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STATEMENT OF
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BEFORE THE
SENATE SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM
OF THE COMMITTEE ON COMMERCE
ON
[THE EXPORT EXPANSION ACT OF 1971]

B-114823

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Mr. Chairman and members of the Subcommittee:

I appreciate being invited to testify on possible ways to increase U.S. exports proposed by Senate Bill 2754. Consideration of this bill--the "Export Expansion Act of 1971"--comes at a critical time. For 77 years--until last year--the United States sold, or exported, more goods to other countries than it bought from them, or imported. This surplus in our overseas trade every year from 1893 through 1970 has been of enormous importance in assisting our country to finance its increasing international obligations expressed in economic grant and loan programs costing many many billions of dollars and related diplomatic and military commitments. In 1971 this position was reversed and we bought more in other countries than we sold, creating the trade deficit.

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In addition the United States, over approximately the past decade has suffered, as all here know, a series of increasingly serious balance of payments deficits. The two problems are directly related, except that other factors contribute substantially more to the balance of

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payments deficit than the loss of our trade surplus, serious as that is.

As most of you know, the General Accounting Office provides the Congress, its committees and Members with information, analyses, and recommendations concerning operations of the executive branch of the Government. At GAO we are concerned with how the Federal departments and agencies carry out, through their programs and activities, the objectives of legislation enacted by the Congress. Attempts by various administrations to reduce the U.S. balance of payments deficits and to increase our export trade have, of course, become increasingly important to us at the GAO as need for improvements in these areas has become greater and greater.

The GAO has issued a number of reports together with recommendations to the Congress covering various aspects of department and agency programs designed to correct these situations. In addition we have, at this time, half a dozen important reviews underway on other aspects of executive branch efforts to strengthen our trade and dollar positions. I should like to begin my testimony with a summary of General Accounting Office experience in these areas and then to offer specific comments on the proposals put forward in Senate Bill 2754.

Government efforts in promoting exports and in attempting to reduce payments deficits are spread over many agencies and departments. They are centered, however, in the Departments of Agriculture, Commerce, State, and Treasury and the Export-Import Bank of the United States.

They include numerous programs involving diverse activities that touch almost every aspect of the U.S. economy.

The General Accounting Office has attempted to identify for the Congress and the departments and agencies, specific situations which call either for congressional consideration, management action, or both. Here are some examples:

--In May 1968, we recommended that the U.S. improve its balance of payments through an increased agricultural barter program by removing certain administrative restrictions. We later reported in February 1971 that the Department of Agriculture had taken certain actions which resulted in a \$248 million increase in balance of payments benefits in fiscal year 1970.

--In another report we analyzed the cost and balance of payments advantages to the U.S. by replacing foreign-made buses used abroad with American-made buses. Cost savings of from one-third to one-half million dollars could be realized annually. Annual reductions in dollar payments abroad could be \$3.1 million.

--In a similar report we recommended the use of surplus American butter for our troops in Europe instead of spending dollars there for European butter. Annual cost and balance of payments benefits are estimated at \$2.5 million.

--Because import duties and taxes were imposed on dairy and bakery products for use by U.S. military forces in Thailand, we studied the costs and balance of payments implications of

this situation. In response to our report the Army advised that duty-free entry was subsequently negotiated on raw materials for milk products which would result in savings of \$300,000 a year.

Let me now turn, in somewhat more detail, to a discussion of other relevant reports made by our Office.

Trade Exhibitions Program

In a report entitled "Opportunities for Increased Effectiveness of Overseas Trade Exhibitions" our central conclusion was that Department of Commerce trade exhibitions were staged in developed countries rather than in developing or poorer countries. Moreover, the preponderance of companies assisted were established firms already selling in the markets where the exhibitions were staged and were in position to cope with the unique problems of international trade. We suggested that more emphasis be given to contacting American companies not previously established in the market to exhibit their products and that sliding scale participation fees be charged to exhibitors as an inducement to get new companies into the export field. We also suggested that greater emphasis be given to trade promotional activities in the developing countries.

