out his new responsibilities, and we expect that in the next few weeks, the President will ask the Congress for prompt consideration of a supplemental funding request for Fiscal Year 1980 to enable the USTR to perform at peak efficiency from the time the reorganization plan takes effect. The final say, of course, is in the hands of the Congressional authorization and appropriation process.

Question 2. In the area of international trade, including direct investments and commodities, USTR will have a number of responsibilities including acting as the principal advisor to the President, negotiating agreements, and developing and coordinating the implementation of policy. He will have the specific responsibility to issue policy guidance to the other agencies and departments determining U.S. trade policy in major areas.

While he may consult with the members of the Trade Policy Committee, will the final decision on how to carry out all these responsibilities belong to USTR, and USTR alone, rather than to the Trade Policy Committee or any subcommittee of the TPC?

Answer. Yes; except where committed to the President by law or where overridden by the President.

Question 3. Is the intended effect of section 102(d) of the draft Executive Order limited to a requirement that USTR consider the views of other agencies before making up his own mind, and that USTR indicate in any memorandum for the President which agencies, if any, have significant disagreements with any recommendations and conclusions the USTR reaches? Or is the language intended to require the USTR to shape his actual recommendations so they are consistent with, or incorporate, the views of other agencies or departments?

Answer. The former interpretation is correct. In advising the President on international trade matters, the Trade Representative will take into account and

reflect the views of all interested agencies. While the USTR will try to accommodate all views, he will not be required to do so.

Question 4. Is it your intention that USTR will have direct and full control of any moneys appropriated for U.S. participation in GATT?

Will the USTR be responsible for leading, and for instructing, all U.S. representation at meetings, conferences or negotiations of GATT concerning any trade, administrative, budgetary, or any other matter coming before the international organization?

Answer. Funds for participation in GATT activities by United States Government employees will be appropriated to USTR. All funds for U.S. contributions to international organizations, including contributions to the GATT, will continue to go through the State Department; State will consult with USTR regarding our GATT contributions.

The USTR will be the chief U.S. representative in all official activities within the GATT. Substantive issues relating to GATT budget and personnel will require close cooperation between State and USTR.

Question 5. The proposed Executive Order designates the USTR chief representative of the United States for a number of specific matters. In addition to formal negotiations, will this include lead responsibility in each case for all meetings, conferences, and consultations with foreign governments or international organizations on such matters?

Answer. It is clear that the USTR position in policy formulation and negotiation in the fields covered by the Plan, the President's Message and the Executive Order will be the central one. The Executive Order will set out a number of precise cases where STR will be the Chief Representative of the U.S., but we would not anticipate that he or his staff would be the only American voices to discuss trade with our trading partners. Sometimes he will delegate his role as chief representative to others. Sometimes the trade policy mechanism will send instructions to our Ambassadors abroad instructing them to make demarches. Sometimes trade questions will be discussed in meetings devoted to a number of economic issues, where the chief delegate may be other than the USTR. Other Cabinet members will undoubtedly include trade subjects in their statements. Nevertheless, the USTR role as chief spokesman will be exercised in meetings, conferences, and consultations that would not be called formal negotiations, and the policy subjects for his lead policy and spokesman role are clearly set out in the plan.

Question 6(a). Section 1(b)(3)(D) of the plan gives the USTR responsibility for providing guidance on overall U.S. policy with respect to unfair trade practices. What other statutes and programs, in addition to antidumping and countervailing duties, do you intend to include in this provision?

Except to the extent USTR seeks to negotiate a settlement to the problem, is this provision intended to give the USTR any authority to intervene off the record in the consideration or disposition of any individual complaint of an unfair trade practice while it is pending before another agency?

Answer. To the extent permitted by law, USTR's responsibility for providing overall guidance on the administration of the unfair trade practice statutes will extend to the antidumping and countervailing duty laws and to sections 201, 301, and 406 of the Trade Act of 1974 (19 U.S.C. 2251, 2411, and 2436). USTR will provide guidance, as well as staff support, when matters under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) are referred to the President.

Section 1(b)(3)(D) of the reorganization plan is not intended to give the USTR authority to intervene off the record in the consideration or disposition of any individual complaint of an unfair trade practice while it is pending before another agency. USTR would not intervene in such a proceeding unless otherwise authorized by law.

Question 6(b). Your statement says the Commerce Department will be responsible in the future for the administration of embargoes. How exactly will the embargo functions be transferred from the Treasury Department to the Department of Commerce under the President's trade reorganization proposal?

Answer. Generally, embargo authority is vested in the President. Existing embargoes come under section 5(b) of the Trading with the Enemy Act (50 App. U.S.C. 5(b)), while any future embargoes will come under the International Emergency Economic Powers Act (50 U.S.C. 1701 *et seq.*). The transfer of responsibility for existing embargoes will be effected by amending or superseding the outstanding Executive orders delegating Presidential authority under section 5(b) of the Trading with the Enemy Act. We have not yet decided whether to

delegate to the Secretary of Commerce or retain in the President the authority under the International Emergency Economic Powers Act.

Among the Executive orders likely to be affected are:

No. 9095 of March 11, 1942.
No. 9193 of July 6, 1942.
No. 10644 of November 7, 1955.
No. 11281 of May 13, 1966.

Question 7. The service sector of trade is likely to become of increasing importance. The President's message notes this fact. It indicates that the Commerce Department should play "a major role in developing new service sector initiatives for consideration within the government."

Could you explain more precisely what kinds of initiatives you have in mind?

How will the trade side of Commerce be reorganized to ensure that service issues receive greater priority and visibility than they have in the past?

How many people at the Office of the U.S. Trade Representative will devote a substantial amount of their time to service issues, and what will the role of USTR be in this area?

Answer. Under the reorganization, the Department of Commerce will improve substantially the analytic, data gathering, and policy development resources it devotes to the international trade and investment problems of American service industries. New high-level management attention will be given to these issues. Expanded Commerce Department activities in the services area will be carried our principally within two new organizations: that reporting to the Under Secretary for International Trade, and the Bureau of Industrial Analysis.

Within the organization reporting to the Under Secretary for International Trade, the Assistant Secretary for Trade Policy and Programs will have responsibility for leading a more vigorous and expanded international service program. Coordination on the broad spectrum of international business and economic issues that affect service industries (including investment-related, trade policy and promotional questions) will be handled by the proposed Senior Deputy Assistant Secretary.

Within this framework, the locus of the Department's services effort will be a new Finance, Investment, and Services unit headed by a Deputy Assistant Secretary. Since the bulk of the identified international barriers to the expansion of U.S. service industries abroad arises from difficulties in the finance, tax, and antitrust areas, Commerce has decided to locate the core of the services function with finance and investment, rather than trade, activities. In this way, we can draw on existing expertise in these important areas.

In terms of personnel resources, the Department will be building on the Department's existing International Services Division. This group is now nearing completion of a wide-ranging survey of international service industries updating the comprehensive study, *U.S. Service Industries in World Markets*, which was completed by the Department in 1976. Given additional resources, areas targeted for action programs by the Finance, Investment, and Services unit include:

1. Improvement of the international data base on service industries;
2. Analysis of U.S. regulation of international services;
3. Analysis of the tax treatment of international services;
4. Analysis of the impact of U.S. antitrust laws and Webb-Pomerene on the growth and operation of international services;
5. Survey of the treatment of services in U.S. commercial treaties;
6. Provisions for handling service problems in international organizations;
7. Revision of the Foreign Service Reporting Manual to include services coverage; and
8. Analysis of the adequacy of current U.S. financing programs for U.S. service exports.

The Department's plans also call for comprehensive service industry representation in our trade agreements program. In light of the mandate of the Trade Agreements Act of 1979, we will be restructuring and expanding the Industry Sector Advisory Committees that operated so successfully during the Multilateral Trade Negotiations to include service industries. In the trade policy area we will be working with the United States Trade Representative to bring services within the coverage of new nontariff codes negotiated within the MTN. We also will intensify our programs directed towards the promotion of service industry exports, with an increased emphasis on missions, seminars, and major foreign projects (many of which will be centered around the export of engineering and construction services). The new Foreign Commercial Service will further permit us to seek out aggressively trade opportunities for service industries.

Elsewhere within the Department, reorganization will provide us with specific industrial analysis capability in the services sector. The new Bureau of Industrial Analysis (to be located within the Office of the Chief Economist) will provide us with the staff expertise necessary to undertake detailed microeconomic analyses of individual service industries and the problems they confront both at home and abroad. In part, BIA will be able to build its analytical base by drawing upon the Office of Construction and Building Products within the existing Bureau of Domestic Business Development.

SERVICE INDUSTRY WORK FORCE

Currently, our Services Division has a staff of 8 personnel. We plan to increase that number by 4. In addition, a professional will be designated in each of the other three areas within our new Finance, Investment, and Services unit—International Finance, Investment Policy, and Foreign Business Practices—to specialize in service industry problems and analysis.

Thus, under trade reorganization, and taking into account the participation of allied units in services work, Departmental resources devoted to service-related activities would increase by more than 50 percent to approximately 35 professional work-years, with a total budget of nearly $1.3 million.

STR is currently reviewing its personnel needs with the OMB, and the outcome of these discussions will determine how many people are assigned. STR intends to exercise leadership in broad policy issues involving international trade in services, as well as discharging its responsibilities under section 301 (remedies for unfair trade practices) and section 102 (negotiating authority on non-tariff issues) of the Trade Act of 1974. STR will also maintain close liaison with the private sector on service trade issues through a new private sector services policy advisory committee.

Question 8(a). Section 1(b)(3)(A) of the plan refers to matters dealt with in GATT, the Organization for Economic Cooperation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), and other multilateral organizations. It also includes overall responsibility for asserting and protecting the rights of the U.S. under bilateral and multilateral trade agreements. Are all of these references in this provision to international trade issues intended to include direct investment matters?

Section 101(a)(ii) of the proposed Executive Order designates the USTR chief representative of the United States for activities of the OECD, UNCTAD and other multilateral institutions which primarily concern trade and commodity issues. Are each of these references to international trade issues intended to include direct investment matters?

Answer. Under the plan the USTR will be responsible for developing, and for coordinating the implementation of, direct investment matters as they affect trade. The USTR will be the chief representative in negotiations concerning direct investment incentives and disincentives, and bilateral investment issues concerning barriers to investment. In addition, the USTR expects to be responsive to investment problems of concern to the private sector, and to seek appropriate remedies.

Question 8(b). Section 1-101(a) of the plan authorizes the USTR to be the chief representative of the United States in a wide variety of discussions, meetings and negotiations.

Paragraph (ii) of subsection (a) authorizes the USTR to be the chief representative in any "discussions, meetings, and negotiations in the Organization for Economic and Development when trade or commodity issues are the primary issues under consideration." Paragraph (iii) authorizes the USTR to be the chief representative in any "negotiations in the United Nations Conference on Trade and Development and other multilateral institutions when trade or commodity issues are the primary issues under consideration."

Is the failure to refer expressly in paragraph (iii) to discussions and meetings intended to preclude in any way the USTR from acting as the chief representative of the U.S. in discussions and meetings of the type described in the last sentence of subsection (a)?

Does paragraph (ii) contain an additional, specific reference to discussions and meetings because OECD holds some unique kinds of discussions or meetings the international organizations covered by paragraph (iii) are not likely to hold? If so, what is the technical difference between meetings and discussions held by OECD and other international organizations?

Is it the intent of the last sentence of subsection (a) to include any formal or informal discussions or meetings with foreign governments and instrumentalities if they *may* lead to formal negotiations, as well as those which are likely to lead to such negotiations?

Do you intend the phrase "formal negotiations" to be a broad term including all discussions or meetings conducted by representatives of foreign governments and instrumentalities intended to result in formal or informal agreements or in understandings respecting a common position or joint action of any kind?

Answer:

The failure to refer expressly to discussions and meetings in paragraph (iii) is not intended to preclude USTR leadership in UNCTAD meetings and discussions dealing primarily with trade or commodity policy issues. The reference in paragraph (ii) to discussions and meetings in the OECD has been included expressly because the OECD is often used for preparing issues for negotiations elsewhere. In contrast, activity in UNCTAD is generally preparatory to or subsequent to a negotiation. The definition of negotiation in the Executive Order is broad enough to sweep in pre-negotiation and post-negotiation meetings and discussions. We believe this definition covers activities that may lead to negotiations.

Question 9. The final sentence of section 1(b)(1) of the plan provides that the USTR shall be the principal advisor to the President on international trade policy, and an advisor to the President on the impact of other U.S. policies on international trade. Are the references to international trade in this sentence intended to include commodity matters and direct investment matters to the extent they are related to trade, as is the case in the initial sentence in section 1(b)(1)?

Are all references in the plan and accompanying Executive Order to international trade intended to include services?

Answer. The references to international trade in the final sentence of section 1(b)(1) of the reorganization plan is intended to include commodity and direct investment matters to the extent they are related to international trade.

All references in the plan and the Executive order to be issued when the plan takes effect to international trade are intended to include services. This does not imply, however, that USTR will conduct airline and like negotiations. Where service issues arise under our trade laws, USTR will have the lead.

Question 10. Section 5(b)(1) of the plan transfers trade promotion and commercial functions from State to Commerce. Is the authority in clause B of this paragraph intended to give the President the discretion to transfer additional personnel in addition to those that *must* be transferred by clause A?

What types of situations is the language in clause B intended to cover?

How many employees will be transferred at the outset under each of the two alternative authorities?

Answer. The authority in section 5(b)(1)(B) to transfer additional commercial representation functions is in addition to the functions that will be transferred under section 5(b)(1)(A). The language in subparagraph (B) is intended to cover situations where future trade developments require expansion of Commerce's mandate.

At the outset, we expect to transfer the following under subparagraph (A):

162 Foreign Service Officer positions;

The approximately 486 Foreign Service Nationals positions associated with these FSO positions; and

Up to 10 administrative support positions associated with the transferred FSO and FSN positions.

We do not expect to make any transfers under subparagraph (B) at this time.

Question 11. Will an interagency agreement between Commerce and the Treasury assure access to any data compiled by the Customs Service which may be helpful in administering the trigger price mechanism, or the antidumping and countervailing duty laws generally?

Answer. Yes. The Treasury-Commerce working group that is planning the transfer of antidumping, countervailing duty, and trigger price mechanism functions has discussed the issue of availability of appropriate Customs data to the Commerce Department administering authority. We expect that an agreement will be reached to assure access by appropriate Commerce officials to all documents and data received or generated by the Customs Service that may be necessary or useful in administering these laws and programs.

Question 12. Under the reorganization the USTR is responsible for advising the President on the impact of a wide range of policies on international trade.

Pursuant to this authority, will the USTR have a right to sit on any interagency committees, attend any meetings, and advise any department or agency directly about the impact of any program or policy on U.S. trade?

Do you intend that the USTR use the TPC, if it wishes, to discuss among agencies the impact on trade matters of other programs or policies?

Answer. The USTR will be authorized to make his voice heard with regard to any Executive branch policy or decision that has an effect upon international trade. We expect that this will include attendance at meetings where such policies or decisions are considered.

USTR may use the TPC to discuss among agencies the impact upon international trade of other policies or programs, but that right does not make USTR the lead agency (or the TPC the lead forum) for final resolution of such issues.

B. QUESTIONS OF SENATOR ROTH

Question 13(a). What plans does the Commerce Department have for integrating the commercial attaches into the Department in a way that attracts the most qualified personnel possible, while making possible rotation of personnel between foreign posts and domestic posts throughout the U.S.?

Answer. The Department of Commerce intends to develop a personnel system under the Foreign Service Act which will attract and maintain an effective, trade-experienced, career staff dedicated to the expansion of U.S. exports and whose full-time mission will be export promotion, development and facilitation, and services abroad to U.S. exporters. The system will be flexible enough to draw from appropriate Department of State Foreign Service officers, qualified Commerce personnel (both from our Washington offices and from our field offices), from other Government agencies, and from private enterprise. Trade experience and high level career achievement will be our criteria for the selection and assignment of officers. Evaluation and promotion will be in terms of their successful performance of their responsibilities. Only career officers demonstrating unusual competency and dedication will be promoted into management positions. The system will provide opportunities for rotation among assignments abroad, here in Washington and in the field offices to achieve a blended experience of all aspects of trade promotion and assistance.

Question 13(b). What will be the applicability of the foreign service or civil service personnel laws to the attaches?

Answer. Commercial attaches will continue to be covered by the Foreign Service Act Personnel Authorities, in accordance with Section 5 of Reorganization Plan Number 3 of 1979. They will not be placed under the Civil Service System.

Question 13(c). What will be the protection of the retirement benefits of any foreign service officers that transfer to the Commerce Department?

Answer. Any career Foreign Service Officers who transfer to Commerce will continue to be covered by the Foreign Service Retirement System. This means there is no need for further legislation in this area.

Question 13(d). What will be the length of time commercial attaches now in the State Department will have for deciding whether to transfer to the Commerce Department?

Answer. The transfer of the commercial function from the Department of State to the Department of Commerce entails the transfer of positions. The Foreign Service Officers serving in these positions will not be transferred to the Department of Commerce.

The Departments of Commerce and State have agreed that FSO's now serving now serving in commercial positions to be transferred to the DOC will be allowed to remain in them until their tours of duty expire. State advises that those officers who do not apply for or are not selected for transfer to the Department of Commerce's Foreign Commercial Service will automatically return to assignments within the Department of State.

The Department of Commerce intends to recruit outstanding Foreign Service economic/commercial officers for the FCS. There will be no period established within which FSO's must apply for entry into the service. Our expectations are that most of those interested in applying for transfer will do so within the first year of the implementation of the FCS.

50-490 O - 79 - 25

Question 13(e). What will be the applicability of a single personnel system to all personnel in the Commerce Department bureau responsible for export promotion whether they are stationed in field offices in the United States, in Washington, or in posts overseas?

Answer. The Foreign Commercial Service will be established under Foreign Service Act Authorities. This will allow the Department to recruit a corps of highly skilled professionals from government and industry responsible for implementing expert support activities overseas. In the short term, we do not foresee that the personnel policies under the Foreign Service would be applied to all Commerce employees responsible for export promotion here and overseas.

Question 13(f). What personnel practices will be adopted that will make it possible to attract highly qualified businessmen and other experts to work for the Commerce Department as commercial attaches?

Answer. While the Foreign Commercial Personnel System is still in the design process, it will include a provision for the intake of highly qualified businessmen on either a single tour appointment or as career members of the corps.

Question 14. The USTR has varied responsibilities for the development and coordination of trade policy, for representing the U.S. in bilateral trade negotiations and for representing the U.S. in connection with the trade activities of such multilateral organizations as OECD or UNCTAD. Do these varied responsibilities of the USTR include matters involving the export or import of technology?

Answer. USTR will be deeply involved in matters concerning the export or import of technology. However, while USTR will be involved in developing policy, the Office would not expect to lead all negotiating efforts in this area. For example, USTR would not expect to lead the U.S. team negotiating in the UNCTAD or the OECD on the transfer of technology. Also, USTR will not have direct responsibility for decisions on strategic export controls.

Question 15(a). As a result of the reorganization, the Commerce Department will be expected to provide increased help to U.S. businesses seeking to export nonagricultural goods or services abroad. In what way does the Commerce Department plan to change the kinds of services it provides? For example, will it devote increased resources to helping larger companies already in the export business to increase their exports?

Answer. The principal benefit of the reorganization, and, particularly, the shift of commercial officers to Commerce, will be to provide a more integrated and effective structure for assisting U.S. firms to export. The reorganization, while it will add the commercial officers to Commerce, will not bring any additional resources to export development or assistance activities. Unification, however, of all non-agricultural export development and assistance activities will permit far more effective planning and budgeting and a more efficient export information and assistance program. Hence, the major benefits overall will be improved delivery of services and unified planning and development of export promotion and assistance activities.

