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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON COMMERCE, CONSUMER
AND MONETARY AFFAIRS
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

EXPORT PROMOTION ACTIVITIES OF THE DEPARTMENT
OF COMMERCE'S DISTRICT OFFICES



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss with you the report you requested on the export promotion activities of the Department of Commerce's district offices. These offices, now numbering 47, are currently included in Commerce's International Trade Administration as the domestic side of the U.S. and Foreign Commercial Service (US&FCS).

The primary goal of the district offices is to assist small and medium-sized firms to develop their export potential by providing them with information and advice to help them begin exporting or, if already exporting, to enter new markets. District office personnel are expected to seek out and individually counsel firms about their export potential and about Commerce services that can help them to export. The offices also respond to business requests for export information and advice; for example, counseling on export license requirements and documentation currently constitutes 20 percent of their workload.

The district offices also heighten export awareness in the business community by sponsoring or participating in export seminars and by working with state and private export promotion organizations.

US&FCS tracks its success in meeting its primary goal by trying to measure how many new exports take place as a result of the work of the district offices. To do this, the US&FCS relies

on district office trade specialists' monthly reports on export accomplishments; that is, on new exports attributed to district office export promotion efforts. US&FCS aggregates these data to demonstrate the total contribution that the district offices make to U.S. exports. For example, in fiscal year 1984, US&FCS reported \$1.14 billion in new exports as a result of district office export promotion efforts.

BUSINESS RESPONSES TO GAO QUESTIONNAIRES

We conducted two different questionnaire surveys to determine how successful the district offices are in promoting new exports and how useful they are to the business community. The first survey was sent to essentially all firms in the districts we visited that the district offices reported had started to export or had exported to new markets as a result of their efforts. This questionnaire was designed, among other objectives, to determine the accuracy of reported export accomplishments. The second questionnaire was sent to a random sample of firms reported as having been counseled by the district offices in an effort to induce them to begin exporting or to otherwise assist them on exporting matters. This questionnaire was sent out to determine the firms' judgments as to how useful these efforts were. Both questionnaires were sent directly to the individual in each firm that Commerce had reported assisting.

Commerce Overstated Export Accomplishments

When compared with the responses to our survey, US&FCS-reported district office accomplishments in helping

businesses to begin exporting or to export to new markets appear to be substantially overstated. Forty-five percent of the firms answered that the export claimed for their firm was either not their first or not their first into the market cited. In addition, supplemental information we collected indicates that some exports, including some very large reported export accomplishments, never took place. Our survey work, completed in 1984 in 12 district offices, revealed that three reported exports with a value of \$318 million accounted for 70 percent of export accomplishments claimed by these offices for the year ending June 30, 1983. However, when we contacted these firms, two said that the reported exports had never taken place and the third reported that the export took place with little or no help from a district office. The results of our questionnaire regarding the value of export promotion counseling showed that, of the sample of firms that Commerce had reported as having made new exports because of district office efforts, only 38 percent remembered the counseling sessions and found them at least somewhat influential in making the reported exports.

Commerce Improves Export Reporting Criteria

We attribute the results of our surveys to insufficient control over the accuracy of district office reporting. Secondly, the US&FCS reporting criteria defined "new to export" and "new to market" to mean the absence of sustained exporting only over the preceding 12 months and did not provide for sufficient causal relationship between district office efforts

and the exports reported. Lastly, as Commerce acknowledged in commenting on our report, a major reason for the overstatements was excessive reliance on numerical goals as a means of determining the effectiveness of the program. Accomplishments expressed as the dollar value of new exports are a straightforward way to demonstrate the value of the program, especially when annual budgets are being considered. The over-reliance on numerical goals, as well as the need for such numbers to justify the program's existence at budget time, created what was in effect a numbers game.

We briefed US&FCS about these problems and it subsequently tightened controls over reporting and, in January 1985, revised the criteria for measuring district office successes in developing new exporters or new markets. We reviewed the revised criteria and controls and believe that they will produce more useful data about this facet of district office performance.

Businesses Find Export Facilitation Services Useful

We also learned from our surveys and from interviews with businesses that, despite our critical assessment of the US&FCS claims of export accomplishments, the firms assisted by the district offices did, for the most part, find that help useful. This is important, since we found that district office personnel spend a majority of their time in providing export facilitation services which are not directed to encourage firms to begin exporting or to enter new markets.