Trade Opportunities Program

One way in which the U.S. attempts to increase exports is by a systematic reporting of sales opportunities by overseas posts to potential U.S. suppliers. The Trade Opportunities Program under Commerce and State direction attempts to match foreign buyers of U.S.

goods with American suppliers. While the program has achieved success in bringing some exporters and importers together, its potential is unrealized. There are several areas in which management actions are needed to improve the results obtained from this program. Both Commerce and State agree that the program has potential for increased benefits but that important improvements are dependent on the resources that can be allocated within overall budgetary limitations to this effort.

We have recommended that the Secretaries of Commerce and State jointly determine the relative importance of this program within the framework of all commercial activities presently being carried out; appropriate resources should then be sought to meet program objectives. The agencies have agreed with this prospect and advised us that a joint study would be undertaken.

United States Market Shares

Although U.S. exports have been increasing, its share of world markets has declined. We asked why. The usual answers received were: the U.S. is not competitive in price; financing is not available; U.S. equipment is not adaptable; and so on. We sought more specific information but learned that this type of information is not readily available. Regularly scheduled Foreign Service commercial reports do not contain information as to the underlying reasons for changes in the U.S. share of country markets.

Consequently GAO tested the feasibility of compiling the kind of market information more useful to business. For example, the U.S. share of the Brazilian market has been declining despite the fact

that Brazil is one of the largest and fastest growing of the developing world countries. Our study covered three commodity categories--machine tools, textile machinery and scientific instrumentation. This showed us that while price is always an important consideration in the buy decision, other factors can be equally important. In the case of sophisticated scientific instrumentation, for example, availability of adequate servicing is very important. Similarly, in Brazil, the availability of suppliers credits for textile machinery purchases is important. These and a variety of other matters are things on which government and industry can work together to improve the U.S. position in the market. In short, we must know why and how our competition is cutting into U.S. markets if we are to jointly structure our responses to meet the challenge.

Commerce officials, and industry and trade association representatives reacted favorably to the reports prepared by GAO staff. Many firms indicated their intent to take specific actions based on information developed in it. These and other matters are included in a proposed report to the Congress which recommends improvements in developing market intelligence reports.

Other Reviews

In a companion review to the activities of commercial offices abroad, GAO is examining the services of Commerce Department field offices at home for assisting and promoting exports. It appears that here, too, the potential for providing the necessary supports are not being realized. We also have reviews under way on the necessity for better coordination

of export expansion activities by government agencies and special groups including the Council for International Economic Policy.

In the field of financing of U.S. exports we have reviews underway of two Export-Import Bank programs--their long-term capital loan and relending programs. There is a question in our minds as to what extent Eximbank concessional financing has contributed to additional export sales.

We are also planning to analyze the various types of financing available to assist American suppliers complete export sales. Preliminary survey work indicates that there is no central organization in the Government which identifies the sources, uses, terms and availability of export financing on a current basis.

The foregoing provides a brief picture of GAO's evaluation of the Government's efforts to increase exports. In brief, our work to date has been largely directed at evaluating the effectiveness of specific programs and selected functional activities. Although our work has not touched on all the specific matters covered in your bill, comment on those matters on which we have done some work may be helpful and I will direct the balance of my testimony to this end.

TITLE I - INTERNATIONAL COMMERCE SERVICE

GAO presently is summarizing results of a review of activities of U.S. Commercial Officers in four European and two Far Eastern countries. In an earlier review of the Trade Opportunities Program to which I have referred, GAO found that U.S. commercial officers abroad were burdened

with a multitude of duties and responsibilities which detracted from their ability to provide services on behalf of U.S. business.

In the present review covering duties of commercial officers, we attempted to:

- evaluate the manner in which the commercial officers have been carrying out assigned duties;
- ascertain whether the commercial offices were capable of handling effectively, numerous demands placed on them; and
- determine the need for all tasks presently required of commercial officers, by the Departments of Commerce and State.