A basic objective is to insure that resources for export development and assistance, are targeted to those industries and firms most in need of such assistance and who are most likely to benefit from such assistance through increased exports. It is a Commerce priority to target export development and assistance resources on small and medium sized, inexperienced firms, including, especially, minority firms. We are already working on the particular, special problems of these firms in terms of market entry.

The recently developed World Wide Information and Trade System ("WITS") a computerized market information system, will permit, in addition to the efficiencies realized in combining foreign and domestic commercial operations, a rapid, worldwide linkage of market opportunity information with Washington and our various field offices that can be made rapidly available to current and potential U.S. exporters. We also anticipate that Commerce will be in a better position to provide increased support, both on-site abroad, as well as in Washington and around the country, for major export opportunities.

Question 15(b). How will the proposed internal reorganization of the Department of Commerce integrate improved sectoral and policy analysis with the work of the commercial attaches and others directly working with U.S. business to increase exports?

Answer. The reorganization brings under one roof sectoral analysis, trade analysis, domestic field operations, export planning, and overseas commercial activities, in a manner similar to the organizational structures used by a number of our foreign competitors. This integrates analysis with operations. Most importantly, it facilitates planning.

For example, studies carried out by Commerce's proposed Bureau of Industrial Analysis can identify industries, and industry segments, with the highest export potential. Market potential analysis carried out by the offices under the Assistant Secretary for Trade Development can identify the most promising market opportunities. With these facts established, offices under the Assistant Secretary for International Economic Policy can determine the trade policy environment for products and foreign markets. Once all these are in hand, the Department can provide increasingly valuable assistance to prospective new exporters.

Further, trade analysis, coupled with basic analysis of the international competitiveness of our industries, will be used to plan the geographic and industry allocation of our promotion activities.

Of equal value will be the feedback from the field, which now will be directly available to Commerce. The observations of those working directly with U.S. business abroad can now be fed back into the planning process to ensure more accurate assessments of our programs' effectiveness and better plans more directly targeted on exporter needs.

More generally, information and cooperation flow more freely when organizational boundaries are kept to a minimum, and the consolidation of trade functions within Commerce will reduce such boundaries.

Finally, it must be recognized that trade problems are increasingly taking on the form of sectoral problems. That is, trade policy issues are becoming formulated in industrywide terms. Accordingly, the integration within Commerce of sectoral analysis and policy analysis capabilities represents a step consistent with the evolution of our main trade problems. Better handling of these problems by Commerce will work directly to the advantage of American exporters.

Question 16. Section 3 of the plan makes the Trade Representative and the Secretary of Commerce non-voting members of the Board of the Export-Import Bank. Section 4 makes the Trade Representative a member and Vice Chairman of the Board of OPIC.

Will the USTR and the Commerce Secretary be able to authorize other agency or department officials to represent them at these meetings?

Answer. Yes. There will be no delegation of these responsibilities below the Assistant Secretary level.

Question 17. The size and composition of U.S. delegations to international negotiations and conferences is formally determined by the process of "accreditation." Would USTR or the State Department accredit the U.S. delegations to those negotiations? Would the USTR or the State Department accredit U.S. delegations to (a) GATT meetings, (b) international commodity negotiations, (c) direct investment negotiations in UNCTAD or OECD which primarily concern trade and commodity issues?

Answer. All accreditations to the hundreds of conferences in which U.S. representatives participate each year are handled by the State Department; this will be the case for USTR-led delegations as it is for all others.

Where USTR has the lead in a negotiation, USTR will have the principal say on the size and composition of the delegation.

C. Questions of Senator Cannon

Question 18. The USTR will be also responsible for international investment policy. Would this responsibility include responsibility for interagency policy and oversight functions as well as international investment negotiations?

Answer. Under the plan the USTR will be responsible for developing, and for coordinating the implementation of, direct investment matters as they affect trade. The USTR will be the chief representative in negotiations concerning direct investment incentives and disincentives, and bilateral investment issues concerning barriers to investment. In addition, the USTR expects to be responsive to investment problems of concern to the private sector, and to seek appropriate remedies.

Question 19. The Reorganization Plan does not consolidate certain international investment functions in other agencies in the Department of Commerce, which currently handles international investment data collection in the Bureau of Economic Affairs and the ITA. Since the Department of Commerce will provide staffing for the USTR on this issue, why were these programs not transferred to the Department?

Answer. Direct investment functions and programs are important to trade—so much so that the policy lead in this area has been given to the Trade Representative. Operationally, though, they deal to a considerable degree with matters that are not primarily trade-related (e.g., tax and capital flow issues); for this reason, we have decided that for now, we should not move all aspects of direct investment to Commerce.

Question 20. How would the reorganization affect the handling of cross-jurisdictional issues such as the UNCTAD negotiations on technology transfer, which involve the Departments of State and Commerce? Would the issues in these negotiations come before the Trade Policy and the Trade Negotiating Committees?

Answer. We would expect the Department of State to continue to lead UNCTAD negotiations on technology transfer. However, the U.S. approach to these issues would be coordinated on an interagency basis under the TPC or other appropriate committees.

Question 21. The Trade Representative would have the "policy lead" over the "operations of multinational enterprises." Does this include the negotiations and policy development of multinational corporation codes in the UNCTAD, OECD, and other international bodies? How would the USTR oversee negotiations which may be initiated prior to the proposed effective date of October 1, 1980?

Answer. To the extent that discussions of multinational corporation behavior in OECD, UNCTAD, and other international bodies concern trade, USTR will have the policy lead. We expect this portion of the reorganization to take effect by January 1, 1980.

Question 22. How would the reorganization affect multilateral or bilateral negotiations on transportation agreements which are now conducted by other agencies such as the State Department? Would these negotiations be subject to review by the Trade Policy and Trade Negotiating Committees? Would the Trade Representative have any responsibility for such negotiations?

Answer. Transportation agreements would not be affected by the reorganization. Where trade issues are involved, however, these will be considered by USTR and discussed in the TPC. USTR will not have lead responsibility for such negotiations, but will be involved where appropriate.

Question 23. What will be the relationship of the USTS to the rest of the Commerce Department in view of the fact that its authorization will last only one additional fiscal year?

Answer. The USTS program is authorized through the end of the current fiscal year. This authorization is contained in the International Travel Act of 1961, as amended, which also provides that USTS is to be headed by an Assistant Secretary for Tourism who reports directly to the Secretary. Thus, at least through the end of FY 1980, USTS will be headed by an Assistant Secretary reporting to the Secretary. The Assistant Secretary will not report to the Under Secretary for International Trade. Any change in this status will depend upon Presidential recommendations and Congressional action taken with respect to reauthorization of the USTS program for FY 1981 and beyond.

Question 24. The Department will increase its resources devoted to the services sector, of which the tourist industry is the most significant part. Assuming that funds for the USTS are not authorized in FY 1981, what resources from the enhanced services sector program, if any, would be devoted to this industry?

Answer. If funds were not authorized in FY 1981 for the U.S. Travel Service, the Administration would continue to seek funding and personnel resources to carry out essential tourism policy, data, and coordination responsibilities within the Industry and Trade Administration or its successor organization.

Question 25. The Department will have an Under Secretary for International Trade. To whom will the Under Secretary report and be responsible? To whom will the other Assistant Secretaries who would not be subordinate to the Under Secretary report and be responsible? Would the Deputy Secretary of Commerce assume the responsibilities of the present Under Secretary of Commerce plus the new international trade responsibilities of the Department?

Answer. The Under Secretary for International Trade will report and be responsible to the Secretary. Those Assistant Secretaries not subordinate to the Under Secretary for International Trade will report and be responsible to the Secretary. The Deputy Secretary of Commerce would assume the responsibilities of the present Under Secretary, i.e., to serve as the principal Deputy to the Secretary in all matters affecting the Department, and to serve as Acting Secretary in the case of absence or sickness of the Secretary or in case of vacancy in the position of the Secretary. International trade responsibilities would be assigned to the Under Secretary for International Trade.

D. Questions of Senator Percy

Question 26. Service trade is a large positive part of our balance of payments, yet service trade problems have traditionally been neglected. How does the reorganization plan deal with this traditional neglect of services?

Answer. Increased resources will be directed to services within OMB, USTR, and Commerce so that policy development, coordination, analysis and negotiations on international services matters receive adequate attention. OMB plans a special task force to ensure improvement on handling matters in this area, and USTR has already begun a program to exercise leadership and oversight on trade-related services issues.

Under the reorganization, the Department of Commerce will improve substantially the analytic, data gathering, and policy development resources it devotes to the international trade and investment problems of American service industries. New high-level management attention will be given to these issues. Expanded Commerce Department activities in the services area will be carried out principally within two new organizations: that reporting to the Under Secretary for International Trade, and the Bureau of Industrial Analysis, reporting to the Chief Economist.

Within the organization reporting to the Under Secretary for International Trade, the Assistant Secretary for International Economic Policy will have responsibility for leading a more vigorous and expanded international services program.

Within this framework, the locus of the Department's services effort will be a new Finance, Investment, and Services unit headed by a Deputy Assistant Secretary.

In terms of personnel resources, the Department will be building on its existing International Services Division. This group is now nearing completion of a wide-ranging survey of international service industries updating the comprehensive study, "U.S. Service Industries in World Markets," which was completed by the Department in 1976. Given additional resources, areas targeted for action programs by the Finance, Investment, and Services unit include:

1. Improvement of the international data base on service industries;
2. Analysis of U.S. regulation of international services;
3. Analysis of the tax treatment of international services;
4. Analysis of the impact of U.S. antitrust laws and Webb-Pomerene on the growth and operation of international services;
5. Survey of the treatment of services in U.S. commercial treaties;
6. Provisions for handling service problems in international organizations;
7. Revision of the Foreign Service Reporting Manual to include services coverage; and
8. Analysis of the adequacy of current U.S. financing programs for U.S. service exports.

The Department's plans also call for comprehensive service industry representation in our trade agreements program. In light of the mandate of the Trade Agreements Act of 1979, Commerce will be restructuring and expanding the Industry Sector Advisory Committees that operated so successfully during the Multilateral Trade Negotiations to include service industries. In the trade policy area Commerce will be working with the United States Trade Representative to bring services within the coverage of new nontariff codes negotiated within the MTN. Commerce also expects to intensify its programs directed towards the promotion of service industry exports, with an increased emphasis on missions, seminars, and major foreign projects (many of which will be centered around the export of engineering and construction services). The new Foreign Commercial Service will further permit Commerce to seek out trade opportunities for service industries.

Elsewhere within the Department, reorganization will provide specific industrial analysis capability in the services sector. The new Bureau of Industrial Analysis (to be located within the Office of the Chief Economist) will provide the staff expertise necessary to undertake detailed microeconomic analyses of individual service industries and the problems they confront both at home and abroad. In part, BIA will be able to build its analytical base by drawing upon the Construction and Building Products Division within the existing Bureau of Domestic Business Development.

Question 27. Does the USTR mandate for "across the board leadership" in trade extend to the trade problems of U.S. service industries? The President's September 25 statement and the Reorganization plan are silent on this point.

Answer. Yes, STR will exercise leadership in broad policy issues involving international trade in services, as well as discharging its responsibilities under section 301 (remedies for unfair trade practices) and section 102 (negotiating authority on non-tariff issues) of the Trade Act of 1974. STR will also maintain close liaison with the private sector on service trade issues through a new private sector services policy advisory committee.

You will be interested to know that STR already has begun implementing its role in the service area by introducing services issues for discussion in the Trade Committee of the OECD, and preliminary analysis of GATT codes with a view toward their extension to services.

Question 28. Does the Trade Policy Committee have authority to deal with service trade matters that is equivalent to the authority which it has relative to more traditional trade areas of manufactured goods and commodities? This is important since in the absence of such authority who is going to bring together U.S. Government thinking and action relative to services trade and services trade policy?

What is OMB's position on this?

Answer. The Trade Policy Committee has the same authority and responsibility on service trade matters as it has with respect to commodities. That is, the TPC will advise the U.S. Trade Representative on services trade policy.

Question 29. In the absence of a central point or central authority for dealing with services trade, how can a coherent strategy for the services sector emerge and be implemented? Without it are not the international trade interests of the U.S. service economy, which employs two-thirds of our people left out in the cold, so to speak?

Answer. As set forth more fully in our responses to the preceding questions, the President's trade reorganization proposal will create a central location for dealing with services trade policy issues: the Trade Representative, who will act with the advice of the Trade Policy Committee and the strong operational involvement of the Commerce Department.

Question 30. Could the question of a clear USTR lead on service trade and service trade policy be resolved by language in the executive order that will be issued to implement the Reorganization Plan?

Will OMB support this?

Answer. The word "trade" is repeated several times in the draft Executive Order, and we consider "trade" to include trade in services (cf. section 301(d)(1) of the Trade Act of 1974 (19 U.S.C. 2411(d)(1)), as amended by section 901 of the Trade Agreements Act of 1979).

E. Questions of Senator Stevenson

Question 31. The plan establishes an Under Secretary for International Trade. The EDA authorization bill is expected to establish an Under Secretary for Economic Development. Science, technology, industrial innovation, productivity, patents, communications—all the areas so vital to the competitiveness of our economy over the long run—are left as a hodge-podge of leaderless, but critical, functions. Has the Administration considered establishing an Under Secretary for Science, Technology and Innovation to pull together authority for existing programs?

Answer. One of the major organizational questions facing the Department of Commerce is how best to organize to fulfill its responsibilities in the areas of productivity and industrial innovation. The Under Secretary has established a task force headed by the Assistant Secretary for Policy which is developing options and recommendations, and one of the options under consideration is that of an Under Secretary for Science, Technology and Innovation. The decisions that the President will make on the recommendations of the Domestic Policy Review of Industrial Innovation also will be involved. However, it is only fair to add that a major reorganization such as this one, which would require legislation and involve large elements of the Department, might not be appropriate at a time when two other major reorganizations of the Department are in progress.

The functions listed are not now in a leaderless hodge-podge. Science, technology, and patents are the organized responsibility of the Assistant Secretary for Science and Technology; industrial innovation, while awaiting the President's decisions, is basically the responsibility of the same official; and communications are under

the Assistant Secretary for Communications and Information. Commerce is actively developing an improved organizational base for its productivity programs and activities.

Question 32. Under the plan the Trade Representative would have responsibility for trade negotiations. Export credit subsidies are a growing element in international trade competition. Will the Trade Representative bear responsibility for trade negotiations to restrain costly export credit subsidization?

Answer. The Trade Representative will not have lead responsibility for export credit negotiations; that responsibility will remain with the Treasury Department and the Export-Import Bank. The Trade Representative, however, will play a significant role in this area by virtue of his becoming (1) a member of the Export-Import Bank Board of Directors, and (2) a member of the National Advisory Council on International Financial and Monetary Policy, which oversees export credit policy.

Question 33. The New Export Administration Act calls for a thorough revision of U.S. export control policy and procedures for export licensing decisions. The announcement of the trade reorganization plan preceded passage of the new Export Administration Act and does not appear to take into account the new responsibilities the Act provides and the additional resources which will be needed to carry them out. What provisions will be made to assure implementation of the Export Administration Act will receive adequate priority and resources?

Answer. The new Export Administration Act is expected to require the development and issuance of many new regulations and procedures. Work is now underway on these matters. Until the scope of these new activities has been clarified, it would be premature to initiate additional staffing plans. Accordingly, Commerce has not yet submitted any additional staffing requests to OMB stemming from the new Act.

It may be possible—through filling existing vacancies or reprogramming from other areas in the Department of Commerce—to provide enough additional personnel to carry out the new responsibilities under the Act. OMB intends to monitor the development of new regulations in this area and their resource implications, and will assure that the Export Administration Act is fully implemented.

Statement by Senator Howard W. Cannon

Mr. Chairman, Senator Roth: Today's hearings will examine Reorganization Plan Number 3 of 1979, to reorganize functions relating to international trade. The Plan, with its deficiencies, represents a significant advance over the international trade organization structure which currently exists. To you, Chairman Ribicoff and Senator Roth, must be given credit for imagination and persistence in encouraging the Executive to confront this crucial international issue.

The Committee on Commerce, Science and Transportation has long been deeply concerned about our international trade deficit. In 1972, in response to the first U.S. merchandise trade deficit since 1893, the Commerce Committee established a Subcommittee on Foreign Commerce and Tourism, which held the first set of Congressional hearings on export expansion in recent years. The Subcommittee also began to examine issues related to our trade organization structure, for example, it reported out legislation to transfer commercial officers from the State Department to the Commerce Department—a transfer which would be effected by Reorganization Plan Number 3.

The Senate, which passed several of the export promotion measures reported out by the Committee on Commerce, was constantly reassured that the devaluation of the dollar and changing international economic conditions would eliminate the deficit and that supplemental export promotion measures were thus not required. History has shown that this analysis was wrong and that the U.S. Government and economists grossly underestimated the gravity and nature of our international economic problems. By 1978, the merchandise trade deficit reached $39.2 billion (cost-insurance-freight basis), 18 times the size of the 1971 deficit which alarmed the Commerce Committee into taking action.

The Committee System Reorganization Amendments of 1977 transferred jurisdiction over export promotion activities to the Banking Committee, which has been very active in this area under the able leadership of Senator Stevenson, who is also a member of the Committee on Commerce, Science, & Transportation.

Notwithstanding the 1977 Reorganization, the Committee retains jurisdiction over the important areas which directly affect our trade performance. On October 31st, the Committee will commence hearings on the Domestic Policy Review

provide a mechanism under the direction of the President for representation of the broad national economic interests of the United States in international trade negotiations. That meant weighing and balancing those sometimes conflicting national interests with the greatest possible objectivity, and without giving undue weight to any particular constituency or United States policy objective.

The role and responsibilities of the special trade representative have been significantly enhanced and broadened by the Congress and five Presidents since 1962, under the Trade Act of 1974 and the Trade Agreements Act of 1979. The Trade Agreements Act of 1979 mandated the executive reorganization of trade functions now before this Subcommittee.

I see the new office of United States trade representative as a direct and logical outgrowth of the basic considerations which led to its creation 17 years ago. Those considerations were that:

There should be close consultation and cooperation among the President, the Congress, and private enterprise in developing and conducting trade policy;

Legitimate constituent trade interests of the several executive departments and agencies should be coordinated; and

The Nation needs a single, cohesive foreign trade policy which is truly representative of the overall national economic interest.

I would like to note that this administration has worked very closely with the Congress in developing this plan. The views of all interested members were sought, considered, and, as much as possible, reflected in the President's proposal.

Under this plan, the USTR would be the principal trade spokesman for the President on International Trade, Commodity, and Direct Investment Policy, reporting directly to the President. The office would continue to carry cabinet rank, with a small staff located in the Executive Office of the President.

The USTR would continue to chair the Interagency Trade Policy Committee and its subordinate groups, which provide advice to the USTR, and through which policy is coordinated. But the scope of the Trade Policy Committee would be widened substantially to include all international trade, commodity, and direct investment policy matters.

The USTR would serve as the focus for international trade policy development, coordination, and negotiation. The office would be responsible for developing policies on import remedies, export expansion, East-West trade, commodities, international investment policy, energy trade policy, and bilateral trade relations.

The USTR would also play a substantial role in the formulation of national policy in other areas which have major trade implications.

The USTR would be responsible as well for representing the United States to the General Agreement on Tariffs and Trade (GATT) and on trade, commodity, and certain investment matters before the Organization for Economic Cooperation and Development (OECD) and before the United Nations Conference on Trade and Development (UNCTAD).

In recognition of the increasing importance of service exports to the U.S. economy and the U.S. balance of payments, the USTR would exercise leadership with respect to the international needs and trade problems of U.S. service industries. Already, the Office of the Special Trade Representative is giving priority attention to a study of trade barriers in services being conducted by the organization for economic cooperation and development.

Perhaps one of the most important new responsibilities of the USTR would be to develop a much needed effective capability to analyze and evaluate trade issues and trends in a swiftly changing world market place, anticipating the effects of these trends.