Approximately two-thirds of the almost 400 firms in the second survey remembered the contacts which had been recorded by the district offices; 87 percent of these firms stated that the offices had been useful to some degree, even though that help could not be depicted as being key to their firms' export initiatives or performance. Such facilitating services include providing information on (1) export regulations, (2) U.S. Customs procedures and forms, (3) import regulations in the destination country, (4) sources of export financing and/or insurance, and (5) transportation.

While US&FCS tries to measure the effectiveness of its export promotion efforts by reporting export accomplishments, it has no measure of the usefulness or value of the less-directed, export facilitation assistance to firms. This is unfortunate, because our questionnaires found this work to be useful to exporters.

CONCLUSIONS AND RECOMMENDATION

In summary, we found that the district offices were not as effective in influencing businesses to begin to export or to enter new markets as their report accomplishments suggested. On the other hand, our data showed that they have achieved some success toward this goal and also have been helpful to the exporting community in facilitating exports.

To better evaluate the US&FCS contributions in developing new exporters and new markets and the value of its export facilitation assistance, we recommended that the Director

General of US&FCS periodically survey the businesses that are helped by the district offices to obtain their perceptions of the value of the services received. The Commerce Department in its response to our report agreed to implement this recommendation.

COOPERATIVE INITIATIVES WITH THE STATES

States are becoming more involved in export promotion. State export promotion efforts that parallel the activities of the district offices are increasing in number, a growing number of states are passing legislation to provide financing facilities for exporting, and states are even beginning to open export promotion offices overseas.

In the views of the officials we interviewed from district offices and state export promotion offices, duplication and overlap should not be a problem because of the considerable opportunities to serve exporters and potential exporters. To improve coordination, US&FCS requires that district offices annually renew cooperative trade promotion agreements with state organizations.

In addition to the cooperative agreements, Commerce has undertaken some experimental programs to work with the states. One was a 2-year program known as the Business/State Government Relations Program. Fifteen special officers were hired with 2-year appointments to inventory state export promotion programs and to promote state participation in a multi-part program covering a number of initiatives, including a state-based export

finance program. The 2-year appointments have now expired, and responsibility for the initiative has passed to the district offices and their managers.

US&FCS also established a test program in 1982 in Oklahoma City in which a district office was opened and staffed jointly by federal and state personnel. US&FCS and the state each fund four trade specialist positions, and the state provides office space, equipment, and administrative support. The benefits of such a partnership arrangement include lower operating costs by sharing offices, the opportunity for state personnel to become more familiar with Commerce's available export promotion programs and information, and a closer working relationship that reduces the potential for overlap or duplication. While this joint office was originally conceived of as a 2-year pilot project, it is still operating.

RECOMMENDATIONS OF PRESIDENT'S PRIVATE SECTOR SURVEY
ON COST CONTROL REGARDING DISTRICT OFFICES

The issue of the role and usefulness of the district offices is especially important, because the President's Private Sector Survey on Cost Control (PPSSCC) recommended that these offices be phased out and that export promotion activities be centralized at Commerce's Washington headquarters. The PPSSCC recommendations were based on an analysis of fiscal year 1981 data which appeared to show that most of the dollar value of US&FCS-reported export accomplishments came from the exports of a small number of firms. For example, 17 large exports accounted for \$825 million, or 53 percent, of the \$1.6 billion

in export accomplishments US&FCS reported for that fiscal year. Three of these 17 reported export sales accounted for \$450 million, or 29.7 percent, of the year's total. The PPSSCC concluded from this analysis that it was wasteful to devote resources to low-potential exporters and that export promotion efforts should be concentrated on larger, high-potential exporters.

Accordingly, the PPSSCC recommended that export promotion work be limited to a headquarters organization which would target and counsel high-export-potential firms via electronic means from Washington. The field-based organization which maintained grass-roots outreach to local firms would be eliminated.

Our work showed that the PPSSCC data and analysis do not adequately support its conclusions and recommendations. Its proposal is based on an analysis of what we found to be erroneous and misleading US&FCS-generated data. As we have noted, our survey of firms for which US&FCS claimed export accomplishments revealed that (1) reported high-dollar value exports, such as those so important to the PPSSCC recommendations, did not actually take place and (2) many claimed new exports or exports to new markets were overstated or the district office contributions to the exports were exaggerated.

A further weakness in the PPSSCC study is that it did not collect data on the usefulness of district office work with state and other trade promotion organizations or on the value of

the offices' export facilitation activities, which we found to be useful to the business community. For these reasons, we do not agree with the PPSSCC recommendations.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you may have at this time.

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