Improvements are needed across the board--in program planning, in program objectives, in performance, and in evaluating accomplishments or the lack of same.

Neither Commerce nor State has established a management system to adequately analyze the relative productivity of the various programs carried out by diplomatic posts. Priorities have not been established. Coordination between Commerce, State and overseas posts needs improvement. And workload requests should be screened so that questionable requirements are not imposed on commercial attache' staffs.

Improvements are needed in gathering commercial intelligence abroad such as:

- more and better analysis of product potentials;
- increased coverage of market factors for specific products;

- more initiative by commercial officers to identify actions required of government and/or business; and
- more effective reporting of government and private procurements.

Conversely, we found cases where requests submitted by posts were not pursued actively by Washington. For example, a series of market surveys undertaken by our Embassy in the Netherlands and endorsed by the Ambassador which identified prospective opportunities for U.S. exporters have never been effectively communicated to the business community in the United States. Failure to establish within the Commerce Department the procedures for providing commercial intelligence promptly to business firms contributed to the lengthy delays experienced in this project.

Another example concerns a request by the U.S. commercial officer in Norway for brochures and catalogs of U.S. companies and products which were believed essential to making meaningful contacts with local (Norwegian) businessmen to develop interest in U.S. products. Although this type of promotional material is readily available from most companies and although Commerce has a related program for sponsoring catalog displays, no action was taken to provide the post in Norway with the requested sales materials.

Division of responsibilities between the Departments of Commerce and State plus the limited resources within which commercial officers presently operate tend to impede efficient execution of Commerce trade

objectives by the commercial officers and make it difficult for them to effect any substantial impact on the U.S. level of trade.

Your bill proposes creation of a professional service and assignment of an increased number of competent and experienced people to the overseas posts for trade development purposes. These activities, carried on under instructions issued by the Secretary of Commerce could, we believe, improve present conditions.

TITLE II - TRADE DEVELOPMENT CORPS

Although the Small Business Administration has no active programs in the foreign trade area, it maintains a roster of approximately 300 people knowledgeable in trade matters in their Service Corps of Retired Executives. These men, experienced in international trade, represent a potential resource of talent which you may wish to consider for the purposes described in this section of the bill.

Likewise, the Overseas Private Investment Corporation (OPIC) has used the services of able and successful businessmen in assisting businesses in developing countries as a result of an arrangement started 7 years ago with the International Executive Service Corps (IESC) by the Agency for International Development. We are advised that Canada, Japan and the United Kingdom have patterned similar operations based on the successful OPIC-IESC arrangement. The IESC consultants are unpaid volunteers who are generally retired businessmen but they also have available some mid-career executives.

Such a pool of executive business experience would be particularly suited to assist in carrying out the functions described in Section 201(b).

TITLE V - REGIONAL AMERICAN MERCHANDISE CENTERS

Our discussions with U.S. manufacturers and agency officials indicate they support the idea of establishing some sort of overseas stockage and dispersing points such as bonded warehouses. These warehouses could be stocked with merchandise available on demand and thus permit timely servicing of customer demands in the surrounding market areas. A proposal advanced for improving U.S. performance in some markets such as Brazil and India is the establishment of such inventory points. Establishment of the proposed centers would assist the U.S. in alleviating some of the transportation drawbacks associated with distant markets.

TITLE VI - JOINT EXPORT ASSOCIATIONS

The purpose of this title is similar to Joint Export Associations organized under authority of a 1968 Presidential Order. Under this authority the Secretary of Commerce is allowed to enter into cost-sharing contracts with combinations of persons to foster, promote and develop markets and appeared to be one of Commerce's more promising undertakings but according to a Commerce official, it never achieved the degree of success hoped for. An expression of Congressional support would spur the Department to develop such a program as a part of its multiple effort to help U.S. business in entering new foreign markets.