Of course, the USTR would be responsible for overseeing the implementation of the mutilateral trade negotiation agreements reached in the Tokyo Round, a task which is vital to realization of the benefits of those hard-driven bargains.

The reorganization plan would give the USTR new responsibilities in a number of areas—such as commodities, East-West trade, and investment export policy. In these areas, we have organized internally to get off to a running start and expect to be in early contact with the Congress and with the private sector to develop new approaches to the policy issues involved.

In fulfilling these responsibilities, the USTR would work closely and cooperatively through the trade policy committee with the newly enhanced Commerce Department, the Departments of State, Treasury, Agriculture, Labor, Defense, Energy, and other governmental agencies.

As the President said in his message transmitting this plan to the Congress, we need this new machinery. As presently constituted, the Office of the special representative for trade negotiations is chiefly responsible for administering the trade

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In fulfilling these responsibilities, the USTR would work closely and cooperatively through the trade policy committee with the newly enhanced Commerce Department, the Departments of State, Treasury, Agriculture, Labor, Defense, Energy, and other governmental agencies.

As the President said in his message transmitting this plan to the Congress, we need this new machinery. As presently constituted, the Office of the special representative for trade negotiations is chiefly responsible for administering the trade

agreements program. But many trade and trade-related issues are the prime concern of other agencies of government.

We must make America more competitive in the world marketplace. We must enforce our new trade agreements, both abroad and at home. We must develop not only a unified trade policy, but also a strategy for achieving our international commercial policy objectives. I believe this plan profides the framwork to do the job.

STATEMENT OF JUANITA M. KREPS, SECRETARY, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Committee: it is a pleasure for me to share with you our plans for a successful implementation of the Administration's trade reorganization proposal. We in Commerce have given this issue priority attention for many months. We believe that we have been able to develop a plan which will result in the Department of Commerce significantly contributing to the primary goal of trade reorganization: that is, an enhanced capacity for the federal government to strengthen the export performance and import competitiveness of American goods and services.

We find ourselves at the dawn of a new era in U.S. trade relationships. Successful implementation of the Tokyo Round trade agreements will move us towards even greater integration with the world economy. The MTN will offer new opportunities, but we shall have to work at maximizing the benefits to our economy. This is particularly so because global competition will intensify in the 1980's.

In the decade ahead, many less-developed countries will become stronger exporters of consumer goods and mid-level technology products. This will increase U.S. imports, and it will also push the industrialized nations more heavily into the production of capital goods and higher technology exports. The U.S. export position will be challenged more directly than ever before. Increased competition, coupled with more open markets, will have a profound effect on our economy and our growth. International trade will become one of the major factors affecting the performance of U.S. industry. Some industries will prosper, while others will falter in the face of increased competition. How we deal with trade growth will materially affect all Americans.

There is much we can and must do. What is called for is nothing less than a complete reorientation of our thinking on trade. We have traditionally treated international economic policies, domestic economic policies, export development policies, and policies affecting individual industries as though they were unrelated.

Today, world trade has become too important to the health and growth of the American economy to be treated as a separate and somewhat peripheral issue.

Reorienting our thinking on trade policy is no simple matter. But if the 1980's are to be different, we must make at least three fundamental changes:

First, we must elevate the priority of trade in the hierarchy of our national objectives. We must follow the lead of our successful competitors and push to the forefront the question—"how will this affect our trade?"—when we consider tax policies, investment policies, antitrust policies, environmental policies, regulatory policies, and all other policies which can have a fundamental effect on our international competitiveness. Bringing this about will be neither easy nor inexpensive. Some vested interests and some domestic priorities will need to move over to make room for the enlarged importance of trade.

Second, we have to link our trade policies more closely to our domestic policies affecting industry. We must recognize that our competitiveness depends on far more than what we do at the border; that we can improve our competitive position only if we improve our technology and pace of innovation, our investment in plant and equipment and, hence, our productivity. Our trade policy thinking must reflect the fact that trade problems are *industry* problems. Our failure to address them as such is partly responsible for our inability to deal with the trade challenges of the past two decades.

Third, many businesses need to reorient their thinking, for many businesses, like government, have focused their energies on the domestic economy. Too often import competition has been taken lightly and export markets have been ignored. We are no longer an insulated, self-sufficient continental economy. The time has come for us to stop acting like one. With the increased openness of markets resulting from the Multilateral Trade Negotiations (MTN) and increased competition in the 1980's, U.S. business will have to find more of its sales growth in foreign markets.

The Government can help, particularly by removing obstacles and disincentives to increased export efforts. The Department of Commerce will be devoting increasing attention to identifying obstacles to export expansion, calling them to interagency attention and searching for ways to remove them. The Government can

also increase its efforts to help business locate and exploit export opportunities, to ensure adequate export financing, and to obtain fair and open access to foreign markets.

For our part, reorganization of the trade functions of government is a vital first step in improving the export performance and import competitiveness of American goods and services. If reorganization is to be successful, however, the trade responsibilities of government must be centralized and streamlined.

The U.S. Trade Representative (USTR) will be responsible for coordinating our international trade and direct investment policies. The Department of Commerce will work with the USTR and will be responsible for the implementation of the nation's trade policies through the day-to-day operation of most of our non-agricultural trade functions.

This proposed partnership is a natural extension of the ongoing, highly successful partnership of the STR and Commerce during the Multilateral Trade Negotiations. As Ambassador Strauss has noted, the Commerce effort was indispensable to the successful outcome of the MTN; continuing this partnership permits the Government to build on strength and to grow from it.

The Department's strength in this area was due to the fact that more than 40 Commerce staff persons were available to provide the principal staff support to STR in the negotiation of the MTN. Many of these people served on the front line, participating in the work of the U.S. delegation in Geneva; they therefore have intimate knowledge of all aspects of the MTN. Those persons will now be responsible for the day-to-day implementation and monitoring of the trade agreements.

The task of consolidating the day-to-day operations of the trade functions of government (other than agriculture) into an enhanced Department of Commerce is an enormous one. We in Commerce have devoted a good deal of attention to how the Department must be reorganized to manage a broader range of trade responsibilities. We have a sound plan to assure that the transfer of ongoing programs—especially the antidumping and countervailing duty functions from Treasury—will occur smoothly and function efficiently.

Even with a sound institutional base, reorganization can succeed only if the programs are being carried out by highly qualified, capable and motivated people. The first step is to assure appropriate leadership. Towards this end, our reorganization plan provides for the creation of such new positions as Under Secretary for International Trade and two new Assistant Secretaries. In addition, we shall seek a substantial number of Senior Executive Service positions for the Commerce trade program, thereby providing many attractive top management opportunities. In this regard, it is noteworthy that a task force headed by the General Counsels of Commerce and Treasury is conducting a talent search to find the best qualified persons to fill all key leadership positions in the vitally important antidumping/countervailing duty area.

This is a good start, but only a start. If leadership is to succeed, it also must have capable staff persons. In that regard, we are undertaking a number of special measures and efforts. First, we have initiated a freeze on 120 positions that are currently vacant in the Industry and Trade Administration (ITA), which is the area of Commerce which currently supports our major international trade activities. This freeze will continue until there has been an opportunity to review an overall recruitment and staffing plan that addresses the major personnel needs associated with trade reorganization. Moreover, we expect more than one-fourth of ITA's existing staff to turn over in the next few years, due largely to retirements.

Second, there are 130 new positions provided for the antidumping and countervailing duty functions in the Treasury Department appropriations act signed September 29, 1979. Those 130 new positions will come to Commerce from Treasury as a result of reorganization. A joint Commerce-Treasury/Customs task force has been working on this issue for three months. Customs recently borrowed 20 positions from Main Treasury, in anticipation of passage of its appropriations bill, in order to get a head start on filling those 130 positions by January 1, 1980 when the new antidumping/countervailing duty laws take effect. Commerce is carefully monitoring this hiring process and is being fully consulted on the filling of all vacancies.

Third, we have formed a work group with State to explore ways to facilitate the transfer of State personnel to the Foreign Commercial Service.

The net result of these changes is an opportunity to bring 500 new, highly talented professionals into our trade program rather quickly. Thus, the Department has a great deal of flexibility in meeting the personnel demands of its new trade responsibilities and is moving to capitalize on this opportunity.

At this time, Mr. Chairman, I would like to describe briefly for the Committee the proposed structure and division of responsibilities of an enhanced Department of Commerce. The detailed plan has been submitted to the Committee along with copies of the text of my statement.

SECRETARIAL RESPONSIBILITIES

The Administration's reorganization plan provides for trade, involving both international and domestic issues, to become a principal responsibility of the Secretary of Commerce. To help ensure that export financing policy is consistent with trade policy in general and export promotion policy in particular, the Secretary will serve as a non-voting Director of the Board of the Export-Import Bank. As chief operational officer of Commerce, the Secretary will assure that all elements of the Department whose activities relate to international trade are coordinated.

The principal goal of the Department will be to foster the international competitiveness of U.S. industry. To help carry out these responsibilities, it is proposed to create the post of Under Secretary for International Trade, to be directly responsible to the Secretary for overall development and management of the Department's trade functions. The creation of such a post will ensure that the vital area of trade policy implementation will receive day-to-day attention at the highest levels of the Department. Moreover, to ensure that daily managerial direction is a reality, we propose to create a Senior Executive Service post of Deputy Under Secretary to be responsible for administrative functions, to manage daily operations and to act in the Under Secretary's absence.

Equally important to top management changes are the Department's plans to integrate its new trade responsibilities with existing programs in the areas of trade development, trade administration and international economic policy.

TRADE DEVELOPMENT

The Assistant Secretary for Trade Development will be responsible for developing and implementing the Department's programs to assist U.S. firms to export and to promote the sale of U.S. goods and services overseas. Principal objectives will be to assist small and medium sized firms to export, to provide better support with respect to major projects, and to take full advantage of the opportunities created as a result of the MTN agreements. Four closely associated activities, each aimed at helping American industry sell its products in foreign markets, and each headed by a Deputy Assistant Secretary, will be managed by the Assistant Secretary for Trade Development.

1. The United States Commercial Service will form the domestic outreach arm of our trade development activities with offices across the United States to encourage U.S. firms to export and to deliver export assistance services directly to American business. The Service will build upon the Department's existing Bureau of Field Operations, but the Bureau's mission will shift to become primarily export-oriented.

2. The Foreign Commercial Service will be the Department's overseas arm once the Department absorbs the responsibilities of the Foreign Service Commercial Attaches. The Department is dedicated to creating a highly professional foreign commercial corps with one main responsibility: the promotion and support of American export sales.

3. The Bureau of Trade Development will plan and develop the programs and services to be delivered by the domestic and foreign commercial services. Working in cooperation with the policy units, this Bureau will be responsible for information and assistance programs to ensure that U.S. firms know of the opportunities created by the MTN and know how to exploit those opportunities. The Worldwide Information and Trade System, currently under development, will be a major tool in this effort.

4. The Bureau of East-West Trade will help American firms conduct business in communist countries, develop and explain East-West trade policy, strengthen governmental mechanisms for expanding trade with non-market economies, and expand business understanding of the unique issues and opportunities in such countries.

Together, these four units will carry out the basic trade development programs of the Department of Commerce. For the first time American business will be able to turn to a single network that extends from domestic field offices to Washington to overseas posts to get help in dealing with trade expansion.

With integration of domestic and overseas export promotion activities, we can focus all our Federal resources on the targets that are important to American

of the MTN codes will be developed and conferences and seminars will be organized to ensure that U.S. firms know of the wide range of trade opportunities under the MTN.

We also will work to ensure that U.S. rights under the GATT and other trade agreements are preserved. In this, we will be assisted by the private sector advisory process (the Industry Policy Advisory Committee and Industry Sector Advisory Committees), which will provide information and advice on all aspects of international economic policy and programs.

We will establish a Trade Complaint Center, to which business may bring questions, complaints and problems regarding the MTN and other trade agreements. A telephone "hot line" will be initiated to facilitate the operation of the Center.

2. The Bureau of Finance, Investment, and Services will have responsibilities for examining foreign investment, taxation, services, antitrust, financial and other issues affecting trade. This Bureau will be the locus of the Department's expanded effort to identify the broad spectrum of international business and economic issues that affect U.S. service industries. The Bureau will also analyze questions affecting multinational corporations, will recommend actions to improve the U.S. investment position, and will continue to monitor foreign investment in the United States.

3. The Bureau of Policy Planning and Analysis will analyze incentives and disincentives to U.S. exports and develop recommendations to improve the U.S. export position. We will be working also to identify sectoral problems and will prepare positions for international discussions of positive adjustment and industry sector issues.

Since trade policies must be aimed at solving the problems of the future, we will be mounting a major new effort to analyze our competitiveness and to forecast the trade and investment problems of the future.

4. The Bureau of Textiles and Apparel will work closely with the USTR on textile and apparel issues. It will participate in textile negotiations and will assist the Office of Science and Technology in developing programs to improve our productivity and competitive position in those areas.

INDUSTRIAL ANALYSIS

Increasing the vitality of domestic industry is the only way to meet international competition. A wide variety of Commerce and other agency programs are directed toward this objective; however, there is a compelling need for the Federal Government to develop a stronger and more comprehensive industrial analysis capability.

The Department will be taking several steps to strengthen its resources devoted to industrial analysis. The cornerstone of this upgraded capability will be the new Bureau of Industrial Analysis. Located in the Chief Economist's Office, it will be modeled after our highly regarded Bureau of Economic Analysis and will provide upgraded and highly professional industry analysis to serve the needs of government policy-makers and industry.

SUMMARY AND CONCLUSIONS

By consolidating trade operational responsibilities in an enhanced Department of Commerce and upgrading our sectoral analysis capability, the Administration's trade reorganization plan draws upon a major Departmental strength—the ability to link trade to policies affecting domestic industries, Trade problems are industry problems, and until we address them as such, we cannot expect a fundamental improvement in our trade performance.

These problems will increase in the 1980's. To meet the challenge, we must coordinate our efforts in such a way as to gain maximum advantage from the MTN, and adopt measures that will help U.S. industries to increase their competitiveness.

The reorganization provides the essential ingredients: a higher government-wide priority on trade; concentration of non-agricultural trade implementation responsibilities in one Department; clearer channels for future trade policy decisions; and a heightened attention to the analysis and solution of the problems facing U.S. industry.

This reorganization will result in a considerably strengthened Department of Commerce—one well equipped to monitor and enforce trade rules in a manner which will protect U.S. rights while ensuring that U.S. obligations are carried out; and one better equipped to promote, foster, and develop the foreign trade of the United States.

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AMERICAN
FOREIGN SERVICE
ASSOCIATION

2101 E Street, Northwest Washington, D.C. 20037 202-338-4045

September 24, 1979

Dear Member of Congress:

The Foreign Service of the United States which has served our nation overseas since its birth is in trouble. As our country operates on an ever-finer edge in today's complex international environment the need will grow for the best talent our diverse society can produce to protect our National interests. Yet there are both immediate and long term indications of erosion of the Foreign Service's ability to fill that need.

Of immediate concern, the Administration submitted today its Reorganization Plan number 3 which would accelerate the trend toward fragmentation of our foreign policy apparatus by transferring trade policy and promotion activities from State to Domestic Agencies. For the reasons outlined at Enclosures 1 and 2, we urge you to oppose this hastily-conceived bureaucratic response to a significant national problem.

In the broader context, we ask for your support for three basic principles when you are considering issues affecting the Foreign Service, such as the proposed Foreign Service Act of 1979 (HR 4674 and S 1450). These principles, addressed in greater detail at Attachment 3, are:

First, the role and integrity of the Foreign Service should be preserved and enhanced.

Second, career employees should be assured a strong voice in the evolution of the Foreign Service.

Third, the Foreign Service should be compensated on a par with the Civil Service and receive appropriate incentives for a lifetime of service abroad.

Thanks for your consideration of the important issues for the future of our country's ability to conduct effectively its international relations.

Sincerely,

Kenneth W. Bleakley
President

Enclosures:
(1) Proposed Export Promotion Reorganization: Views of AFSA
(2) Statement on Trade Reorganization before House Ways and Means Subcommittee
(3) The Future of the Foreign Service

AMERICAN
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2101 E Street, Northwest Washington, D. C. 20037 · 338-4045

The Proposed Export Promotion Reorganization:
Views of the American Foreign Service Association

1. The Administration's hastily conceived proposal to transfer commercial positions to a Department of Trade and Commerce creates new operational difficulties without addressing current problems.

2. The reorganization would actually hurt the prospects of American exporters in several key ways. Its focus on government reorganization shifts the emphasis away from the need to provide export incentives and eliminate disincentives. It also increases the risk of establishing a protectionist bias in the USG by consolidating diverse trade functions into Commerce and STR. This bias could well lead to U.S. import restrictive actions, provoking foreign retaliation.

3. In terms of impairing our trade promotion efforts, the Administration proposal would place all of the government's resources in a beefed-up Commerce Department. However, that Department's programs, devoted toward helping smaller "new-to-the-market" companies, do nothing to help push the U.S. company in the heat of competition for a major contract. While worth continuing, these programs are not geared toward assisting those firms already trying to meet increased foreign competition of foreign governments operating hand-in-hand with the private sector. Commerce is not structured toward helping U.S. firms win these vital major projects abroad.

4. U.S. embassies currently provide a variety of services to American businessmen abroad, services which include economic reporting and analysis, trade opportunity and trade barrier identification, economic and political briefings, analysis of local government policies affecting investment or operations, and representation with local governments on trade policy and business issues. These form an integrated set of activities supporting U.S. commercial and economic interests which risk being dissipated if the Commercial function is separated out.

5. We believe that professionals trained in foreign languages and culture as well as foreign government processes and business practices can best assist businessmen overseas. The knowledge and skills of current Foreign Service commercial officers can be duplicated, but it would require time and considerable expense.

6. The Foreign Service is being criticized for policies and priorities over which it has little control. If the U.S. does not have an effective trade promotion effort, it is because the U.S. Congress and Administration have not given exporting a high enough priority. The Foreign Service has conscientiously and effectively handled Commerce's promotional activities abroad. It has made a herculean effort to meet the needs of American businessmen during a period in which trade has grown from less than a hundred billion to over a trillion dollars, and in which the multi-national corporation has grown from infancy to adulthood. During this period, the Foreign Service has actually lost positions.

7. The health and strength of the U.S. economy and the integration of domestic and international economic policy are too important to be dealt with by merely shifting responsibilities and positions among government agencies. The Administration's hastily prepared proposal clearly demonstrates that the Administration has not taken the issue seriously, has not done its homework, and does not understand how the foreign economic and commercial policy is currently conducted abroad and why it has been weak.

8. The American Foreign Service Association wants to continue to work with the Congress and the business community to develop truly effective policies and programs to promote exports. If the proposal put forth by the Administration is adopted, even in a strengthened form, it will defuse the key issue of effective policies and programs - issues that should not be defused. Further, it will raise the costs, reduce the output, and diminish the quality of U.S. Foreign Economic Policy and Trade promotion operations.

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STATEMENT BY AFSA PRESIDENT KENNETH W. BLEAKLEY
BEFORE THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE

TRADE REORGANIZATION, SEPTEMBER 7, 1979

As representative of the largest single group of foreign trade specialists in the government, the American Foreign Service Association welcomes efforts to revitalize and strengthen trade policy and export promotion. The decline of the U. S. balance of payments and trade and of our share of the international market weakens our economy at home, costs us jobs and undermines our ability to conduct an effective foreign policy. For too long the U. S. has paid too little attention to competing in the international marketplace and to our trade promotion activities.

Other more qualified withnesses, will undoubtedly address the underlying causes of the poor competitive position of U. S. business today — including declining productivity and, in many cases, lack of orientation toward an overseas market. We wish to concentrate on what can be done by the U. S. Government abroad to revitalize our support for U. S. business. The requirements are:

Resources — Over the past decade the numbers of Foreign Service personnel have actually declined as we have been asked to respond to a fragmented international political order, terrorism, narcotics traffic, refugee surges, burgeoning travel by Americans and the administrative requirements of proliferating USG agencies abroad. If the U. S. is to wage a successful export promotion effort we must take a lesson from our competitors and devote the people and dollars to doing the job properly.

