United States General Accounting Office

GAO

Testimony

Before the Committee on Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at
2:30 p.m., EDT
Tuesday,
July 25, 1995

GOVERNMENT REORGANIZATION

Issues Relating to International Trade Responsibilities

Statement of Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness
General Government Division

064174/154790

GAO/T-GGD-95-218

GOVERNMENT REORGANIZATION:
ISSUES RELATING TO INTERNATIONAL TRADE RESPONSIBILITIES

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS
GENERAL GOVERNMENT DIVISION

To assist Congress in considering the Department of Commerce Dismantling Act (S. 929 and H.R. 1756), which would abolish the Department of Commerce, eliminate some of its functions, and place the remainder in other government agencies, GAO reviewed the potential effects of certain provisions on federal trade-related activities.

Many federal agencies execute U.S. trade responsibilities through an extensive network of formal and informal relationships. Commerce plays an important role in U.S. government efforts to (1) formulate, coordinate, and implement U.S. trade policy; (2) promote the sale of U.S. exports, (3) license the export of civilian products that may have military applications; and (4) compile statistics on exports, imports, shipping, and investments. Because of this role, it is important that consideration be given to the effects of decisions about Commerce on current intra-agency and interagency functions and working relationships.

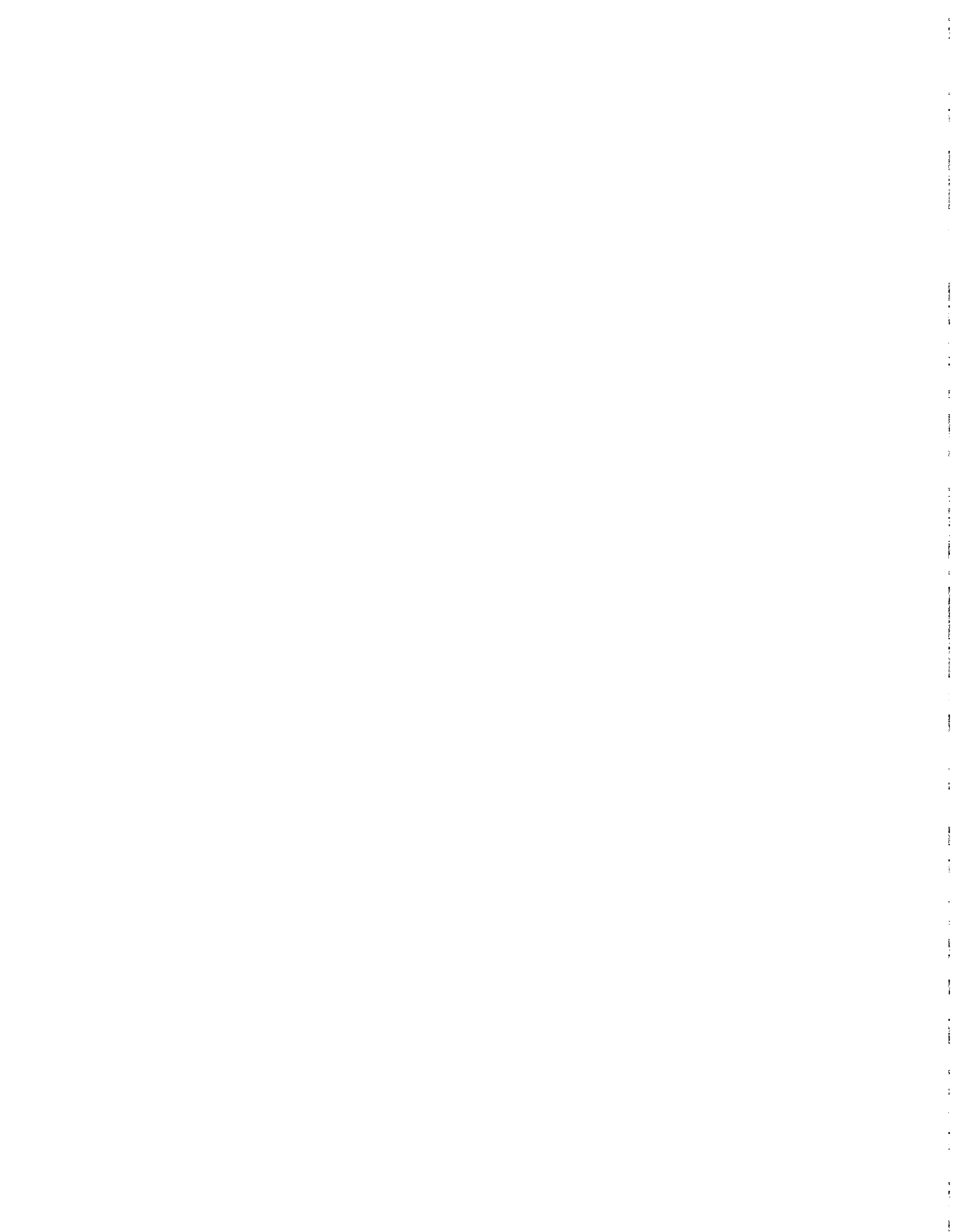
In this regard, GAO raised issues for consideration about how some provisions of this legislation, in their present form, could affect the conduct of certain trade responsibilities.