TITLE VIII - EXPORT COMMERCIAL PAPER

Since September 1966, Eximbank has operated a discount program for export paper under the authority of the Export-Import Bank Act of 1945. The proposal under this title differs from the existing authority in the establishment of a lower range for rediscount of commercial export paper with maturities from 6 to 12 months. Presently, Eximbank's discount rate is administratively fixed at no less than 6 percent.

The lower discount rate prescribed under this title--5 percent for exports to other than less-developed countries and 4 percent for exports to less-developed countries--coupled with the increase in the maximum permissible rates for such discounts (up to 2-1/2 percentage points), would seem to provide additional incentive for commercial banks to finance export sales. The proposal would likely also provide a ready source of competitive export financing for American suppliers even during periods of higher interest rates. It must be recognized, however, that the establishment of a more favorable climate for discounting commercial paper carries with it an obligation for the Export-Import Bank to exercise care in satisfying itself that the return to banks is commensurate with the additional export benefits sought.

TITLE IX - OCEAN FREIGHT RATE DISPARITIES

We earlier provided the Subcommittee staff with two studies on ocean freight rate disparities. The first study, made by the American Embassy in Tokyo, reported on the ocean freight rate disparities on

six United States-Japan routes. Three are from Japan to (1) Pacific West Coast, (2) the Atlantic and Gulf coasts and (3) U.S. Great Lakes and three from these areas to Japan.

The second study was an internal GAO survey report prepared by our San Francisco office staff in October 1971. This covered inbound and outbound freight rates between Far Eastern ports (Japan, Taiwan, Hong Kong, Indochina, Thailand and Philippines) and U.S. Pacific Coast ports.

Both studies found that outbound rates on United States cargo shipments are higher than the rates for the same commodities inbound from the Far East. Although these disparities have existed for many years, their origins are obscure. The most common explanation for the disparities is that the rates originally reflected what the type of commodity shipped would bear. A reason for continuation of these rates seems to be that these shipping routes are dominated by foreign flag carriers which impedes actions advantageous to U.S. interests. Disparities ranging from 20 percent to well over 100 percent are not unusual. The Embassy in Tokyo points out that since duties are assessed on the delivered cost of the items (including freight and insurance) and commodity taxes computed on the accumulated cost, the effects of the disparities are multiplied. It appears that elimination of the disparity by reduction in the U.S. outbound rate could have a significant effect on increasing U.S. exports.

We also found during a limited survey that disparities exist in inland transportation costs. U.S. commodities destined for export carry higher rail rates than the same commodities intended for domestic consumption. We have not yet examined the reasons for this situation.

TITLE X - ENTRY OF MACHINERY, MATERIALS,
AND FUEL INTO FOREIGN TRADE ZONES

In April 1971 we reported to the Secretary of Commerce (in his role as Chairman of the Foreign Trade Zones Board) of an opportunity for creating an export processing activity in Hawaii. This project was being delayed or perhaps abandoned because of a Bureau of Customs ruling that duties be paid on imported capital equipment, material and fuel to be used in processing sugar cane waste into a pulp for export sale to Japan. The company concerned with the project determined that the economic feasibility of the activity depended on the exemption of duties and taxes on foreign machinery, material and fuel to be consumed in the zone. Customs officials advised that there was no legal basis under which the exemption could be made. We suggested that the Board study the desirability of obtaining customs waivers on a case by case basis in order to encourage establishment of economically desirable export activities.

The Foreign Trade Zones Act enacted in 1934 created customs-free zones in ports of entry of the United States. Their primary purpose is to expedite and encourage the Nation's foreign commerce. We are presently reviewing to see if these trade zones were contributing to

U.S. exports. On the basis of our preliminary assessments it appears that Foreign Trade Zones are being used primarily as an accommodation for the import trade--to defer, reduce, or eliminate U.S. customs duties.