Priorities — Those of us who work for Uncle Sam overseas respond to the priorities established by the Administration and the Congress. Other priorities (environmental and human rights factors, for example) have ranked high on your lists, trade promotion has long been near the bottom. You need to raise the priority.

Support Base — Perhaps reflecting the above priorities, neither the State nor Commerce Departments have given sufficient support to our trade promotion efforts overseas. In State, support for the Commercial function is buried in a subsection of the Economic and Business Bureau. The Foreign Service Association has made specific proposals to the Secretary of State to correct this situation. With regard to Commerce, the single greatest problem reported by our officers overseas is the failure of the Bureau of Domestic and Overseas Business necessary to close business deals abroad. We need to establish better links between our overseas posts and the U.S. business community.

An Integrated Approach — We and our competitors are learning that effective trade promotion overseas requires the marshalling of all our resources, not just salesmanship. Knowledge of the local market and government, broad ranging contacts, political insight, language ability, knowledge of international finance and regional factors, and diplomatic clout employing the Ambassador and full Country Team are all essential to successful intervention on behalf of businessmen. In many respects trade promotion is no different from any other diplomatic activity aimed at achieving something of interest to the U.S. The people and organization to accomplish this are already in place. What is needed a e the resources, priorities and support base outlined above to get the job done right.

In light of the above, the American Foreign Service Association cannot help but view with dismay, the Administration's proposal to send yet another agency abroad (one whose overseas record is singularly unimpressive) to establish its own bureaucracy. Frankly, this appears to us to be a classic attempt to shuffle boxes in a reorganization plan rather than treating the underlying causes of an increasingly serious problem. It addresses none of the requirements outlined above. It is a dangerous reshuffle. Our competitive position overseas is too weak to withstand experimentation with removing trained professionals in foreign trade and investment from an intergrated team and substituting personnel from a domestic agency for occasional assignment abroad. Equally important, at a time when financial and resource issues increasingly dominate international relations, the Secretaty of State must exercise control over the country's international commercial activities. We are concerned that the Office of Management and Budget in ramming through this plan failed to recognize that it diminishes the authority of the Secretary of State in dealing with other countries - be they economic powers such as Japan and Germany or parts of the disadvantaged third World.

In conclusion, Mr. Chairman, we urge the Committe to resist the Administration's efforts to alter fundamentally U. S. operations overseas through an ill conceived Executive Reorganization. The U. S. cannot afford to jeopardize its position abroad through failure to exploit the full consultation embodied in the regular legislative process. Beyond that we encourage the Adminstration and the Congress to develop a comprehensive plan to strengthen the U. S. competitive position abroad and pledge our support for such an effort.

AMERICAN
FOREIGN SERVICE
ASSOCIATION

2101 E Street, Northwest Washington, D. C. 20037 · 338-4045

THE FUTURE OF THE FOREIGN SERVICE OF THE UNITED STATES

AN ADDRESS TO THE

FOREIGN AFFAIRS COMMUNITY

BY

KEN BLEAKLEY

PRESIDENT, THE AMERICAN FOREIGN SERVICE ASSOCIATION

DEAN ACHESON AUDITORIUM SEPTEMBER 18, 1979

Ladies and Gentlemen of the Foreign Service of the United States and all those who are concerned about the future of the Service:

I would like to discuss with you today a crisis which has been developing in the United States Foreign Service and which if not addressed and solved could result ultimately in the collapse of one of the vital institutions of our Government. The Foreign Service of our country today is called upon to produce women and men who will serve throughout the world in circumstances of increasing personal danger and family hardship, to face problems of bewildering and growing international complexity. At the same time they are asked to accept continually eroding benefits and perquisites while serving overseas -- to labor under pay scales dwarfed by counterparts in the Civil Service and private industry -- to languish interminably without realistic promotion possibilities in a system frozen in the ice of bureaucratic unenlightenment -- and finally to face a gloomy and uncertain career outlook continually wrenched and changed by succeeding administrations.

As we look toward the 1980s and beyond I would advance four propositions:

First, there will be a growing need for the best Foreign Service that the United States can muster. Some suggest we can rely increasingly on occasional tours abroad by domestic civil servants to protect our national interests. These minions of OMB and OPM are wrong!

Second, the Foreign Service is in disarray;

Third, reaffirmation of the role of the Foreign Service, strengthening of its professional influence, and provision of adequate compensation for its members are urgent national requirements.

Fourth, we the Foreign Service of the United States, can influence our own destinies and the nation's.

I. The United States will face with increasing urgency over the next decade the challenge of defending its interests and maintaining its world position under military, economic, and energy conditions in which we no longer enjoy unquestioned dominance. We will need to rely on the vast human resources our nation possesses to secure the benefits the U. S. has enjoyed throughout much of this century.

A few trends in foreign affairs may provide an indication of the kinds of people that the nation will require overseas in the 1980s and beyond:

-- The linkage of economic issues to strategic issues is increasing. Issues which cannot be contained within the economic sphere are causing political and strategic shifts.

Massive migrations of people as a result of political, strategic, and economic factors challenge our traditional processes for immigration. This requires international solutions. Simultaneously, the protection of American life and property abroad continues to grow more difficult as a result of changing life styles, internationalization of corporations and the shifting strength of the dolllar.

-- The growth of U. S. Government personnel abroad which took place in a period of affluence must diminish in a period of austerity. As the need for the activities these people perform continues to grow, consolidation among foreign affairs agencies overseas under managers who understand the wide range of U. S. programs abroad becomes essential.

We cannot avoid the conclusion that the U. S. will be operating on a finer edge in the decade ahead than ever before. This will require an unprecedented integration of foreign affairs skills. It means that somewhere within the U. S. government there must be a repository of: accumulated diplomatic wisdom, international management talent, area knowledge, functional expertise, and understanding of both the American and foreign systems. Those possessing these requirements must be ready to be sent wherever their country needs them whenever they are called. If the Foreign Service of the United States did not already exist, the creation of one would have to become a national priority.

II. But, the Foreign Service is in disarray.

(1) Its role has suffered steadily accelerating erosion. Our leadership has failed to get us sufficiently involved in new areas of international importance. Traditional functions, like trade policy and promotion involving over 160 Foreign Service positions, are being offered to domestic agencies.

(2) The Administration has failed to ask for and the Congress to provide sufficient staff and

budget to perform our mission overseas. The Foreign Service has been compelled to neglect its central political and economic duties in order to concentrate limited resources on administration for other agencies and the fulfillment of expanding statutory requirements.

(3) Executive reorganization of the foreign affairs agencies has fragmented the leadership and personnel of State, the Agency for International Development, and the International Communications Agency. ICA's role as overseas spokesman for U. S. foreign policy has been limited and the morale of its Foreign Service people drained by an increasingly domestic oriented bureaucracy. AID has taken its personnel reductions from the Foreign Service while maintaining its domestic staff. Its new parent Agency contains not a single position for the Foreign Service.

(4) The Foreign Service has failed to attract sufficient numbers of women and minorities.

(5) Our Staff Corps, without which we cannot function overseas, has been victimized and ignored to the point of rebellion.

(6) Our system for assuring a steady flow of just and honorable retirements has collapsed under the neglect of successive administrators. As a result the people who must supply the foreign affairs leadership for the '80s find their careers blocked and opportunities for career development limited. Some of the best are opting out. Many find their motivation toward excellence being sapped away.

Our profession is not well understood in the United States. Execution of U. S. national policies in support of freer trade, expanded admission of refugees, assistance to the underdeveloped world, compromise with our adversaries in the cause of peace and telling the truth about how we are viewed abroad are not always popular acts at home. We serve the policies determined by our political masters, whether the policies are popular or not. In turn we rely on that leadership to protect us. Sometimes they fail us and the nation suffers. We, the Foreign Service of the United States, owe it to our country not to let that happen now.

Unfortunately, the very factors which contributed to the erosion of the role of the Foreign Service hurt our ability to unite, compromise our particular

interests and speak with a common voice. We have over-emphasized our differences -- specialty cones, agency, sex, race, family status, employee versus management and staff versus officers. This leaves us vulnerable to attack from outside the Service. It destroys our case for an integrated approach to foreign affairs. It sets interest group against interest group in a dangerous cycle in which we are all the losers. Time and again it causes us to be eloquent on what we are against and silent on what we are for. We need to start telling the Administration and Congress what has to be done to make the Foreign Service whole again.

III. The process starts with our charter -- The Foreign Service Act of 1946. Though this document has been amended frequently through the years to adjust to changing times, its emphasis on excellence in pursuit of our nation's objectives remains fundamental to our profession. More than 30 years after our Act's passage, the Civil Service Act of 1978 sought to capture the same concept in the establishment of a highly competitive Senior Civil Service.

Many of the problems facing the Foreign Service today could be cured by returning to the principles and procedures of the 1946 Act from which successive administrations have strayed. We would have preferred for this Administration to have moved vigorously two years ago to halt the erosion I just outlined by using the ample tools available under the Act.

They argued instead that the need for fundamental re-affirmation of a separate Foreign Service in the light of the Civil Service Act was great; and, that the amendments needed in the light of legal challenges to our system were extensive. State's leadership chose to propose a new Act whose initial formulation was so flawed as to be almost universally unacceptable throughout the Foreign Service.

The Foreign Service responded with detailed, well-reasoned criticism of the proposal, and the Secretary of State listened. The Bill submitted by the Administration to the Congress in June, while still seriously deficient, is a substantial improvement over the earlier draft and closely parallels the 1946 Act. It contains many positive features.

Now, the arena for change has shifted from this building to Capitol Hill. The Congressional Committees directly responsible for the Bill have made clear their intent to listen to what we have to say about it.

A strong, unified Foreign Service has an opportunity to shape its own destiny. Erosion of the Foreign Service of the United States stops here! The elected Governing Board of the American Foreign Service Association has voted unanimously to present its own legislative proposals to forge the kind of Bill necessary to provide a mandate for the Foreign Service for the remainder of this century. In arriving at this position we have had resources unavailable elsewhere in the U. S. Government:

-- Hundreds of individual analyses from most of our overseas posts;

-- Extensive formulations from a series of open meetings and Association task forces in Washington;

-- Cogent comments from the Secretary's Open Forum Working Group on Professional Concerns;

-- And testimony from individuals, employee interest groups and the American Association of Foreign Service Women on the Hill.

Some of these analyses were contradictory. All contained three essential principles for which we will fight and we will win:

First, the role and integrity of the Foreign Service must be preserved and enhanced. The threatened loss of the commercial function is but the latest in a series of events which highlight the need to reaffirm the role of the career Foreign Service as an institution for which there is no credible substitute within our government.

-- Both in the General Provisions of the proposed Act and in its legislative history, the Congress should reiterate and the Administration support a Foreign Service of the United States which: (1) advises and assists the President and Secretary of State in the formulation of foreign policy; (2) conducts the full range of U. S. Government civilian affairs overseas on behalf of the principal foreign affairs agencies and those with major foreign affairs concerns.

-- This will require that there be maximum uniformity of personnel management, particularly of the Senior Foreign Service, among the individual agencies operating abroad.

-- The ranges for our system of intake into the Service, career development through the middle grades, and intake into the senior ranks, as well as just, honorable and secure retirement must be predictable and controlled. Only in this manner can we end the vagaries of successive managers, commissions and boards. In particular: (1) The present loopholes in the legislative history accompanying Section 321 must be closed so that the ostensible 5% limit on non-career members of the Senior Foreign Service is legislative reality; (2) Section 602 (b) should be revised to create a legislative requirement for rational management of the personnel system as an integrated whole.

-- The Staff Corps' indispensable contribution must be recognized and ample opportunities for the professional development of its members assured. In particular: (1) The grandfather provision under Section 642 for applying selection-out for substandard performance to Staff Corps must be extended to ten years; (2) Authorization for training and excursion tours must be expanded; (3) The setting and adjustment of time in class under 641 must be negotiated to prevent, for example, present FSRU Communicators from being subject to provisions not affecting their FSS counterparts.

-- The changing roles and aspirations of families of our overseas employees must be an integral part of a comprehensive improvement of the quality of foreign service life for all.

-- Ultimately, the preservation and enhancement of the role of the Service can only be accomplished if the Administration attaches a much higher priority to persuading Congress to provide the financial and personnel resources necessary for us to accomplish our mission. We can no longer survive by alternately shifting resources from one important activity to another, whether it be reducing political reporting to provide administrative service or limiting Staff Corps training while providing it to families. The United States cannot continue to maintain a strong international diplomatic position in the complex world of the '80s by deploying less money and fewer people than it did in the '50s.

Second, career employees must be assured a strong voice in the evolution of the Foreign Service. The proposed Act will give foreign affairs management broad new authorities for administering the Foreign Service. While we know where we stand under existing legislation and Executive Orders, the authors of the Foreign Service Act of 1979 have not provided a concrete plan as to how these new authorities would be implemented. We also need to guard against possible

political abuses in the future. Therefore, the safeguards of an effective employee organization are essential if there is to be a new Foreign Service Act.

-- In order to play a creative, responsible and influential role, our employee organization must be as broadly based as possible. This means: (1) We see no need for exclusions beyond management officials and confidential employees as defined in the current Executive Order; (2) The proposals for additional exclusions of inspectors, security and other personnel identified as "Confidential Employees" must be minimized in legislative history and in practice; (3) Further erosion along the lines of Title VII of the Civil Service Act would be intolerable.

-- We cannot accept limits on the scope of bargaining beyond that accorded the Civil Service. Indeed our unique and essential rank-in-person system and the special demands of career service abroad require the broadest possible negotiating mandate. We must be able to negotiate in advance the implementation of such provisions of the bill as: (1) precepts for tenure, promotion and selection out; (2) definition of concepts such as "worldwide availability" and "the needs of the Service"; and (3) ranges affecting essential conditions of employment such as lateral entry, time-in-class and promotion rates.

-- We cannot accept the imposed monopoly on grievance representation unless we are provided additional resources and are totally protected from Congressional efforts to reduce further the size of the proposed bargaining unit in the name of preventing conflict of interest.

Finally, the Foreign Service must be compensated on a par with the Civil Service and must receive appropriate incentives for a lifetime of service abroad. If we are to attract, develop and retain the talent we need from all segments of our society, they must be able to make reasonable predictions about their futures in the Service. They must also receive tangible benefits for pursuing a career which takes them away from home for much of their lives, exposes them to hardships and dangers and frequently thrusts incredible responsibitlies on them.

-- For the Staff Corps this means: (1) compensation built into the salary structure for the "overseas factor" and a renewed assessment of the extra responsibilities they assume abroad; (2) authorization for reimbursement for local duties and taxes overseas for employees excluded from the diplomatic

lists; (3) authorization for our secretaries and communicators to be compensated for the long hours they are regularly on standby duty.

-- For officers it means full implementation, as established by law, of the professional Hay Associates Study which demonstrated the chasm between Civil Service and Foreign Service pay. We stand for establishment in law of the ten class system below the senior ranks linked to the GS scale at the points outlined in the Hay Study. The legislative history should prescribe that the new class will be at the level of tenured FSO-6.

-- For the Senior Service it means: (1) an end to exclusion from hardship pay for Ambassadors whose lives are on the line abroad, and (2) compensation ranges on a level with the Senior Civil Service.

-- The Service is divided on the question of "performance pay". Since it is the only means now available for providing equitable compensation for our senior ranks, we will not oppose its enactment. It is essential that there be guaranties of its protection from political abuse and impartial distribution through the Selection Boards. We must emphasize, however, that it is not financial incentives but the standard of excellence which has provided our real motivation for superior service since the days of Jefferson, Adams and Franklin.

The Foreign Service Association has specific proposals for achieving each of the above. In my testimony before the House Subcommittees September 27 and as legislative consideration proceeds, we will continue, with your help, to press for an outcome which guarantees all three of these essential conditions.

If we are satisfied that all three conditions have been met, the Association will support the Bill

IV. Ladies and gentlemen, the days of decision about our futures and indeed about America's ability to conduct an effective, professionally executed foreign policy are upon us. Each of us can help to shape our own and our nation's destiny. You have already taken the first step by demonstrating through your presence here today that the Foreign Service does care.

-- If you are not already a member of the Association, please join us. We are pushing our resources to the limit and need your help.

-- If you want to get more directly involved, all our committees and meetings are open to anyone who wishes to participate. There is no limit to the amount of work yet to be done.

-- All of us, in and out of the Service, need to get the message to Congress that they must act now to preserve the Foreign Service of the United States.

-- Though the Association stands alone, we have not given up the fight to keep trade policy and promotion where it belongs, in the Foreign Service. You can help by contacting the Congress directly or through business and other colleagues.

-- We can all reach out to broaden the base of our service by individual recruitment efforts, particularly of outstanding minority and women candidates for the career service.

Together, we can shape a Service dedicated to excellence, representative of the best of our diverse society and capable of advancing United States interests around the world for the remainder of this century and into the next.

7921 Hatteras Lane
Springfield, Virginia 22151
September 10, 1979

The Honorable Abraham Ribicoff
Chairman
Government Affairs Committee
United States Senate
Washington, D.C.

SEP 13 1979

Dear Mr. Chairman:

I urge you and the members of your Committee to vote against the President's proposed reorganization of the foreign trade functions of the U.S. Government.

Based on my 12 years' experience in the Foreign Service, nearly all of it in economic and commercial work (in Europe, Africa and the State Department), I am convinced that the proposal to transfer the operational direction of most of our economic and commercial representatives abroad to the Commerce Department will damage our foreign economic policy and the effectiveness of government support for U.S. exports.

It can be argued that the purely trade promotion function overseas -- organizing promotional events, advising businessmen, contacting buyers (in non-Communist countries) -- is not a government-to-government activity and thus need not be closely integrated into U.S. foreign policy. But the interpretations of the President's proposal by OMB, Commerce and STR now go beyond changes in the trade promotion function overseas. These agencies seek the transfer of hundreds of both commercial and economic policy positions. These positions are now filled by career diplomats who report on foreign government policies and articulate U.S. policy to those governments.

The damage can be summarized as follows.

Splitting U.S. Embassies. Over half of the issues arising between the U.S. and many foreign governments are principally economic in content, and many of these issues affect trade policy. They are invariably politically significant as well. No Ambassador, no matter how skilled, needs the extra burden of a political section manned by one Department and an economic section manned by another.

Analogies with the representatives of other agencies do not fit. Military attaches, agricultural attaches, CIA liaison officers, AID administrators and the like are not normally called upon to prepare or present U.S. official

views on general economic and political issues. The State/Agriculture agreement of 1955, for example, clearly assigns intergovernmental negotiations to State. Commercial and economic policy is a much broader field than any of these other specialties, and should be fully coordinated with our other foreign policies.

Sloppy MTN Implementation. Protecting U.S. interests under any agreement involves three main functions: determining precisely in what ways a foreign government is not adhering to its commitments; preparation of policies in light of the foreign government's possible reactions; and execution of the policy effectively and without unduly damaging other U.S. interests. Performing these functions for the MTN agreements will be a sensitive diplomatic activity with multilateral implications, requiring policy skills quite different from the skills needed for trade promotion. If the U.S. does not make its MTN policies an important part of U.S. foreign policies toward our trading partners, it will become a neglected and ineffective afterthought of trade promotion.

Ineffective Response to Exporters' Complaints. In my experience, businessmen's complaints with commercial representation abroad fall into two categories: (1) dissatisfaction with the time or facilities commercial officers can offer them (i.e., shortage of staff or money), and (2) U.S. foreign policies which they believe hurt U.S. business interests in a given country. OMB can resolve the first problem without a reorganization, and the proposed reorganization will make the second problem worse.