-- Eliminating Commerce's country- and industry-desk offices could deprive the U.S. Trade Representative of much of the analytic support it relies on to formulate trade policy and U.S. negotiating strategies.

-- Administering the export licensing of dual-use commercial products has always involved a balancing of national security, foreign policy, and commercial interests. Consideration should be given as to whether moving Commerce's export licensing authority (the Senate version moves it to the Department of Defense and the House version moves it to the State Department) would alter the necessary balancing of these interests.

-- Eliminating Commerce's U.S. Commercial Service's domestic network would sever a link between U.S. businesses and commercial officers overseas.

GAO has learned from its observations of past efforts to redesign or restructure government that five key principles could be used to provide a framework for congressional deliberations on reorganizing the government trade agencies. These principles emphasize the demand for an integrated approach, specific goals, the right vehicle for accomplishing the goals, careful assessment of implementation efforts, and sustained oversight by Congress.



Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the potential impact on managing federal trade responsibilities of proposals[1] to abolish the Department of Commerce, eliminate some of its component parts, and relocate the remainder to other government agencies.

My testimony today will address several broad trade-related issues. The first part of my statement will provide some context by discussing (1) the basis for the federal role in international trade, (2) the various roles played by Commerce and other federal agencies involved in international trade, and (3) the means by which interagency mechanisms help integrate federal trade activities.

I will then address issues related to the current proposals for eliminating the Department of Commerce, and other reorganization matters. Specifically, I will discuss (1) the implications of legislation recently introduced to dismantle the Commerce Department for federal implementation of the trade function, (2) the opportunities for cost savings in the international trade area, and (3) a conceptual framework that would help decisionmakers identify the ramifications and ensure the success of any federal restructuring effort.

My remarks today are based on over a decade of GAO work covering a wide variety of trade-related issues. These involved export promotion, including the programs of the Commerce Department, the U.S. Department of Agriculture (USDA), the U.S. Export-Import Bank (Eximbank), the Small Business Administration (SBA), and the Trade and Development Agency (TDA); major trade negotiations and agreements, such as the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT); trade regulation, including antidumping and countervailing duty matters; export licensing; and other issues.

THE FEDERAL GOVERNMENT'S ROLE IN INTERNATIONAL TRADE

The role of the federal government in international trade originates from the U.S. Constitution, which grants to Congress broad, comprehensive, and exclusive authority to regulate commerce with foreign nations. Article I, section 8, of the Constitution lists specific powers of Congress, including the power to "lay and collect taxes, duties, imposts and excises . . . [and] to regulate commerce with foreign nations." While Congress has clearly retained a prime role in international trade policy, it has delegated significant authority to the executive branch. For example, since 1934, Congress has delegated to the President authority to negotiate international trade agreements for the

---

[1]These include the Department of Commerce Dismantling Act (S. 929 and H.R. 1756, 104th Cong., 1st sess.). While these versions are very similar, they are not identical. Where appropriate, we will note where they differ.

reduction of tariffs. In further delegation of their responsibilities, Congress and the President have tasked numerous federal agencies with administering a wide variety of trade laws and programs.

Federal activities in international trade can be divided into four major areas: trade policy; export promotion; trade regulation; and trade data collection, analysis, and dissemination. (See app. I for a discussion of federal trade responsibilities.) The number of agencies involved and the need for and use of interagency coordination mechanisms differ among the four areas. (See app. II for a list of federal agencies significantly involved in international trade.)

COMMERCE PLAYS A LARGE ROLE IN FEDERAL TRADE ACTIVITIES

Commerce plays an important role in U.S. government efforts to formulate, coordinate, and implement U.S. trade policy and programs in all four areas.

Formulating Trade Policy

As an advocate for commercial interests, with which it interacts on a daily basis as part of its broad trade responsibilities, Commerce participates in federal trade policy deliberations, trade negotiations, and monitoring implementation of trade agreements. Trade policy deliberations largely take place in the Cabinet-level National Economic Council (NEC), sub-Cabinet-level Trade Policy Review Group (TPRG), and staff-level Trade Policy Staff Committee (TPSC). These interagency forums have a combined membership of 24 agencies and other members and are supported by a congressionally mandated private sector advisory system. Through these forums, the federal agencies seek to blend their many views into one coherent policy and implementation strategy. (See apps. III and IV for lists of member agencies to NEC, and TPRG and TPSC, respectively.)