Aside from the potential benefits which might accrue from your proposed amendment to the Foreign Trade Zones Act, we did not identify opportunities to significantly contribute to new, expanded exports. Part of the problem is that neither Commerce nor the zone operators have aggressively pursued the export potential of zones. Because of this it is difficult to conclude whether or not zones can play an important part in export expansion. In view of the fact that about 80 percent of the goods entering the present zones eventually go into the American economy this Subcommittee may wish to give further study to the trade zone operations as to whether they are consistent with their intended purpose. Possibly, future zone applications should only be granted when there is assurance that the prospective zone will contribute to the Nation's export, reexport, and transshipment trade.

TITLE XI - COMMISSION ON FOREIGN PROCUREMENT PRACTICES

Section 1106 provides for the proposed Commission to review prevailing practices of U.S. and foreign governments on opportunities for obtaining government contracts. During our review of the Trade Opportunities Program, we found that foreign governments effectively precluded U.S. suppliers from bidding on their government's purchases. U.S. embassy officials in Tokyo advised us that while there was no official "Buy Japan" policy there was no doubt that such a policy existed. They told us that the Japanese Government generally selected

several Japanese companies capable of meeting its requirements and negotiated contracts with them.

In a report to the Congress last month we commented on the U.S. Buy-National Procurement Program. Under this program the Government in awarding bids assesses a penalty for prospective suppliers of goods manufactured abroad. Our conclusion is that a reporting system is needed to provide management with information on costs incurred in relation to benefits attained. While cost is an important consideration, it is but one of several factors; and some are complex and not easily measured. For example, U.S. efforts to have foreign governments relax their restrictive government procurement policies have been hampered by the United States' own restrictive Buy-National program. Other considerations as to relative benefits include foreign assistance policy, domestic employment, programs to curb inflation, efforts to assist depressed areas, assistance to small and minority enterprises and the like.

We suggested that the Office of Management and Budget, as overseer of the Buy-National program, needs to assure that resources are applied first to those programs with the greatest potential for overall benefits to the Nation.

TITLE XII - AGRICULTURAL EXPORTS

We have issued a number of reports on the use of surplus agricultural commodities in lieu of procurement abroad by our military forces. One result is that the Department of Defense decided to

obtain butter and peanuts at competitive world market prices from the Department of Agriculture. The estimated dollar savings from the actions initiated by Agriculture in connection with the use of surplus U.S. butter alone is estimated at \$2.5 million annually.

In addition, we concluded that a potential exists for the use of American dried milk as an ingredient in filled milk in lieu of buying European produced fresh milk but this proposal is yet to be tested in this area of the world as acceptable to U.S. troops and their dependents.

Agricultural commodities in the Commodity Credit Corporation inventory at September 30, 1971, which may have increased potential for export are shown below:

	<u>In millions</u>
Wheat	\$ 500
Butter	147
Oats	124
Corn	116
Flaxseed	68
Grain sorghum	65
Rice	49
Barley	33
Rye	26
Linseed oil	13
Total	<u>\$1,141</u>

Storage, handling and transportation costs applicable to these commodities were about \$168 million for fiscal year 1971. A concerted effort to use these surplus agricultural commodities for export purposes as proposed in Section 1201 would likely provide balance of payments benefits and savings to the Government in terms of additional revenue, and reduction of storage, and handling and transportation costs would be significant.

I would like to conclude by saying how pleased I am that this Subcommittee is taking the lead in exploring ways and means to contribute to our Nation's trade expansion efforts. The active interest and support of the Congress will go a long way in providing needed authority and programs and in creating the kind of environment conducive to obtaining maximum benefits from government export programs.

Now I will be pleased to try to answer any questions you may have.