Businessmen's policy complaints against the State Department or an Embassy abroad generally reflect the results of policies approved by Washington. The reorganization proposal would make State less responsible for the effectiveness of U.S. export policy, which will most likely make the State Department less sensitive to business needs, and make our foreign policies even less consistent with our economic interests. Some Ambassadors and Secretaries of State are less interested than others in the fate of U.S. business abroad, but their attitudes will not be improved by permanently reorganizing economic concerns out of their hands. The Secretary of Commerce will probably never have the same knowledge and access to the President on foreign policy issues as the Secretary of State. There is only one solution: hold State accountable for the economic effects of foreign policies. To be held accountable, State will need operational control over both the economic and political components of foreign policy.

Conflict with the Foreign Service Act. Both the present Act and the proposed revision are designed to produce a single service responsible for defending the U.S. national interest as a whole -- including the representation of different groups within the U.S. The U.S. does not need -- and cannot afford -- the absurdity of a separate Foreign Service for every major interest we have abroad. Who's next? Will Justice take over issuing visas and passports? GSA take over administering Embassies? CIA take over the remaining political reporting? Don't we need independent Transportation Attaches? Shouldn't the Social Security Administration be mailing out its own checks? Will STR take some economic policy jobs for itself? How many of these agencies will try to teach their people multiple languages, require extra reserved cars in each Embassy motor pool, or establish larger bureaucracies in Washington and new communications channels to serve their own people abroad (but not representatives of other agencies)?

Weak Recruitment. Up to now, Foreign Service Officers with education and experience in trade promotion or economic policy have been encouraged to make and continue a career in the Foreign Service. If Congress passes the reorganization proposal, these officers will have three options: join the Commerce Department, perform non-economic work in the Foreign Service (at a competitive disadvantage with administrative, consular and political officers), or leave the government. The illusion being created by OMB, that Foreign Service economists and commercial officers can drift along in State while on more-or-less indefinite detail to Commerce, is less than honest -- very soon the indecisive officers will find few assignments and subsequently no promotions available. Those of us who have worked with Commerce for years just do not believe that agency will treat us better than the sorry way it treats its own people, or that Commerce will develop a capacity for formulating intelligent foreign policies.

Over the long run, efforts to recruit new blood will only be able to compete effectively with the Foreign Service Examination process in obtaining highly qualified career people if Commerce somehow succeeds in duplicating the existing Foreign Service.

Poor Management. Testimony by McIntyre of OMB and Hodges of Commerce on this proposal has frequently ignored the official views of the State Department (which must support the President's decision), to say nothing of the views of the people most affected (which do not). One can

only assume that the plan will be executed as badly as it has been prepared and presented, and with the same disregard for the views and interests of those who are actually qualified to do the work.

Even an intelligent reorganization would be no substitute for sound policies and management. But this plan was prepared and approved without informed consideration of its consequences, and both U.S. economic policy and the management of U.S. foreign relations will be handicapped by it. I urge you to reject it.

Sincerely yours,

Henry L. Clarke

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NATIONAL TREASURY EMPLOYEES UNION

Suite 1101 — 1730 K Street, N. W.
Washington, D.C. 20006 (202) 785-4411

September 13, 1979

GOVERNMENTAL AFFAIRS COMM.
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WASHINGTON, D.C. 20510

The Honorable Abraham A. Ribicoff
Chairman, Governmental Affairs
Committee
3308 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Ribicoff:

We thank you for permitting us to submit a statement supplementing the record of your hearings on S.337, S.891, S.937, S.1471, and S.1491, to reorganize trade functions.

The National Treasury Employees Union represents 115,000 Federal workers, including all employees of the U.S. Customs Service. These Customs workers would be affected by the trade legislation your Subcommittee is now considering.

This legislation would remove functions relating to trade and revenue collection from the various agencies in which they are currently lodged and would place them in a new government agency.

Our union is firmly opposed to the removal of any of the revenue functions that are performed by the U.S. Treasury Department. The assessment and collection of revenue has always been a responsibility of the Treasury Department. To reassign those duties to a new department would discard 200 years of experience in revenue collection and needlessly disrupt what is now an orderly and overall efficient law enforcement process.

With regard to the specific questions raised by your Subcommittee concerning unfair trade statutes, we offer the following:

1. "What is the basic rationale for the transfer of part of the responsibility for antidumping and countervailing duty functions to a new Department of Trade and Commerce? In other words, what short comings of the present division of responsibilities between the Treasury Department and the International Trade Commission would be corrected by placing a part of the responsibility in an additional agency?"

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It seems to us that whatever shortcomings others have perceived in the present process would be exacerbated by further division of the responsibilities for enforcing the antidumping and countervailing duty laws.

These laws were both enacted to protect domestic industry, and the U.S. Customs Service was entrusted with enforcement of them pursuant to its role as the guardian against the illegal or harmful importation of goods and merchandise.

Under the antidumping statute, Customs is responsible for responding to complaints that a shipment of goods from a foreign nation is to be offered for sale in the United States at an artificially low price. A foreign country might lower the selling price of goods for export through subsidies to a manufacturer in an effort to create a market abroad and/or to stimulate an industry.

After the complaint has been lodged, Customs employees must determine whether or not the merchandise is being sold at the fair market value. This assessment is an extremely complex one and involves determining the cost of production in the foreign country and factoring in local economic information such as how industry sells its goods, how it determines costs, how its workers are compensated, and many other matters. Especially in a controlled economy that does not determine the value of labor or goods through the interaction of supply and demand, this "fair market" determination is a very difficult procedure.

Once the investigation is completed by the Customs Service, the International Trade Commission determines whether or not the importation of the subsidized merchandise is actually harmful, to U.S. industry.

After this research is completed, a recommendation is sent to the Secretary of the Treasury who makes a finding of whether or not illegal dumping has occurred. If the finding is affirmative, then the Secretary levies an extra "dumping" duty, which is the amount by which the merchandise falls short of its fair market value.

The legislation under consideration by your subcommittee would further fragment this process and make it inefficient and unwiedly. It would separate the processes of assessment and enforcement and in so doing would undercut both. As it is now, the technical branch of Customs, which investigates antidumping cases and the employees who enforce the determinations are in frequent contact with one another and rely upon each other to exchange information and implement policy. To place the investigative function in an agency other than Customs would virtually assure mismanagement, lack of communication, and confusion among those responsible for upholding the antidumping law.

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2. "Whether or not the functions are transferred, how should antidumping and countervailing duty operations be structured and staffed to avoid present deficiencies?"

The so-called deficiencies in the administration of these statutes are no more than a strict adherence to the laws as they were written. It seems to us that Congress has already taken a major step toward improving the deficiencies by streamlining the present procedures which are now in existence. To then take these functions out of the Treasury Department, which has developed the expertise to enforce these laws over the years, is tantamount to taking one step forward and two steps backward.

A more efficient and expeditious way to implement these statutes would be achieved if, instead of removing the functions from the Treasury Department, the Congress sought instead to increase the personnel in the Customs Service who are responsible for enforcing the antidumping and countervailing duty laws.

3. "If there is a transfer, how would the policy operation in the new agency interrelate with the basic data and investigative resources that would remain behind in the Customs Service?"

As we have stated, it is our belief that the most efficient and effective way to administer laws as complex as those regulating antidumping and countervailing duty is to keep all the related functions in the Treasury Department.

The U.S. Customs Service has been recommending the disposition of antidumping and countervailing duty cases since those laws were passed. It has developed expertise and knowledge in the area, as well as the practical ability to implement the policy determinations at the workplace. Customs personnel at the docks and airports recognize "dumped" goods as well as merchandise requiring a countervailing duty. They are kept apprised of new findings by their colleagues in other branches of Customs.

There are historical and practical reasons for maintaining these functions in the Treasury Department. But beyond these, there is always a tendency among groups of people to share information where there is a community enterprise, where there is a common goal the group is striving to achieve. Conversely, there is a tendency to develop a rivalry with another group or organization when functions are divided. Thus, to split the countervailing duty and anti-dumping responsibilities between the proposed new Department of Trade and Commerce and the Treasury Department is to invite factionalism and competition rather than the cooperation and free flow of information that now exists between the various branches of Treasury that carry out functions under these laws.

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4. "If a new Department of Trade and Commerce is to make injury determinations under Section 337, should it not also make injury determinations under the antidumping and countervailing duty statutes?"

The short answer to this question is, "No." One injury determination is not the same as another injury determination, and there is no effective rational for assigning different kinds of determinations to any one agency. An injury determination under the antidumping and countervailing duty statutes is a necessary prerequisite to a finding of dumping or harmful countervailing duty. If there is no injury to a United States industry, there is no dumping and no need for countervailing duty. To suggest separating the injury determination from the rest of the investigation now performed by Customs is like proposing that one person break the eggs, a second scramble them, and a third cook them. To put it briefly, dividing a function such as a dumping investigation into numerous disparate parts is to complicate the process unnecessarily and to introduce the possibility for communications breakdowns and delays.

We have one additional comment on H.R. 4691. This legislation sets forth a one year period of save-pay and grade for displaced employees. The Civil Service Reform Act of 1978 mandates a two-year grace period for employees who are downgraded as a result of an agency reorganization. To enact this Section of H.R. 4691 would be to deny only to Customs employees the benefits of existing law.

In summary, our union is opposed to those portions of the bill that would remove antidumping and countervailing duty functions from the Customs Service which is familiar with these laws and has always administered them. To fragment their administration between Customs and Commerce is to invite disruption and chaos in an operation that has functioned well.

Sincerely,

Vincent L. Connery

Vincent L. Connery
National President

western union **Telegram**

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PMS THE HONORABLE ABRAHAM A RIBICOFF

CHAIRMAN, SENATE GOVERNMENTAL AFFAIRS COMMITTEE

3308 DIRKSEN SENATE OFFICE BUILDING

CAPITOL HILL DC

GOVERNMENTAL AFFAIRS
RECEIVED
SEP 17 1979
WASHINGTON, D.C.

DEAR SENATOR RIBICOFF:

THE NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION URGES THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE AND CONGRESS TO TRANSFER THE ADMINISTRATION OF THE COUNTERVAILING DUTY ACT AND THE ANTIDUMPING ACT TO THE DEPARTMENT OF COMMERCE EXCEPT FOR THE DETERMINATION OF MATERIAL INJURY WHICH SHOULD REMAIN WITH THE INTERNATIONAL TRADE COMMISSION. INVESTIGATION TO DETERMINE WHETHER THERE HAVE BEEN SUBSIDIZED IMPORTS OR DUMPED IMPORTS INTO THE UNITED STATES SHOULD BE MADE BY A GOVERNMENT AGENCY WHOSE FUNCTION IS CLEARLY TO ADMINISTER UNITED STATES LAW. WE FEAR THE OFFICE OF SPECIAL TRADE REPRESENTATIVE MAY ENCOUNTER A CONFLICT OF INTEREST IN UNDERTAKING FAIR AND IMPARTIAL DETERMINATIONS OF FACT IN CASES WHERE STR MAY BE SEPARATELY NEGOTIATING WITH THE SAME COUNTRIES CONCERNING TRADE CONCESSIONS. THE DEPARTMENT OF COMMERCE WOULD NOT BE SUBJECT TO SUCH POTENTIAL CONFLICTS AND WE THEREFORE, URGE YOU TO TRANSFER THE INVESTIGATIVE FUNCTION TO THE DEPARTMENT OF COMMERCE.

BERNARD H FALK
PRESIDENT

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AMERICAN FARM BUREAU FEDERATION,
WASHINGTON OFFICE,
Washington, D.C. July 26, 1979.

Hon. ABRAHAM RIBICOFF,
Chairman, Committee on Governmental Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Farm Bureau has strongly supported both the Multilateral Trade Negotiations, while they were in progress, and the trade package which resulted from these negotiations. We are now most interested in the successful implementation of the legislation and trade treaty which the Congress has so overwhelmingly approved.

Successful implementation will require a reorganization of governmental trade functions and responsibilities. The American Farm Bureau Federation has these comments on the needed reorganization of the federal government's international trade functions:

(1) We believe that effective reorganization can be accomplished without the establishment of a new cabinet level department.

(2) We oppose transfer of the Foreign Agriculture Service (FAS), or any of its functions, from the U.S. Department of Agriculture. Farm Bureau played a leading role in the transfer of agricultural attaches from the Department of State to the Department of Agriculture some years ago. Also, we strongly support the effective market development work that FAS and cooperating industry groups are doing.

(3) We do not want to see the Office of the Special Trade Representative diminished in status or effectiveness. It is essential to have a strong government trade unit in the White House not only for trade negotiations with foreign governments but also for the coordination of trade policies within the Executive Branch.

We appreciate the opportunity to offer these comments.

Sincerely,

VERNIE R. GLASSON,
Director, National Affairs.

STATEMENT OF GTE PRODUCTS CORPORATION

GTE Products Corporation ("GTE") is a wholly-owned subsidiary of General Telephone & Electronics Corporation. GTE manufactures and markets a wide variety of products and services in the United States and in foreign countries to the private (consumer and commercial) and governmental sectors. GTE imports and exports articles in both finished and unfinished states; it competes in markets that are sensitive to import competition and in markets that present significant export opportunities. GTE employs nearly 100,000 persons in its domestic and international operations; its sales during 1978 were $4.1 billion.

GTE supports the concept of coordinating, in an executive department of the Government, the United States trade policy functions presently spread among fifty or more Government entities. We believe that the Department of Commerce, with appropriate restructuring and streamlining, could serve as that coordinating Department. We also believe that the successor entity to the Office of Special Trade Representative should act as a separate watchdog agency to help assure that the United States receives the benefits it bargained for in the Tokyo Round of the Multilateral Trade Negotiations.

At the same time, we urge that the responsibility for administering and enforcing the antidumping and countervailing duty laws should rest entirely with an independent regulatory agency, such as the International Trade Commission ("ITC"), as free as possible from pressure to use U.S. trade law as a foreign policy tool.[1] We direct the thrust of our comments to this latter point as well as to other matters concerning the effect of trade reorganization on unfair trade practices.

The responsibility for finding "less than fair value sales" in antidumping cases and for determining the existence of a subsidy in countervailing duty cases should not lie in a policy-making Government agency. Because the Trade Agreements Act of 1979 liberalizes the antidumping and countervailing duty laws, arguably making it more difficult to protect domestic trade against unlawful dumping and subsidies, it is important that an independent body be available to enforce these

[1] Such an independent regulatory agency could be housed in the trade policy-making department in the same way that the Federal Energy Regulatory Commission is a part of the Department of Energy, but it should not be influenced by the host department.

laws in strict conformance with their provisions.[2] In addition, a policymaking executive department would be more prone to twist the intent and meaning of the antidumping and countervailing duty laws in the name of trade policy than an independent regulatory agency. A case in point is the way in which the Department of Treasury, an executive department, has for over ten years almost entirely thwarted the result of the dumping finding against certain television receivers from Japan.[3]

The behavior of the Department of Treasury in this matter and in its administration of the antidumping and countervailing duty laws has been the subject of serious congressional criticism.[4]

We suggest that the most practical way to avoid politicizing enforcement of the antidumping and countervailing duty laws would be to end the present approach of bifurcating the findings of subsidy or dumping by the Department of Treasury on the one hand, and the findings of injury by the International Trade Commission on the other hand.[5] The ITC, an independent regulatory agency should be responsible for finding both "less than fair value sales" and resulting injury in antidumping cases, and both subsidy and resulting injury in countervailing duty cases. If this suggestion were implemented, we see no reason why the U.S. Customs Service could not provide the ITC with the same information with respect to antidumping and countervailing duty matters which it presently provides to the Department of Treasury in such matters.

With respect to the unfair import practice provision of the Tariff Act of 1930 (section 337), we believe that the same independent regulatory agency assigned responsibility for antidumping and countervailing duty matters should administer section 337. Again, we suggest that the ITC, which has aggressively administered section 303 of the Tariff Act of 1930 and the Antidumping Act of 1921, retain its section 337 jurisdiction.

In summary, while GTE endorses the formation of a central policymaking trade department, we strongly urge that an independent regulatory agency administer enforcement of antidumping, countervailing duty and unfair import practice laws as an important counterbalance to the institutionalization of trade policy matters.

NATIONAL COUNCIL OF FARMER COOPERATIVES,
Washington, D.C., August 16, 1979.

HON. ABRAHAM A. RIBICOFF,
Chairman, Committee on Governmental Affairs,
Russell Senate Office Building,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: We share the concern which you and other congressional leaders have recently expressed, that trade and other international economic policies and programs be coordinated and implemented in the most effective possible way. This need is vital to gain the maximum possible benefits which the recently completed Tokyo Round will permit, and to build further on the progress made during this historic round of world trade negotiations. U.S. agricultural interests are especially concerned with the potential opportunities for expanded exports which the new codes and other trade barrier reductions make possible. We need a strong, well-coordinated effort to expand our exports and achieve a better trade balance which is in the interest of world economic stability and U.S. economic health.

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[2] This is not to say that it would be inappropriate, for example, for a policymaking agency to settle an antidumping case by accepting an undertaking by the defendant to eliminate completely the injurious effect of the dumping. However, we believe that the authority of such an agency should be limited to cases where an independent body has first determined that the market place result on which an undertaking is predicated will be reached.

[3] *See* the allegations set forth in *Committee to Preserve American Color Television (a.k.a. COMPACT), et al.* v. *W. Michael Blumenthal, et al.*, Case No. 79-1207 (D.C.D.C., decided June 26, 1979); *appeal pending*, No. 79-1948, D.C. Cir.

[4] See S. Rept. No. 96-249, 96th Congress, 1st session. (1979) pp. 76-77 and H. Rept. No. 96-317, 96th Congress, 1st session (1979), p. 69.

[5] *See* Recommendation No. 78-4 of the Administrative Conference of the United States, 39 Federal Register 4846, 4847.

You have had many constructive suggestions for achieving this stronger and better coordinated U.S. trade program. We are pleased that all major proposals recognize the effectiveness of our agricultural export programs, and understand that the U.S. Department of Agriculture should retain its vital role in this process. We endorse the encouragement of more agressive overall U.S. export programs, through this proven type of government-private cooperation.

U.S. agricultural interests have consistently sought to insure that our national trade policy and our overall international economic posture fully recognize the needs and the special problems which farmers face in international markets. The Office of the Special Trade Representative has traditionally been open and responsive to consideration of these needs, and we support the expansion of a U.S. Trade Representative's role in policy development and coordination. We also believe this role should include oversight authority for key elements of implementation/enforcement activities, including countervailing duty and other especially sensitive import relief measures.

We strongly support the Administration proposal that the Trade Representative's Office be given broad policy management related to monitoring and resolving international trade disputes. Operational functions such as day-to-day monitoring and analytical and staffing support can be left with the appropriate departments. While we agree that an expanded export promotion effort for non-agricultural products would be an appropriate function for an expanded Department of Trade and Commerce, we believe that the U.S. Trade Representative in the Executive Office should clearly be designated as the national "trade advocate" and one who has the major responsibility for assuring the U.S. of a "consistent trade policy," as called for by Senator Russell Long on July 27.

We endorse, too, Administration proposals to strengthen the role of the Trade Representative in conducting all trade negotiations, including representation to the General Agreement on Tariffs and Trade; coordination of international investment policy, energy trade issues, East-West trade policy; and participation on the National Advisory Committee on International Monetary and Financial Policies.

While recognizing the commendable objectives of limited staffing of a White House Trade Office, we believe that a substantial increase in the budget and staff of the office would be essential to carry out its expanded functions. Although the details of many day-to-day administrative functions can be carried out within the involved cabinet departments, the additional vital policy and enforcement coordinating and oversight roles would require such an increase in order to be effective.

Finally, in dealing with the problems of effective coordination and implementation of existing agreements and laws, we should not lose sight of the urgent need for further negotiations which will continue to improve the framework for more open and expanding world trade and other international economic matters. The U.S. Trade Representative should be given a strong congressional mandate to work toward that goal, and the firm and consistent support of the President will also be vital to progress in that respect.