REPRESENTATIVE LISTING OF GENERAL ACCOUNTING OFFICE REPORTS
ISSUED SINCE JULY 1, 1967 ON TRADE-RELATED MATTERS

	<u>Reference</u>	<u>Date</u>
Observations on the United States balance-of-payments position	B-162222	10/31/67
Opportunity to improve United States balance of payments through an increased agricultural barter program	B-163536	5/29/68
Cost and balance of payments advantages of replacing foreign made buses with American made buses abroad	B-163869	2/5/70
Opportunity to use surplus butter in lieu of European procurements	B-114824	12/3/70
Opportunities to economize on purchases of dairy and bakery products for U.S. forces in Southeast Asia	B-171428	2/4/71
Economic advantages of using American-made trucks abroad to transport military cargo	B-163869	2/4/71
Balance-of-payments benefits achieved by the Department of Agriculture through an increased agricultural barter program	B-163536	2/12/71
Use of foreign merchandise in proposed Foreign Trade Sub-Zone Operation	B-114898	4/15/71
Need for interagency consideration of applications for investment surveys and guarantees involving potential displacement of agricultural exports	B-166077	4/27/71
Economic advantages of using American ingredients to satisfy milk requirements in Western Europe	B-172539	6/3/71
Opportunity to increase export sales of surplus nonfat dry milk	B-114824	6/16/71
Opportunity for increased use of butter to satisfy military requirements in Europe	B-172539	7/22/71

	<u>Reference</u>	<u>Date</u>
Opportunities for increasing effectiveness of Overseas Trade Exhibitions	B-135239	11/4/71
Coordinated consideration needed of Buy-National Procurement Program Policy	B-162222	12/9/71
Sales and Conversions of U.S.-Owned Foreign Currencies	B-146749	12/29/71
Ways to Increase U.S. Exports under the Trade Opportunities Program	B-135239	1/ /72

LISTING OF OTHER REVIEWS IN PROCESS

1. Review of Department of Commerce's Field Office Activities

In a companion review to the activities of commercial offices abroad we initiated a review of the international aspects of field office operations. We wanted to gain an overview of the entire Commerce/overseas posts/field offices relationship; to evaluate the extent of coordination among these groups since many of the requirements placed on posts are the result of field office contacts with local businesses. Also, much of what is reported by overseas posts needs to be disseminated to potential American suppliers.

Preliminary indications based on the activities of five (out of 42) offices reviewed are that improvements are needed in field office efforts if exports by new exporters are to be increased. Although those businesses serviced by field offices generally responded favorably to the assistance received, this expertise was not reaching as many firms as might be helped and thus, the offices were falling short of their true potential. Problems exist in the establishment of program goals and priorities, and workload assignments are not properly coordinated with staff resources.

2. Coordinated Export Expansion Activities

Our survey of export expansion programs of Federal agencies indicates that they are being carried out without adequate coordination to assure that all opportunities to expand exports are given appropriate consideration.

Numerous relatively autonomous groups in some 20 executive departments and independent agencies have programs that influence the drive to expand exports. The need to coordinate these activities has long been recognized but attempts to do so have not been effective.

In the second half of the 1960's there was a growing awareness that our historically solid trade balance was in trouble. Despite this awareness, it was not until the advent of the Council on International Economic Policy in 1971 when innovative attempts were made to reverse the declining trade balance trend. A prime example of this earlier lack of innovation is the fate of the Interagency Committee on Export Expansion. The Committee, inactive since 1966, was reconvened in February 1969. Its purpose was to set up working groups to review all recent recommendations for improving U.S. export performance and propose measures on which the Cabinet Committee might act. The group met intermittently until August 1970 when its chairman concluded that suggestions made by committee members confirmed his belief that the Government seems to have run dry on new ideas to expand exports.

This idea vacuum could in part be the result of the subsidiary role exports have heretofore played in the priorities of the various organizations which have export expansion programs. This "runt-of-the-litter" role occurs because export expansion programs are usually run by organizations whose primary interest lies in domestic programs.

The Council for International Economic Policy was established in January 1971 to "ensure timely consideration of issues, help achieve

consistency between international and domestic economic policy, and maintain close coordination with our basic foreign policy objectives." This new body provides for coordination at a national goal and policy level. It does not, however provide the means to coordinate the strategies and programs developed by the numerous organizations to meet these national goals. Without such working level coordination export expansion programs will probably fall short of their potential.

Our survey report will attempt to show how the numerous export expansion programs might be made more effective with proper coordination. In the years following World War II, the Agency for International Development and its predecessor agencies were assigned the task of coordinating the Nation's foreign economic assistance programs. Now that international trade considerations have become increasingly important, perhaps a similar agency to implement foreign trade objectives might well provide the coordinating mechanism for more effective export expansion programs.

3. Review of Export-Import Bank Loans to Japan

Our review of Eximbank's long-term capital loan program was directed to one basic question -- do Eximbank procedures provide reasonable assurance that their loan participation is necessary to consummate an export transaction? If, Eximbank financing is necessary, then the Bank is fulfilling the dynamic export expansion role it was created to play; a role recently strengthened by the Congress through enactment of the Export Expansion

Finance Act of 1971, which among other things expanded the loan, insurance, and guarantee authority of the Bank from \$13.5 billion to \$20 billion.

If, on the other hand, Eximbank financing is not necessary to make the export sale, Eximbank is supplanting private capital; the United States suffers a short term balance of payments disadvantage; and the United States is needlessly providing concessional financing to foreign buyers.

In examining into the question of essentiality, GAO selected Japan as an empirical case study. We did this because Japan, on the surface, seems like one of the least likely countries in the world to need concessional Eximbank financing for its imports. The remarkable resurgence of Japan is only too well known--its burgeoning foreign exchange reserves; its excellent international credit rating; its tightly knit government/industry teamwork that ensures that financing is made available for imports considered to be in the national interest; its propensity for high technology imports that the U.S. produces. These conditions raise questions as to why Japan should be receiving the highest level of Eximbank loans of any country in the world. Historically, Japan has been the largest recipient of Eximbank loans. Through December 31, 1970, the total of all loan authorizations to Japan exceeded \$2.1 billion.

Among the issues we will consider are whether the Bank has developed guidelines to determine essentiality; how much evidence is needed to permit a judgment that concessional financing is the key factor in the sale;

whether appropriate economic intelligence bearing on the need for Eximbank assistance, especially the views of U. S. Embassy officials, was being obtained for consideration in the loan decision; and the likelihood that loans made to less deserving recipients would tend to divert the Bank's financial and management resources from those areas offering the greatest potential for expanding exports.

4. Export-Import Bank's Relending Credits Program

This program provides a line of credit to non-U. S. financial institutions who relend to private enterprises for financing purchases of U. S. goods and services. The objective of this review is to determine the effectiveness of the program in increasing exports and to ascertain the extent to which the stated goals of the program are being achieved.

5. Survey of Export Financing Systems

One of the elements for successful sale of American goods and services to a foreign buyer is the availability of financing. Before attempting to increase its export sales, every company must determine:

- a. its ability to finance the anticipated increase in business, and
- b. the extent to which it can protect itself against the risks involved in granting the required payment terms to overseas buyers.

With this in mind we plan to analyze the financing available to American exporters. By viewing all sources of such funds as fitting together to form an export financing system, we anticipate being able to make observations on the effectiveness of U.S. financing support to the American exporter.

In conducting this work we foresee export financing as being divided into two broad groups. The first type of financing directly promotes exports. The second, indirectly supports exports while trying to achieve other goals, such as the development of economically underdeveloped countries. The main organizations falling into the former group are commercial banks and the Export-Import Bank of the United States. The latter grouping includes our Agency for International Development and multilateral lending institutions such as the World Bank. In this survey we will concentrate efforts on the first group of organizations since their activities directly support exports.

Preliminary survey work indicates that there is no organization in the Government which identifies the sources, uses, terms and availability of export financing on an ongoing basis. This results in a lack of knowledge as to (1) the portion of U.S. exports that move on credit and (2) the types of goods and markets most responsive to adjustments in financing costs. This information vacuum has developed because there seems to be no Government organization with the function of coordinating and, when necessary, providing financing in an attempt to maximize U.S. exports.