We are pleased that you and other trade leaders have recognized the urgency of this need for a stronger, better coordinated U.S. trade effort. On behalf of U.S. farmers, we want to assist in any possible manner in this effort.

Sincerely,

ROBERT N. HAMPTON,
Vice President, Marketing and International Trade.

[MAILGRAM]

WESTINGHOUSE POWER SYSTEMS CO.,
Washington, D.C., September 13, 1979.

Hon. ABRAHAM A. RIBICOFF,
Chairman, U.S. Governmental Affairs Committee,
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR RIBICOFF, We urge you to transfer the function of investigating and determining facts under the countervailing duty act and the antidumping act to the commerce department.

The objective administration of investigating and fact-finding pursuant to these laws is extremely important to American industry. In considering the recently enacted trade agreements act of 1979, congress carefully reviewed the new international agreements concerning countervailing duties and antidumping, which have been subscribed to by the other nations participating in the Tokyo round.

As you know, Congress ratified the agreement that there must be "material injury" to a United States Industry in order to impose a countervailing duty or antidumping penalty. Also Congress left intact the well-established public policy that subsidized exports and dumped exports into the United States are unfair trade practices which are to be penalized when materially injurious.

We believe the office of special representative for trade negotiations should properly be responsible for initiating policy, conducting negotiations and making recommendations to congress concerning trade policies. On the other hand, we strongly believe it would be better policy and would avoid potential conflict of interest if the office of special trade representative is not responsible for investigating and determining the facts in resolving countervailing duty and antidumping complaint.

It is not unusual for foreign countries to importune favored treatment for their exporters during trade negotiations, regardless of their subsidized or dumped prices.

The commerce department, which is not responsible for the give and take of negotiations with other countries, should be given responsibility for making objective investigations as to whether there have been subsidized imports into the U.S. or whether there has been dumping into the U.S.

The legislation to reorganize the international trade function should strongly emphasize that these investigations must be factual and objective and not be colored by any compromise or political entreaty.

We respectfully urge that the investigation and fact-finding responsibility be placed in the department of commerce, and we feel that the determination of 'material injury'' should properly remain a function of the International Trade Commission.

GORDON C. HURLBERT, *President.*

PAN AMERICAN WORLD AIRWAYS, INC.,
Washington, D.C., October 16, 1979.

HON. ABRAHAM A. RIBICOFF,
Chairman, Committee on Governmental Affairs,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: I understand that the Committee on Governmental Affairs will soon hold hearings on the President's Reorganization Plan No. 3 of 1979, to consolidate trade functions of the U.S. Government. As a U.S. Flag International Airline, we endorse efforts now underway by the Administration and the Congress to strengthen the role of the U.S. Government in support of the U.S. trade activities. We are concerned, however, that Reorganization Plan No. 3 does not specifically define "trade" as including trade in services. We urge that the Plan be amended to make this inclusion clear.

Within the context of "services," we urge also that your Committee establish that international air transport services are among those service industries included. Pan Am favors the current U.S. Aviation Policy which encourages competition in the air transport field. For such competition to be effective and to serve the interests of the American people and the U.S. Flag Airlines, it is essential that our Government do everything in its power to reduce discriminatory business practices now engaged in by foreign governments which are designed to provide competitive advantage to their own national flag airlines. We believe that as the Office of the Trade Representative and the Department of Commerce develop the means of supporting U.S. service exports that these activities can be supportive of the United States Flag Airlines. We wish to make certain that the U.S. Flag Airlines will be able to take full advantage of these activities and receive the full support of our Government which is intended in the President's Reorganization Plan.

I am addressing an identical letter to Senator Roth.

Sincerely,

JOHN KRIMSKY, JR.,
Vice President, Federal Affairs.

[MAILGRAM]

WESTINGHOUSE ELECTRIC CORP.,
Washington, D.C., September 10, 1979.

Hon. ABRAHAM A. RIBICOFF,
U.S. Senate,
Washington, D.C.

DEAR SENATOR RIBICOFF, Respectfully urge deferral of proposal to transfer some 300 American and 500 foreign service national positions to Commerce Department pending opportunity for debate involving business which after all will be most affected by proposal American business salesmen abroad—believe best interest of United States served by Roth-Ribicoff Bill and not piecemeal fragmentary action of this kind.

JAMES F. LANE,
President, American Chamber of Commerce in Australia.

[MAILGRAM]

THE AMERICAN ASSOCIATION OF ADVERTISING AGENCIES,
New York., N.Y., September 17, 1979.

Hon. ABRAHAM A. RIBICOFF,
Chairman, Senate Committee on Governmental Affairs,
Russell Senate office Building,
Washington, D.C.

DEAR SENATOR RIBICOFF, The American Association of Advertising Agencies recommends that you strongly urge the administration to consider strengthening the representation of the service industries in the Administration's proposal for the reorganization of the Goverment trade structure.

The AAAA urges the Administration to provide for increased status and staff to serve the needs of the service industries in the Department of Commerce and the special representatives for trade negotiations.

AAAA represents 480 advertising agencies with over 800 offices in the United States and 400 offices in foreign countries accounting for $13 billion in advertising billing.

LEONARD S. MATTHEWS, *President.*

STATEMENT OF ROBERT L. MCNEILL ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE ON GOVERNMENT TRADE REORGANIZATION

The members of the Emergency Committee for American Trade welcome President Carter's recent proposals for reorganization and strengthening of the federal government's international trade functions. We have examined them and we support them as necessary steps to help ensure effective implementation of the international trading rights and obligations of the United States.

While a number of ECAT's members would have preferred greater consolidation of the government's international commercial functions than that proposed by the President, we feel that a sound first step has been recommended and that it provides the organizational nucleus for future improvements.

We should like to offer two recommendations. First, we are particularly concerned that the responsibility for centralized development of international commercial policy appears to be slighted in the President's proposal. It would assign coordination and negotiation responsibilities to the United States Trade Representative and operational and implementational support responsibilities to a newly-constituted Department of Trade and Commerce. Other agencies would continue their appropriate trade responsibilities. Our recommendation would be to give the United States Trade Representative clear responsibility for policy formulation and further responsibility for its implementation, including oversight responsibility for regulations as they affect international trade to insure their consistency with our GATT and other international trade commitments. This necessarily would provide the Trade Representative with authority for the policy content of some programs primarily administered by other departments and agencies, but we believe this necessary for the conduct of sound commercial policies.

Second, we strongly support President Carter's proposal that responsibility for coordinating international investment policy be placed under the newly-constituted Trade Policy Committee and recommend that U.S. tax policy and other policies such as antitrust that relate to international business explicity be included. The international competitiveness of American industry is vitally affected by such policies. The proposals of the Carter Administration, for example, to eliminate DISC, the foreign tax "deferral" provisions and to modify the foreign tax credit would severely harm the competitiveness of U.S. industry with consequent damage to domestic employment and to the U.S. balance of payments. And yet, these proposals are made at the same time that the President exhorts American industry to increase its exports. This kind of policy inconsistency could be detected, discussed and possibly avoided under effective Trade Policy Committee coordination and supervision.

In light of the proposed new responsibilities of the United States Trade Representative, we would hope that the President would include him as a key member of the Administration's top economic advisory team.

We further hope that Congress will act expeditiously on trade reorganization proposals.

Most members of the ECAT task force that recommended the above statement to our general membership were skeptical about creation of a new cabinet trade department for a variety of reasons. Among them was the belief that functions taken from existing departments and transferred to a new one would soon be replicated in the department from which taken, since each of them has a valid departmental interest in foreign trade. On the other hand, all members felt a need for an improved government structure to monitor and enforce U.S. rights and obligations under the new international trade codes, to develop and effectively coordinate consistent U.S. trade and investment policies, and otherwise to assist and promote U.S. exports.

The President's July 19, 1979, reorganization proposal poses a host of organizational and program questions. We look forward to seeing the details.

Statement by National Machine Tool Builders' Association

I. INTRODUCTION

The National Machine Tool Builders' Association is a national trade association representing over 370 American machine tool manufacturing companies, which account for approximately 90% of the United States' machine tool production.

Although the total machine tool industry employs approximately 100,000 people with a combined annual output of around $3 billion, most NMTBA member companies are small businesses with payrolls of 250 or fewer employees.

While relatively small by some corporate standards, American machine tool builders comprise a very basic segment of the U.S. industrial capacity, with a tremendous impact on America. It is the industry that builds the machines that are the foundation of America's industrial strength. Without machine tools, there could be no manufacturing; there would be no trains, no planes, no ships, no cars; there would be no power plants, no electric lights, no refrigerators and no agricultural machinery.

Indeed, economists and government officials increasingly have come to recognize that the machine tool industry is an excellent barometer for measuring the economic health of the nation.

We welcome this opportunity to comment on the Administration's proposed trade reorganization proposal. We hope that our observations and suggestions, based upon wide experience in international trade on behalf of the U.S. machine tool industry, will be particularly valuable in the evaluation of the trade reorganization proposal now before this Committee.

II. NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION EXPORT PROMOTION ACTIVITIES

NMTBA and its member companies have devoted considerable time and effort to increasing exports.

NMTBA, on behalf of the American machine tool industry is devoting its own resources to the development and maintenance of international markets every-

where in the world. The Association has three people who spend virtually their full time overseas promoting United States machine tool exports with considerable assistance from the Department of Commerce.

NMTBA develops seminars and workshops to train our members' people on international financing, export licensing, or any other subject that will benefit a machine tool builder. We conduct market research to locate new and promising markets for industry development. We have conducted twenty-four Industry Organized, Government Approved (IOGA) trade missions to help gain a foothold in these new markets, and more are planned for 1979 and 1980. We sponsor foreign exhibitions so that our members will have more opportunities to display their products overseas. In addition, we often work in close conjunction with the Commerce Department on such activities as recruiting exhibitors for export promotion events such as catalog shows, video tape shows and technical seminars. We organize reverse trade missions to bring foreign buyers to our plants. And we bring large groups of foreign visitors to the International Machine Tool Show in Chicago every two years. The Commerce Department has worked closely with us in the development and implementation of these programs, as have the commercial officers in our embassies and trade centers around the world.

III. INTERNATIONAL TRADE REORGANIZATION PLAN

The Carter Administration has proposed a major reorganization of Federal Government trade functions designed to strengthen the U.S. position in international markets by expanding exports, improving enforcement of trade laws, and upgrading trade activities consistent with the new Multilateral Trade Agreements (MTA). This reorganization, which will centralize authority for U.S. trade actions and will provide the leadership required for the development and implementation of trade policy, consists of four principal elements:

1. The creation of a new Cabinet rank office of the U.S. Trade Representative, which would replace the current Special Trade Representative (STR) post, and be imbued with increased responsibility for *trade policy*;
2. The strengthening of the Commerce Department's domestic and international trade functions, and the creation of the Office of Under Secretary for International Trade, which would have primary responsibility for non-agricultural trade program implementation;
3. The establishment of a Trade Policy Committee, an interagency coordination group chaired by the Trade Representative, which would be responsible for developing general U.S. trade policy;
4. The creation of a Trade Negotiation Committee, which would essentially be a creature of the Trade Policy Committee charged with the specific task of coordinating and managing specific trade negotiations consistent with policy objectives.

We strongly support the underlying philosophy of this reorganization and believe that the above described administrative structure would be most effective in achieving:

1. Centralized authority for U.S. trade activities;
2. Improved coordination between trade and other U.S. policy objectives;
3. Upgraded priority for government trade activities;
4. Establishment of a strong authoritative voice for trade policy in the Executive Office of the President;
5. Focused responsibility on one Cabinet Department for non-agricultural government trade activities; and
6. Strengthened interagency consultive processes on trade policy matters.

We feel that the tripartite structuring of this new international trade administrative apparatus is theoretically sound in that it provides for:

1. A streamlined senior executive post, the Office of the U.S. Trade Representative, with close access to the President;
2. Interagency coordination through the Trade Policy Committee; and
3. Implementation, management and enforcement of the MTA and other existing trade agreements and laws by the already experienced Commerce Department.

Furthermore, the combining of both domestic and international trade functions within one department recognizes the fact that business is now conducted on a worldwide basis, and that trade is a global function, rather than a national or regional endeavor. Artificially dividing domestic and international trade functions

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into separate departments would therefore be counter-productive to the kind of coordination necessary to take full advantage of the new global markets.

One specific element of the trade reorganization plan which we feel is particularly noteworthy is the very significant and helpful innovation which would transfer foreign service commercial officers from the jurisdiction of the State Department to that of the Department of Commerce. Such a realignment of foreign service personnel would both: (1) strengthen the role of commercial officers, by supplying them with the technical backup assistance of a department concerned primarily with the interests of commerce and trade rather than politics and diplomacy; and (2) more clearly define the professional career paths of the individuals involved in this specialized foreign commercial service.

Relative to one other aspect of this reorganization plan which has received some criticism, we make particular note of our support for the transfer of the anti-dumping and countervailing duty functions from the Department of the Treasury to the Commerce Department. This is a logical step in the consolidation of international trade administrative functions. We would further recommend that the Commerce Department and the U.S. Trade Representative should work in consultation on these matters, but that the Department of Commerce's final determination not be subject to disapproval by the Trade Representative.

We are aware that there are a number of other criticisms of this proposed restructuring plan which fault it for not providing a specially tailored solution to every individual problem in the current system. In response to these concerns we would suggest that this proposed reorganization of the international trade functions of the U.S. Government should not be viewed as a panacea to all the contemporary maladies of U.S. exporters. Rather, it must be viewed in the proper perspective—that is, the restructuring to manage the Multilateral Trade Agreements which will become operative the first of next year, as well as other new and existing foreign trade programs. Furthermore, its critics, and supporters we might add, must understand that this executive department reorganization plan is generically not the proper vehicle for remedying problems which should be addressed by Congressionally enacted legislation.

Moreover, reorganization plans are by their very nature designed to rapidly implement necessary executive branch administrative functions, without becoming entangled in Congressional debate over substantive policy decisions. Such is very definitely the situation in this case, as it is imperative that we have an effective international trade administrative capacity firmly in place by January 1, 1980 in order to be able to take full advantage of the new trade benefits that will become available as a result of the recently concluded Multilateral Trade Agreements.

Once this administrative restructuring has occurred, it will then be Congress' function to enact export promotion programs that will move the U.S. forward in assuming its rightful place in world markets once again.

In short, this reorganization plan should be viewed as the Executive crucible into which the Congress must now be charged with the duty of pouring the white hot mettle of renewed and vigorous American export promotion programs and initiatives.

IV. CONCLUSION

In conclusion, we thank this Committee for its interest in the vital area of international trade. We believe that the above described executive branch international trade reorganization plan in conjunction with other specific export promotion proposals would greatly encourage companies not presently active in export trade to become so involved, and to assist industries such as our own to remain vigorous in this increasingly important business arena.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA,
Washington, D.C., October 16, 1979.

Hon. ABRAHAM RIBICOFF,
U.S. Senate,
Russell Senate Office Building,
Washington, D.C.

DEAR Senator RIBICOFF, The administration has recently submitted to Congress a reorganization plan restructuring the federal government's international trade functions. AGC has testified twice on this issue, on July 26, 1979, before the Senate Governmental Affairs Committee and on September 7, 1979, before the Ways and Means Subcommittee on Trade. On both occasions we expressed our belief that reorganization itself will do little to stimulate U.S. exports of construc-

tion services unless it is accompanied by substantially expanded and improved direct government trade promotion designed exclusively to improve our export performance and the competitiveness of U.S. contractors working overseas. Specifically, we have called for expanded Export-Import Bank project financing and loan guarantees, performance bonds, political risk insurance, and feasibility financing equal to the services and programs that our foreign competitors receive from their home governments.

In addition to requesting more effective and substantial government support to promote U.S. exports, AGC has called for a statutory requirement directing the Department of Trade and Commerce to perform Trade Impact Assessments (TIA's) on major existing and proposed legislative and regulatory measures affecting U.S. exports.

Between $5 and $8 billion of potential U.S. export business is lost each year due to major export disincentives, according to Rutherford Poats of the National Security Council. This estimate excludes the most costly disincentive—the non-competitive taxation of U.S. citizens working abroad. Projected against the record high 1978 U.S. trade deficit of $34 billion, U.S. laws and regulations may have thus accounted for as much as 25% or more of this imbalance. At a time when exports are assuming increased importance for the well-being of our domestic economy (more jobs, less inflation, stronger dollar, etc.) and a strong trading posture is becoming a national security and foreign policy necessity, a re-examination of existing trade impairing laws and regulations is indeed called for.

Trade Impact Assessments would not in themselves eliminate existing export disincentives or guarantee against the future enactment of measures resulting in lost overseas business. National security and foreign policy considerations will continue to be given priority in many instances. However, the U.S. is becoming more and more dependent on trade with other nations and export policy must therefore assume greater future importance relative to non-economic interests.

Trade Impact Assessments would generate an increased awareness in Congress the Executive branch and the public of the negative effects that certain U.S. law, and regulations have on our export performance. The trade argument would be strengthened and members of Congress could draw on TIA's when explaining a pro-trade posture to constituents at home.

We believe that the TIA mechanism, as outlined in the attached documents, represents a constructive and worthwhile idea, at a time when we suffer from a conspicuous lack of concrete proposals to deal with our declining international competitiveness and our trade deficit. We hope that you as a member of the recently established Senate Export Caucus will give this proposal your serious consideration and endorsement, and that you will actively pursue its introduction and enactment.

AGC International Division staff will be happy to discuss with you in greater detail Trade Impact Assessments as well as other ways of stimulating U.S. exports of construction services.

Thank you for your consideration.

Sincerely,

JAMES M. SPROUSE,
Executive Vice President.

Attachments.

INTERNATIONAL CONSTRUCTION DIVISION,
Washington, D.C., September 26, 1979.

PROPOSED LEGISLATIVE LANGUAGE ON TRADE IMPACT ASSESSMENTS

The Bureau of International Economic Policy and Research in the Department of Commerce shall have, as one of its functions, the responsibility for coordination and preparation of Trade Impact Assessments identifying the trade costs associated with major existing and proposed legislative or regulatory measures affecting U.S. exports.

Trade Impact Assessments shall be presented in the form of concise 1-5 page reports and shall include a description of the methodology utilized in the assessment.

Trade costs are defined as lost potential export business.

Legislative and regulatory measures are considered major if they result in an annual loss of $10 million or more of potential export business.

Trade Impact Assessments shall be presented to Congress during Congressional hearings on proposed legislative measures for inclusion in the Committee report.

Trade Impact Assessments shall be presented to Congress on an annual basis on existing legislative or regulatory measures.

Trade Impact Assessments shall be available to the Congress and the public on proposed regulatory measures during the public comment period.

Trade Impact Assessments shall, in principle, be available to Congress and the public. However, the Secretary of Trade and Commerce shall have the discretionary power to postpone public disclosure for national security reasons for a period that he deems necessary.

FACT SHEET

TRADE IMPACT ASSESSMENTS

Issue

To attach to the reorganization of the Federal Government's international trade functions a statutory requirement which would direct the designated lead agency on international trade to prepare Trade Impact Assessments (TIA's) identifying the trade costs (i.e., lost export business) of all major existing and proposed legislative or regulatory measures with an unfavorable impact on U.S. exports.

The TIA mechanism would function in approximately the following way:

(1) The Secretary of Trade and Commerce (assuming that the Administration's reorganization plan is approved), together with Congress, will identify existing and proposed legislative or regulatory measures considered to be "major" in terms of their impact on U.S. exports (currently, perhaps a package of no more than 20 export disincentives).

(2) Consultations with Commerce Department officials indicate that TIA's can be performed within existing capabilities and require only minor reorganization in the Department of Trade and Commerce. Perhaps the TIA function is most appropriately placed in the Bureau of International Economic Policy and Research. No additional costs of any consequence would thus be incurred.

(3) A TIA on any given legislation and regulation would consist of a short (approximately 1–5 pages) report, identifying the trade costs and findings in the form of empirical data. The report would be made available during Congressional hearings on proposed measures for inclusion in the Committee report, and on an annual basis for existing measures.

(4) As a general rule, all TIA reports would be made public, except in those rare instances where compelling national security considerations would dictate otherwise.

Advantages of a TIA mechanism

(*a*) Public disclosure of trade cost data will significantly contribute to a general strengthening of the trade argument. A strong trading posture for the U.S. is becoming both a national security and foreign policy necessity.

(*b*) A TIA mechanism may have a deterrent effect by making policy makers and legislators aware that their proposals will undergo a trade cost evaluation and thus discourage policy initiatives which would achieve limited political gains but result in substantial losses of trade.

(*c*) The TIA mechanism, if adopted by Congress, would signify to the public and the business community that there is a genuine willingness on the part of Congress and the Administration to take action designed to facilitate and promote the exports of U.S. goods and services and to reduce our trade deficit to assure that the benefits derived from a strong trading posture (i.e., more jobs for Americans, lower inflation and a stronger dollar) continue to accrue to the U.S. economy.

Arguments Against a TIA Mechanism:

(*a*) A TIA would simply be one more costly "Impact Statement."

Rebuttal.—TIA's do not require additional budgetary allocations, as evidenced by the fact that the government, using existing resources, is currently engaged in comprehensive trade cost studies in compliance with the President's Export Policy Statement of September 26, 1978. (The results of the studies have not been disclosed to the public, as disclosure of this material is not required by law.)

If introduced, TIA's would be the only "Impact Statements" to date clearly designed to help this nation's exporting interests. Considering the numerous burdensome and export-impairing measures that, in the past, have easily won Congressional approval, it would indeed be ironical if the TIA proposal would be opposed because of a general antipathy against additional "Impact Statements," and its merit as an indirect export promoting device not be fully understood and appreciated.

(*b*) Trade costs cannot be accurately measured, and, therefore, TIA's have little value.

Rebuttal.—Some trade cost data may be difficult to obtain, and some TIA's, therefore, would not be complete or fully reliable. However, these problems do not constitute sufficient cause for rejecting the system itself. In time, and with additional experience, methods to assess trade costs can be developed and perfected.

For additional information, contact: The Associated General Contractors of America.

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INTERNATIONAL ECONOMIC POLICY ASSOCIATION,
Washington, D.C., October 1, 1979.

Hon. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade,
Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR SENATOR RIBICOFF: We have corresponded previously about the important subject of government reorganization in the trade area. As you may recall, our Association—a nonprofit research group which has been working in this field for over two decades—is concerned about the decline in America's international business competitiveness.

There are many reasons for this; but among them, I believe, is our failure to centralize the responsibility for international trade policy at the White House level and to coordinate it with other aspects of our international economic policies.

IEPA was a strong supporter of the Council on International Economic Policy, which proved very successful in its first phase, although it came to be used infrequently under the Ford administration and was not renewed by President Carter.

I believe that the Administration's revised reorganization plan will, in large part, serve to correct this omission; for, as we understand it, it assigns the U.S. Trade Representative responsibility for development of long-term trade strategies and policy in dealing with both import remedies and export expansion plus East-West trade, international direct investment, international commodity issues, and energy trade. Since the Trade Representative will also assume the lead role in both bilateral and multilateral negotiations on these subjects, including various codes under consideration in the OECD and UNCTAD, and serve on the NAC and the Ex-Im Bank and OPIC boards, he will be in a powerful position to develop and implement an effective foreign economic policy for the United States. Obviously much will depend on the caliber of the individuals who hold these responsibilities over the years ahead.

Since the Administration has decided not to create another separate department for trade and investment, as you and Senator Roth had once proposed, it is obvious that the USTR must be supported by a strengthened departmental machinery, which we believe logically falls to the Department of Commerce—assuming that their capability for dealing with this mandate, including import remedies, analytical functions, and commercial representation abroad, will be appropriately strengthened. The service area in particular is one which deserves greater policy emphasis so as to maximize its earnings potential for the United States.

Although it must be recognized that the relationships between the USTR and Commerce may be problematical in certain areas, and that a case can be made for your separate department approach, we think the Administration's hybrid approach, with policy formulating and coordinating responsibilities at the STR level and operations and support in the Department is the most feasible solution.

Hoping that these views may be of assistance to you and with best personal regards,

Sincerely,

TIMOTHY W. STANLEY, *President.*

U.S. Council for an Open World Economy, Inc.

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, in hearings on government organization in trade policy before the Senate Committee on Governmental Affairs, August 6, 1979.

(The views expressed here are those of the writer and not necessarily in every detail those of the U.S. Council for an Open World Economy or its Board of Trustees. As in the past, my only standard is the national interest.)

The need for U.S. Government reform in the administration of trade policy is widely held but too narrowly perceived. Nearly all these proposals appear to overlook closely related areas of foreign and domestic economic policy, and seem to concentrate on merely shifting administrative functions from one department to another (some proposals urge creation of a new department) as if administrative realignments were the stuff from which adequate policy performance and priority derive.

When the Ribicoff-Roth bill (S. 1990) was first proposed in the previous Congress, urging a new Department of International Trade and Investment, I told the two Senators the idea was akin to rearranging the deck chairs on the Titanic. With allowance for some exaggeration, this is still my reaction. I also see the bill's administrative surgery, separating the international from the domestic functions of various departments, as impractical, counterproductive, and violating the interdependence of the domestic and foreign aspects of these government functions.

There is a regrettable scent of mercantilism in most of the reform proposals. Better performance in export expansion is a worthy objective, but this is coupled with proposals to shift anti-dumping and anti-subsidy responsibilities out of Treasury (to Commerce, for example) to secure more import-restrictive handling of such proceedings. (The handling of these cases, and of others such as trade-related national-security proceedings, can be whatever the President wants it to be, regardless of whether the duties are performed by Commerce, Treasury or any other executive agency. So shifting these duties from one department to another will ensure no policy change.) And nowhere in these reform proposals is there advocacy of greatly needed reform in the handling of import-relief cases—the need (as our Council has often argued) for coherent industry-adjustment strategies as the framework for whatever additional import restrictions may be necessary. This would end the practice of pig-in-a-poke import restraints—controls without assurance that these subsidies at public expense are being used for an adjustment plan that deserves public support and fully serves the public interest.

DEPARTMENT OF COMMERCE

Moving the Export-Import Bank and the Overseas Private Investment Corporation into closer association with the Department of Commerce may be desirable for better coordinated strategies in these policy areas. Giving Commerce more authority over the commercial sector of the Foreign Service has merit, although just making the commercial attaches Commerce's responsibility seems simplistic. What is needed is a career commercial service no less important than any other sector of the Foreign Service, with prospects for individual promotion to the highest echelons of the Foreign Service, including ambassadorial rank. The whole issue of the role and development of the commercial foreign-service requires more sophisticated attention than it seems to be receiving.

The Department of Commerce needs to be given the resources and responsibility for an effective strategy not only in export promotion but in addressing the real problems and needs of U.S. industries that require and deserve adjustment assistance in a rapidly changing and increasingly competitive world. These major areas of responsibility should be highlighted by designation of an Undersecretary of Commerce for Export Expansion and an Undersecretary of Commerce for Economic Development and Productivity. Also stressing these related areas of responsibility, the Department of Commerce should be renamed the Department of Trade and Economic Development. The proposal to rename the Department the Department of Trade and Commerce should be rejected. Reflecting linguistic shortcomings, the evident tautology would lessen the stature of reform efforts in this policy area.

The inadequacy of government preparedness in the handling of import-related industry problems is illustrated by the fact that, when the Administration in

1977 concerned itself with the problems of the steel industry, it felt it had to turn to an ad hoc inter-agency task force chaired by the Undersecretary of the Treasury for International Monetary Affairs. There is still no coherent steel policy. The long use of oil import controls without a coherent oil policy bespeaks a negligence I have brought to government and public attention for many years.

OVERALL FOREIGN-ECONOMIC STRATEGY

In addition to the above proposals on giving a reconstituted Department of Commerce suitable resources and responsibility in trade promotion and economic adjustment, the President should immediately upgrade foreign economic policy to a priority coordinate with national security in policy planning, and form an inter-agency foreign-economic-policy planning board on a level with that of the National Security Council. Reorganization along these lines should be given a statutory base as soon as possible.

With the President serving as chairman, the board's chief operations officer should be an executive vice-chairman who is not also the head of any regular Department. The executive vice-chairman should also have the post now occupied by the Special Representative for Trade Negotiations (STR). The STR staff should become a trade-policy planning staff in that new framework. The inter-agency board should be much more than a coordinating body. It should be a foreign-economic-policy planning board in the fullest sense, addressing the need for (inter alia) an authentic "free and fair trade" strategy including: the freest, most equitable access of foreign goods to the U.S. market, an effective adjustment policy to backstop such an import policy, and an adequate "foreign aid" program aimed at raising living standards and purchasing power in the world's poorest countries (already a major U.S. export market). All these policy ingredients are essential but greatly neglected components of an effective export-expansion policy.

These reforms would reflect recognition of the fact that there is nothing better calculated to spur export promotion by American business than realization that free trade is government's unmistakable commitment, and that development of a world market, not just a domestic market, is consequently unavoidable.

The inter-agency board should submit an annual report to Congress on problems as well as progress in this policy area. This report should be the subject of incisive Congressional hearings. There has never been such a periodic accounting to Congress and the country in this field. Congress itself needs reorganizing to deal with foreign economic policy, and trade policy itself, in a more responsible manner. The performance of Congress in this field is no less important than that of the Executive Branch, and reform there is no less necessary. The failure of Congressional critics of trade-policy administration to look at Congress' own failings in this policy area is regrettable.

FEDERATION OF AMERICAN HOSPITALS,
Washington, D.C., September 13, 1979.

Hon. ABRAHAM RIBICOFF
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR RIBICOFF:

The Federation of American Hospitals, as the spokesman for America's investor-owned hospital industry, wishes to express its concern that the Administration's trade reorganizational proposal does not contain a provision for strengthened service industries.

In order to encourage greater development of the export of American health care expertise, we urge that the proposal provide:

(1) A service industry bureau directed by the Deputy Assistant Secretary in the Department of Trade and Commerce; and

(2) Adequate service staff with reorganized STR including a Deputy STR whose responsibilities would include service industries.

Sincerely,

W. CAMPBELL THOMSON,
Deputy Director.

Reorganization Plan No. 3 of 1979

To the Congress of the United States:

I transmit herewith Reorganization Plan No. 3 of 1979, to consolidate trade functions of the United States Government. I am acting under the authority vested in me by the Reorganization Act of 1977, chapter 9 of title 5 of the United States Code, and pursuant to section 1109 of the Trade Agreements Act of 1979, which directs that I transmit to the Congress a proposal to restructure the international trade functions of the Executive branch.

The goal of this reorganization is to improve the capacity of the Government to strengthen the export performance of United States industry and to assure fair international trade practices, taking into account the interests of all elements of our economy.

Recent developments, which have raised concern about the vitality of our international trade performance, have focused much attention on the way our trade machinery is organized. These developments include our negative trade balance, increasing dependence upon foreign oil, and international pressures on the dollar. New challenges, such as implementation of the Multilateral Trade Negotiation (MTN) agreements and trade with non-market economies, will further test our Government trade organization.

We must be prepared to apply domestically the MTN codes on procurement, subsidies, standards, and customs valuation. We also must monitor major implementation measures abroad, reporting back to American business on important developments and, where necessary, raising questions internationally about foreign implementation. MTN will work—will open new markets for U.S. labor, farmers, and business—only if we have adequate procedures for aggressively monitoring and enforcing it. We intend to meet our obligations, and we expect others to do the same.

The trade machinery we now have cannot do this job effectively. Although the Special Trade Representative (STR) takes the lead role in administering the trade agreements program, many issues are handled elsewhere and no agency has across-the-board leadership in trade. Aside from the Trade Representative and the Export-Import Bank, trade is not the primary concern of any Executive branch agency where trade functions are located. The current arrangements lack a central authority capable of planning a coherent trade strategy and assuring its vigorous implementation.

This reorganization is designed to correct such deficiencies and to prepare us for strong enforcement of the MTN codes. It aims to improve our export promotion activities so that United States exporters can take full advantage of trade opportunities in foreign markets. It provides for the timely and efficient administration of our unfair trade laws. It also establishes an efficient mechanism for shaping an effective, comprehensive United States trade policy.

To achieve these objectives, I propose to place policy coordination and negotiation—those international trade functions that most require

comprehensiveness, influence, and Government-wide perspective—in the Executive Office of the President. I propose to place operational and implementation responsibilities, which are staff-intensive, in line departments that have the requisite resources and knowledge of the major sectors of our economy to handle them. I have concluded that building our trade structure on STR and Commerce, respectively, best satisfies these considerations.

I propose to enhance STR, to be renamed the Office of the United States Trade Representative, by centralizing in it international trade policy development, coordination and negotiation functions. The Commerce Department will become the focus of non-agricultural operational trade responsibilities by adding to its existing duties those for commercial representation abroad, antidumping and countervailing duty cases, the non-agricultural aspects of MTN implementation, national security investigations, and embargoes.

THE UNITED STATES TRADE REPRESENTATIVE

The Trade Representative, with the advice of the Trade Policy Committee, will be responsible for developing and coordinating our international trade and direct investment policy, including the following areas:

Import remedies.—The Trade Representative will exercise policy oversight of the application of import remedies, analyze long-term trends in import remedy cases and recommend any necessary legislative changes. For antidumping and countervailing duty matters, such coordination, to the extent legally permissible, will be directed toward the establishment of new precedents, negotiation of assurances, and coordination with other trade matters, rather than case-by-case fact finding and determinations.

East-West trade policy.—The Trade Representative will have lead responsibility for East-West trade negotiations and will coordinate East-West trade policy. The Trade Policy Committee will assume the responsibilities of the East-West Foreign Trade Board.

International investment policy.—The Trade Representative will have the policy lead regarding issues of direct foreign investment in the United States, direct investment by Americans abroad, operations of multinational enterprises, and multilateral agreements on international investment, insofar as such issues relate to international trade.

International commodity policy.—The Trade Representative will assume responsibility for commodity negotiations and also will coordinate commodity policy.

Energy trade.—While the Departments of Energy and State will continue to share responsibility for international energy issues, the Trade Representative will coordinate energy trade matters. The Department of Energy will become a member of the TPC.

Export-expansion policy.—To ensure a vigorous and coordinated Government-wide export expansion effort, policy oversight of our export expansion activities will be the responsibility of the Trade Representative.

The Trade Representative will have the lead role in bilateral and multilateral trade, commodity, and direct investment negotiations. The Trade Representative will represent the United States in General

Agreement on Tariffs and Trade (GATT) matters. Since the GATT will be the principal international forum for implementing and interpreting the MTN agreements and since GATT meetings, including committee and working group meetings, occur almost continuously, the Trade Representative will have a limited number of permanent staff in Geneva. In some cases, it may be necessary to assign a small number of USTR staff abroad to assist in oversight of MTN enforcement. In this event, appropriate positions will be authorized. In recognition of the responsibility of the Secretary of State regarding our foreign policy, the activities of overseas personnel of the Trade Representative and the Commerce Department will be fully coordinated with other elements of our diplomatic missions.

In addition to his role with regard to GATT matters, the Trade Representative will have the lead responsibility for trade and commodity matters considered in the Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) when such matters are the primary issues under negotiation. Because of the Secretary of State's foreign policy responsibilities, and the responsibilities of the Director of the International Development Cooperation Agency as the President's principal advisor on development, the Trade Representative will exercise his OECD and UNCTAD responsibilities in close cooperation with these officials.

To ensure that all trade negotiations are handled consistently and that our negotiating leverage is employed to the maximum, the Trade Representative will manage the negotiation of particular issues. Where appropriate, the Trade Representative may delegate responsibility for negotiations to other agencies with expertise on the issues under consideration. He will coordinate the operational aspects of negotiations through a Trade Negotiating Committee, chaired by the Trade Representative and including the Departments of Commerce, State, Treasury, Agriculture and Labor.

The Trade Representative will be concerned not only with ongoing negotiations and coordination of specific, immediate issues, but also—very importantly—with the development of long-term United States trade strategies and policies. He will oversee implementation of the MTN agreements, and will advise the President on the effects of other Government policies (e.g., antitrust, taxation) on U.S. trade. In order to participate more fully in oversight of international investment and export financing activities, the Trade Representative will become a member of the National Advisory Council on International Monetary and Financial Policies and the Boards of the Export-Import Bank and the Overseas Private Investment Corporation.

In performing these functions, the Trade Representative will act as the principal trade spokesman of the President. To assure that our trade policies take into account the broadest range of perspectives, the Trade Representative will consult with the Trade Policy Committee, whose mandate and membership will be expanded. The Trade Representative will, as appropriate, invite agencies such as the Export-Import Bank and the Overseas Private Investment Corporation to participate in TPC meetings in addition to the permanent TPC members. When different departmental views on trade matters exist within the TPC as will be the case from time to time in this complex policy

area, I will expect the Trade Representative to resolve policy disagreements in his best judgment, subject to appeal to the President.

THE DEPARTMENT OF COMMERCE

The Department of Commerce, under this proposal, will become the focal point of operational responsibilities in the non-agricultural trade area. My reorganization plan will transfer to the Commerce Department important responsibilities for administration of countervailing and antidumping matters, foreign commercial representation, and MTN implementation support. Consolidating these trade functions in the Department of Commerce builds upon an agency with extensive trade experience. The Department will retain its operational responsibilities in such areas as export controls, East-West trade, trade adjustment assistance to firms and communities, trade policy analysis, and monitoring foreign compliance with trade agreements. The Department will be substantially reorganized to consolidate and reshape its trade functions under an Under Secretary for International Trade.

With this reorganization, trade functions will be strengthened within the Department of Commerce, and such related efforts in the Department as improvement of industrial innovation and productivity, encouraging local and regional economic development, and sectoral analysis, will be closely linked to an aggressive trade program. Fostering the international competitiveness of American industry will become the principal mission of the Department of Commerce.

Import remedies

I propose to transfer to the Department of Commerce responsibility for administration of the countervailing duty and antidumping statutes. This function will be performed efficiently and effectively in an organizational setting where trade is the primary mission. This activity will be directed by a new Assistant Secretary for Trade Administration, subject to Senate confirmation. Although the plan permits its provisions to take effect as late as October 1, 1980, I intend to make this transfer effective by January 1, 1980, so that it will occur as the new MTN codes take effect. Commerce will continue its supportive role in the staffing of other unfair trade practice issues, such as cases arising under section 301 of the Trade Act of 1974.

Commercial representation

This reorganization plan will transfer to the Department of Commerce responsibility for commercial representation abroad. This transfer would place both domestic and overseas export promotion activities under a single organization, directed by an Assistant Secretary for Export Development, charged with aggressively expanding U.S. export opportunities. Placing this Foreign Commercial Service in the Commerce Department will allow commercial officers to concentrate on the promotion of U.S. exports as their principal activity.

Initially, the transfer of commercial representation from State to Commerce will involve all full-time overseas trade promotion and commercial positions (approximately 162), responsibility for this function in the countries (approximately 60) to which these individuals are assigned, and the associated foreign national employees in those countries. Over time, the Department of Commerce undoubtedly

will review the deployment of commercial officers in light of changing trade circumstances and propose extensions or alterations of coverage of the Foreign Commercial Service.