6. Review of U. S. Country Trade Programs

Several agencies conduct trade and investment promotion activities in foreign countries -- State, Commerce, Agriculture, Eximbank, Bureau of Mines, Labor, Defense, Interior, USIA and others. There is no overall plan for promoting trade and investment objectives in given countries except for a general country strategy plan which does not provide for

directing and coordinating the promotional activities of the agencies involved. Mexico has been selected for initial review.

We plan an in-depth country market study. The Trade Center there has undertaken a pioneering effort in market analysis with particular emphasis on those product lines most susceptible to promotion by commercial exhibitions. We propose to utilize the methodology developed and to improve and expand on it to include all major trade considerations. In refining and expanding the market analysis technique, examples pointing up the need for coordinating the various U.S. agencies' trade programs would likely surface. We believe that the United States needs to have a clearly defined trade strategy for each country if we are to successfully compete in overseas markets. We hope to develop a model for a comprehensive market plan aimed at maximizing the U. S. potential in country markets.

7. Potential for Increasing Sales of U. S. commodities in Overseas

Military Exchanges

The main thrust of this review is to identify opportunities for sale of more American goods in military exchanges. U. S. military exchanges are giant retailers with sales of over \$3 billion; the Army-Air Force Exchange System is the largest with sales over \$2 billion. Army-Air Force purchases for overseas exchanges in Europe and the Pacific totaled \$818 million in 1971, of which \$265 million, or nearly one-third were for purchase of foreign goods. With further relaxation early last year of foreign goods sales through exchanges, coupled with services designed

to encourage mail order of foreign goods, the volume of foreign procured sales will likely increase over that recorded in fiscal year 1971. Since exchanges operate with non-appropriated funds, GAO's authority is limited. We have received DOD permission to obtain information from exchange officials which could then be disseminated to American suppliers through the Department of Commerce. We hope to identify specific opportunities for U. S. firms to effectively compete in this lucrative market; we also will identify situations where foreign products are given undue prominence and will appeal to exchange officials to give a lower profile exposure to these non-U. S. products. We were recently advised of a seemingly incongruous situation regarding the eligibility rules for mail order sales -- only those products of foreign origin in the Pacific are eligible for inclusion in their Pacific Exchange mail order catalog!

8. Agricultural Market Development

We have completed the field work on a review of agricultural market development activities, financed largely with funds generated from P.L. 480 sales. Since the beginning of the Export Marketing Programs in fiscal year 1956, the U. S. Department of Agriculture (USDA) has spent about \$91 million for foreign market development activities carried out by U. S. agriculture trade and producer associations. USDA is currently cooperating with nearly 70 such associations with activities in over 100 countries at an estimated cost to USDA of \$10 million during fiscal year 1972.

In this review we focused on evaluating the effectiveness of market development activities in several European countries. We question the

need for promoting the sale of those U.S. agricultural commodities which are subject to variable levy in Common Market countries. Their restrictive Common Agricultural Policy relegates many U.S. farm products to a role of residual supplier. We also hope to identify alternative ways to more effectively utilize limited market promotion resources.

9. Foreign Aid Impact on U.S. Agricultural Exports

We have initiated a survey to look into the need for greater interagency consideration of development assistance so that its success would not displace U.S. agricultural exports. Our objective is to determine if certain AID agriculture sector loans have a detrimental effect on exports of U.S. agriculture commodities. The importance of appropriate interagency consideration prior to approval of foreign assistance loans is indicated by considering the size of this program--AID loans to the agriculture sectors of 29 countries and regions totaled about \$353 million during fiscal years 1966 through 1971. For fiscal 1972 alone, proposed loans to 17 countries and regions total about \$230 million.

The objective of assisting less-developed countries toward economic self sufficiency is generally recognized as a desirable goal. However, what is not recognized is that the very success of these objectives frequently works to the detriment of American farmers and the Nation's balance of trade.

Agricultural sector and project loans to Morocco was our survey study to illustrate this dilemma. The combination of our assistance to Morocco coupled with the EEC's preferential trade arrangements with certain African States has enabled Morocco to undersell traditional and more efficient U.S. citrus exports to the Common Market.