MTN implementation

I am dedicated to the aggressive implementation of the Multilateral Trade Agreements. The United States must seize the opportunities and enforce the obligations created by these agreements. Under this proposal, the Department of Commerce will assign high priority to this task. The Department of Commerce will be responsible for the day-to-day implementation of non-agricultural aspects of the MTN agreements. Management of this function will be a principal assignment of an Assistant Secretary for Trade Policy and Programs. Implementation activities will include:

monitoring agreements and targeting problems for consultation and negotiation;

operating a Trade Complaint Center where the private sector can receive advice as to the recourse and remedies available;

aiding in the settlement of disputes, including staffing of formal complaint cases;

identifying problem areas for consideration by the Trade Representative and the Trade Policy Committee;

educational and promotion programs regarding the provisions of the agreements and the processes for dealing with problems that arise;

providing American business with basic information on foreign laws, regulations and procedures;

consultations with private sector advisory committees; and

general analytical support.

These responsibilities will be handled by a unit built around the staff from Commerce that provided essential analytical support to STR throughout the MTN negotiation process. Building implementation of MTN around this core group will assure that the government's institutional memory and expertise on MTN is most effectively devoted to the challenge ahead. When American business needs information or encounters problems in the MTN area, it can turn to the Department of Commerce for knowledgeable assistance.

Matching the increased importance of trade in the Department's mission will be a much strengthened trade organization within the Department. By creating a number of new senior level positions in the Department, we will ensure that trade policy implementation receives the kind of day-to-day top management attention that it both demands and requires.

With its new responsibilities and resources, the Department of Commerce will become a key participant in the formulation of our trade policies. Much of the analysis in support of trade policy formulation will be conducted by the Department of Commerce, which will be close to the operational aspects of the problems that raise policy issues.

To succeed in global competition, we must have a better understanding of the problems and prospects of U.S. industry, particularly in relation to the growing strength of industries abroad. This is the key reason why we will upgrade sectoral analysis capabilities throughout the Department of Commerce, including the creation of a new Bureau

of Industrial Analysis. Commerce, with its ability to link trade to policies affecting industry, is uniquely suited to serve as the principal technical expert within the Government on special industry sector problems requiring international consultation, as well as to provide industry-specific information on how tax, regulatory and other Government policies affect the international competitiveness of the U.S. industries.

Commerce will also expand its traditional trade policy focus on industrial issues to deal with the international trade and investment problems of our growing services sector. Under the proposal, there will be comprehensive service industry representation in our industry advisory process, as well as a continuing effort to bring services under international discipline. I expect the Commerce Department to play a major role in developing new service sector initiatives for consideration within the Government.

After an investigation lasting over a year, I have found that this reorganization is necessary to carry out the policy set forth in section 901(a) of title 5 of the United States Code. As described above, this reorganization will increase significantly our ability to implement the MTN agreements efficiently and effectively and will improve greatly the services of the government with regard to export development. These improvements will be achieved with no increase in personnel or expenditures, except for an annual expense of about $300,000 for the salaries and clerical support of the three additional senior Commerce Department officials and a non-recurring expense of approximately $600,000 in connection with the transfers of functions provided in the plan. I find that the reorganization made by this plan makes necessary the provisions for the appointment and pay of a Deputy Secretary, an Under Secretary for International Trade, and two additional Assistant Secretaries of the Department of Commerce, and additional members of the Boards of Directors of the Export-Import Bank and the Overseas Private Investment Corporation.

It is indeed appropriate that this proposal follows so soon after the overwhelming approval by the Congress of the Trade Agreements Act of 1979, for it will sharpen and unify trade policy direction, improve the efficiency of trade law enforcement, and enable us to negotiate abroad from a position of strength. The extensive discussions between Administration officials and the Congress on this plan have been a model of the kind of cooperation that can exist between the two branches. I look forward to our further cooperation in successfully implementing both this reorganization proposal and the MTN agreements.

JIMMY CARTER.

THE WHITE HOUSE, *September 25, 1979.*

Reorganization Plan No. 3 of 1979

Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled, September 25, 1979, pursuant to the provisions of chapter 9 of title 5 of the United States Code.

REORGANIZATION OF FUNCTIONS RELATING TO INTERNATIONAL TRADE

Section 1. *Office of the United States Trade Representative*

(a) The Office of the Special Representative for Trade Negotiations is redesignated the Office of the United States Trade Representative.

(b)(1) The Special Representative for Trade Negotiations is redesignated the United States Trade Representative (hereinafter referred to as the 'Trade Representative"). The Trade Representative shall have primary responsibility, with the advice of the interagency organization established under section 242 of the Trade Expansion Act of 1962 (19 U.S.C. 1872) (hereinafter referred to as the "Committee"), for developing, and for coordinating the implementation of, United States international trade policy, including commodity matters and, to the extent they aer related to international trade policy, direct investment matters. The Trade Representative shall serve as the principal advisor tao the President on international trade policy and shall advise the President on the impact of other policies of the United States Government on international trade.

(2) The Trade Representative shall have lead responsibility for the conduct of international trade negotiations, including commodity and direct investment negotiations in which the United States participates.

(3) To the extent necessary to assure the coordination of international trade policy, and consistent with any other law, the Trade Representative, with the advice of the Committee, shall issue policy guidance to departments and agencies on basic issues of policy and interpretation arising in the exercise of the following international trade functions. Such guidance shall determine the policy of the United States with respect to international trade issues arising in the exercise of such functions:

(A) matters concerning the General Agreement on Tariffs and Trade, including implementation of the trade agreements set forth in scection 2(c) of the Trade Agreements Act of 1979; United States Government positions on trade and commodity matters dealt with by the Organization for Economic Cooperation and Development, the United Nations Conference on Trade and Development, and other multilateral organizations; and the assertion and protection of the rights of the United States under bilateral and multilateral international trade and commodity agreements;

(B) expansion of exports from the United States;

(C) policy research on international trade, commodity, and direct investment matters;

(D) to the extent permitted by law, overall United States policy with regard to unfair trade practices, including enforcement of countervailing duties and antidumping functions under section 303 and title VII of the Tariff Act of 1930;

(E) bilateral trade and commodity issues, including East-West trade matters; and

(F) international trade issues involving energy.

(4) All functions of the Trade Representative shall be conducted under the direction of the President.

(c) The Deputy Special Representatives for Trade Negotiations are redesignated Deputy United States Trade Representatives.

Section 2. *Department of Commerce*

(a) The Secretary of Commerce (hereinafter referred to as the "Secretary") shall have, in addition to any other functions assigned by law, general operational responsibility for major nonagricultural international trade functions of the United States Government, including export development, commercial representation abroad, the administration of the antidumping and countervailing duty laws, export controls, trade adjustment assistance to firms and communities, research and analysis, and monitoring compliance with international trade agreements to which the United States is a party.

(b)(1) There shall be in the Department of Commerce (hereinafter referred to as the "Department") a Deputy Secretary appointed by the President, by and with the advice and consent of the Senate. The Deputy Secretary shall receive compensation at the rate payable for Level II of the Executive Schedule, and shall perform such duties and exercise such powers as the Secretary may from time to time prescribe.

(2) The position of Under Secretary of Commerce established under section 1 of the Act of June 5, 1939 (ch. 180, 53 Stat. 808; 15 U.S.C. 1502) is abolished.

(c) There shall be in the Department an Under Secretary for International Trade appointed by the President, by and with the advice and consent of the Senate. The Under Secretary for International Trade shall receive compensation at the rate payable for Level III of the Executive Schedule, and shall perform such duties and exercise such powers as the Secretary may from time to time prescribe.

(d) There shall be in the Department two additional Assistant Secretaries appointed by the President, by and with the advice and consent of the Senate. Each such Assistant Secretary shall receive compensation at the rate payable for Level IV of the Executive Schedule, and shall perform such duties and exercise such powers as the Secretary may from time to time prescribe.

Section 3. *Export-Import Bank of the United States*

The Trade Representative and the Secretary shall serve, ex officio and without vote, as additional members of the Board of Directors of the Export-Import Bank of the United States.

Section 4. *Overseas Private Investment Corporation*

(a) The Trade representative shall serve, ex officio, as an additional voting member of the Board of Directors of the Overseas Private Investment Corporation. The Trade Representative shall be the Vice Chair of such Board.

(b) There shall be an additional member of the Board of Directors of the Overseas Private Investment Corporation who shall be appointed by the President of the United States, by and with the advice and consent of the Senate, and who shall not be an official or employee of the Government of the United States. Such Director shall be appointed for a term of no more than three years.

Section 5. *Transfer of Functions*

(a)(1) There are transferred to the Secretary all functions of the Secretary of the Treasury, the General Counsel of the Department of the Treasury, or the Department of the Treasury pursuant to the following:

(A) section 305(b) of the Trade Agreements Act of 1979 (19 U.S.C. 2515(b)), to be exercised in consultation with the Secretary of the Treasury;

(B) section 232 of the Trade Expansion Act of 1962 (19 U.S.C. 1862);

(C) section 303 and title VII (including section 771(1)) of the Tariff Act of 1930 (19 U.S.C. 1303, 1671 *et seq.*), except that the Customs Service of the Department of the Treasury shall accept such deposits, bonds, or other security as deemed appropriate by the Secretary, shall assess and collect such duties as may be directed by the Secretary, and shall furnish such of its important records or copies thereof as may be requested by the Secretary incident to the functions transferred by this subparagraph;

(D) sections 514, 515, and 516 of the Tariff Act of 1930 (19 U.S.C. 1514, 1515, and 1516) insofar as they relate to any protest, petition, or notice of desire to contest described in section 1002 (b)(1) of the Trade Agreements Act of 1979;

(E) with respect to the functions transferred by subparagraph (C) of this paragraph, section 318 of the Tariff Act of 1930 (19 U.S.C. 1318), to be exercised in consultation with the Secretary of the Treasury;

(F) with respect to the functions transferred by subparagraph (C) of this paragraph, section 502(b) of the Tariff Act of 1930 (19 U.S.C. 1502(b)), and, insofar as it provides authority to issue regulations and disseminate information, to be exercised in consultation with the Secretary of the Treasury to the extent that the Secretary of the Treasury has responsibility under subparagraph (C), section 502(a) of such Act (19 U.S.C. 1502(a));

(G) with respect to the functions transferred by subparagraph (C) of this paragraph, section 617 of the Tariff Act of 1930 (19 U.S.C. 1617); and

(H) section 2632(e) of title 28 of the United States Code, insofar as it relates to actions taken by the Secretary reviewable under section 516A of the Tariff Act of 1930 (19 U.S.C. 1516(a)).

(2) The Secretary shall consult with the Trade Representative regularly in exercising the functions transferred by subparagraph (C) of

paragraph (1) of this subsection, and shall consult with the Trade Representative regarding any substantive regulation proposed to be issued to enforce such functions.

(b) (1) There are transferred to the Secretary all trade promotion and commercial functions of the Secretary of State or the Department of State that are—

(A) performed in full-time overseas trade promotion and commercial positions; or

(B) performed in such countries as the President may from time to time prescribe.

(2) To carry out the functions transferred by paragraph (1) of this subsection, the President, to the extent he deems it necessary, may authorize the Secretary to utilize Foreign Service personnel authorities and to exercise the functions vested in the Secretary of State by the Foreign Service Act of 1946 (22 U.S.C. 801 *et seq.*) and by any other laws with respect to personnel performing such functions.

(c) There are transferred to the President all functions of the East-West Foreign Trade Board under section 411(c) of the Trade Act of 1974 (19 U.S.C. 2441(c)).

(d) Appropriations available to the Department of State for Fiscal Year 1980 for representation of the United States concerning matters arising under the General Agreement on Tariffs and Trade and trade and commodity matters dealt with under the auspices of the United Nations Conference on Trade and Development are transferred to the Trade Representative.

(e) There are transferred to the interagency organization established under section 242 of the Trade Expansion Act of 1962 (19 U.S.C. 1872) all functions of the East-West Foreign Trade Board under section 411 (a) and (b) of the Trade Act of 1974 (19 U.S.C. 2441 (a) and (b)).

Section 6. *Abolition*

The East-West Foreign Trade Board established under section 411 of the Trade Act of 1974 (19 U.S.C. 2441) is abolished.

Section 7. *Responsibility of the Secretary of State*

Nothing in this reorganization plan is intended to derogate from the responsibility of the Secretary of State for advising the President on foreign policy matters, including the foreign policy aspects of international trade and trade-related matters.

Section 8. *Incidental transfers; interim officers*

(a) So much of the personnel, property, records, and unexpended balances of appropriations, allocations, and other funds employed, used, held, available, or to be made available in connection with the functions transferred under this reorganization plan as the Director of the Office of Management and Budget shall determine shall be transferred to the appropriate agency, organization, or component at such time or times as such Director shall provide, except that no such unexpended balances transferred shall be used for purposes other than those for which the appropriation originally was made. The Director of the Office of Management and Budget shall provide for terminating the affairs of any agency abolished herein and for such further measures and dispositions as such Director deems necessary to effectuate the purposes of the reorganization plan.

(b) Pending the assumption of office by the initial officers provided for in section 2 of this reorganization plan, the functions of each such office may be performed, for up to a total of 60 days, by such individuals as the President may designate. Any individual so designated shall be compensated at the rate provided herein for such position.

Section 9. *Effective date*

The provisions of this reorganization plan shall take effect October 1, 1980, or at such earlier time or times as the President shall specify, but not sooner than the earliest time allowable under section 906 of title 5 of the United States Code.

WITNESSES

Monday, July 23, 1979

Robert S. Strauss, Special Representative for Trade Negotiations, accompanied by Richard Heimlich, Assistant Special Representative for Trade Negotiations 6

James T. McIntyre, Jr., Director of the Office of Management and Budget, accompanied by Harrison Wellford, Executive Associate Director, Reorganization and Management, and Eric L. Hirschhorn, Director, Trade Reorganization Study 10

Hon. Adlai E. Stevenson, U.S. Senator from the State of Illinois 38

Wednesday, July 25, 1979

Morning Session

William L. Wearly, chairman and executive officer, Ingersoll-Rand Co., accompanied by Mr. Babson, Mr. Fox, and Mr. Kline 49

Orville Freeman, former Secretary of Agriculture, president and chief executive officer, Business International Corp 103

Harry E. Gould, Jr., on behalf of the President's Export Council 113

Afternoon Session

A. Sherburne Hart, vice president/public affairs, Union Carbide Corp., accompanied by R. M. Brennan and T. R. Gates 135

Charles R. Carlisle, vice president, St. Joe Minerals Corp., on behalf of an ad hoc coalition of 33 industrial and labor organizations, accompanied by Stanley Nehmer, president, Economic Consulting Services, and Donald deKieffner of the law firm of Collier, Shannon, Rill, Edwards & Scott 143

Bruno O. Weinschel, vice president, Institute of Electrical & Electronics Engineers, accompanied by Frank Cummings, of Marshall, Bratter, Greene, Allison & Tucker 162

Lee A. Greenbaum, Jr., president, Kemp & Beatley, Inc., and first president, American Importers Association, accompanied by Gerald O'Brien, executive vice president 211

William F. Tobin, director of marketing and development, Massachusetts Port Authority, and member of the Smaller Business Association of New England 221

THURSDAY, JULY 26, 1979

Richard E. O'Leary, vice president, Onan Corp., Export Policy Task Force of the U.S. Chamber of Commerce; Ronald K. Shelp, vice president and director, American International Underwriters Corp., and chairman of the International Service Industry Committee; Ronald Danielian, executive vice president and treasurer, International Economic Policy Association; and Fred Stokeld and Gordon Cloney, staff members, U.S. Chamber of Commerce; on behalf of the Chamber of Commerce of the United States ..... Page 236
Robert W. Galvin, chairman of the board, Motorola, Inc., on behalf of the Industry Policy Advisory Committee for the Multilateral Trade Negotiation 255
Robert B. Peabody, on behalf of the American Iron & Steel Institute, accompanied by Richard F. Schubert, president, Bethlehem Steel Corp 267
John E. Carlson, vice president, M. M. Sundt Construction Co., on behalf of the Associated General Contractors of America, accompanied by George E. Stockton, director, AGC's International Construction Division; and Ms. Barbro A. Owens, assistant director of the construction division 271

THURSDAY, OCTOBER 18, 1979

James T. McIntyre, Jr., Director, Office of Management and Budget, accompanied by Harrison Wellford, Executive Associate Director for Reorganization and Management; and Eric L. Hirschhorn, Deputy Associate Director for International Affairs and Trade Organization 307
Roger R. Regelbrugge, president and chief executive officer, Korf Industries, Inc 364

Alphabetical list of witnesses:

Carlisle, Charles R.:
Testimony 143
Prepared statement 160
Carlson, John E.:
Testimony 271
Appendix to testimony 276
Cloney, Gordon: Testimony 236
Cummings, Frank:
Testimony 162
Proposed language for a bill 167
Danielian, Ronald: Testimony 236
DeKieffer, Donald: Testimony 143
Freeman, Orville:
Testimony 103
Prepared statement 111
Galvin, Robert W.: Testimony 255
Gould, Harry E., Jr.:
Testimony 113
Letter with enclosure to Senator Ribicoff from Mr. Gould, Aug. 17, 1979 117
Prepared statement 128
Greenbaum, Lee A., Jr.:
Testimony 211
Prepared statement 216
Hart, A. Sherburne:
Testimony 135
Prepared statement of William S. Sneath 141
Heimlich, Richard: Testimony 6
Hirschhorn, Eric L.: Testimony 10, 307
McIntyre, James T., Jr.:
Testimony 10, 307
Prepared statement 13, 340
Responses to written questions 33
Nehmer, Stanley: Testimony 143
O'Brien, Gerald: Testimony 211
O'Leary, Richard E.:
Testimony 236
Prepared statement 243
Owens, Barbro A.: Testimony 271
Peabody, Robert B.: Testimony 267

Rugelbrugge, Roger R.: Page
Testimony 364
Prepared statement 366
Schubert, Richard F.: Testimony 267
Shelp, Ronald K.:
Testimony 236
Prepared statement 246
Stevenson, Hon. Adlai E., III:
Testimony 38
Prepared statement 44
Letter to Senator Javits, July 26, 1979 46
Stockton, George E.: Testimony 271
Stokeld, Fred: Testimony 236
Strauss, Robert S.:
Testimony 6
Prepared statement 9
Tobin, William F.:
Testimony 221
Prepared statement 227
Wearly, William L.:
Testimony 49
Prepared statement 74
Weinschel, Bruno O.:
Testimony 162
Prepared statement 188
Wellford, Harrison: Testimony 10, 307

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Questions submitted in writing to the administration by certain Senators 33, 376
Statement of Senator Howard W. Cannon 387
Statement of Ambassador Reubin O'D. Askew 388
Statement of Juanita M. Kreps, Secretary, U.S. Department of Commerce 390
Bleakley, Kenneth W., president, American Foreign Service Association, September 24, 1979, with enclosures 395
Clarke, Henry L., Springfield, Va., September 10, 1979 410
Connery, Vincent L., national president, National Treasury Employees Union, September 13, 1979 414
Falk, Bernard H., president, the National Electrical Manufacturers Association 418
Glasson, Vernie R., director, National Affairs, American Farm Bureau Federation, July 26, 1979 419
GTE Products Corp 419
Hampton, Robert N., vice president, marketing and international trade, National Council of Farmer Cooperatives, August 16, 1979 420
Hurlbert, Gordon, president, Westinghouse Power Systems Co 421
Krimsky, John, Jr., vice president, Federal affairs, Pan American Airways, Inc., October 16, 1979 422
Lane, James F., president, American Chamber of Commerce in Australia 423
Matthews, Leonard S., president, the American Association of Advertising Agencies 423
McNeill, Robert L., Emergency Committee for American Trade on Government Trade Reorganization 423
National Machine Tool Builders' Association 424
Sprouse, James M., executive vice president, the Associated General Contractors of America, October 16, 1979 426
Stanley, Timothy W., president, International Economic Policy Association, October 1, 1979 429
Steinberg, David J., president, U.S. Council for an Open World Economy, Inc 430
Thomson, W. Campbell, deputy director, Federation of American Hospitals, September 13, 1979 431
Reorganization Plan No. 3 of 1979:
Message from the President transmitting the Plan No. 3 of 1979 432
Reorganization Plan No. 3 of 1979 438