These interagency committees work with information and analysis largely developed by federal agencies and private sector organizations. Staff of Commerce's International Trade Administration (ITA) provide much of the information and analysis that support the formulation of trade policy and the U.S. strategy for trade negotiations. For example, the Office of the U.S. Trade Representative (USTR) relied heavily on Commerce's country desk officers to provide region-specific analysis for use in negotiating NAFTA. Commerce staff also work with the advisory committees representing exporter and industry sector concerns that contribute to the formulation of trade policy. In addition, Commerce staff participate in some negotiations and help to monitor other countries' compliance with trade agreements.

Promoting U.S. Exports

The Commerce Department is at the center of federal efforts to promote exports. The Secretary of Commerce chairs the Trade Promotion Coordinating Committee (TPCC), an interagency group that, since 1992, has been required by statute to develop a governmentwide strategy for rationalizing the federal government's nearly $3 billion in federal export programs. (See app. V for a list of member agencies to TPCC). These programs include efforts to provide export financing; export-related information, such as market research and trade leads; export "facilitation" services, such as business counseling; and other support services, such as trade missions and advocacy (i.e., support by top-level federal officials) on behalf of U.S. exporters.

In May 1995 testimony,[2] we reviewed various rationales that have been put forward as a basis for the federal government's role in promoting the sale of U.S. exports. Supporters of government assistance to exporters hold that "real world" deviations from the conditions necessary to make markets work efficiently (i.e., "market failures") provide a strong justification for such programs. Supporters also cite trade policy objectives, such as combating foreign export price subsidies, as justification for government support for exporters. Opponents hold that the government cannot do better than the market and that government intervention can make a bad situation even worse.

Of TPCC's 19 members, three agencies--USDA, Commerce, and the Eximbank--represented over 90 percent of federal spending on export promotion in fiscal year 1994. USDA is the most prominent of the export promotion agencies, having spent about $2 billion in fiscal year 1994 for export information and export facilitation services and financing exports of agricultural products. The Eximbank obligated about $980 million during fiscal year 1994 for its export loan, loan guarantee, and insurance programs; and related administrative costs.

Commerce spent the least of the three agencies--about $233 million in fiscal year 1994 on export promotion-related activities, mostly through ITA. Three of ITA's four organizational units--the U.S. Commercial Service (USCS),[3] International Economic Policy (IEP--"country desks"), and Trade Development (TD--"industry desks")--provide a variety of export information and facilitation services

---

[2]See our May 1995 testimony, Export Promotion: Rationales for and Against Government Programs and Expenditures (GAO/T-GGD-95-169, May 23, 1995).

[3]Formerly the U.S. and Foreign Commercial Service.

for exporters of manufactured goods and services.[4] In particular, USCS is composed of a worldwide network of 134 overseas offices in 69 countries that provide a variety of services to U.S. business. Commerce's domestic network of 73 district offices and export centers serves as a key link between U.S. businesses and the overseas offices. In addition to ITA, Commerce's U.S. Travel and Tourism Administration is involved in another type of export promotion activity--promoting foreign tourism in the United States. Commerce does not finance exports.

Regulating Trade

Commerce's responsibilities in regulating trade include licensing exports, administering countervailing duty and antidumping laws, and implementing import restrictions.

Commerce shares responsibility for export control licensing with the Department of State. Commerce's Bureau of Export Administration (BXA) licenses the export of civilian products that may have military applications (so-called "dual-use" goods), while the State Department licenses the export of military goods. For dual-use items, Commerce is responsible for receiving applications, reviewing them, referring them to other agencies when appropriate (such as the Departments of Defense and Energy), receiving advice back from them, and conducting dispute resolution proceedings if there is no consensus. Disagreements between agencies on export control issues are to be dealt with through an interagency process. BXA also has a staff responsible for investigating violations of export control laws.

Commerce shares responsibility with the International Trade Commission (ITC) for administering countervailing duty and antidumping laws. Under these laws, the U.S. government can place a duty on imports of goods that are being unfairly subsidized or "dumped" (i.e., unfairly sold below market prices) in the United States to the detriment of U.S. firms. ITA's Import Administration[5] unit is responsible for determining whether subsidization or dumping has taken place while, in a parallel proceeding, ITC seeks to determine whether injury or the threat of injury has occurred to U.S. firms as a result of the subsidies or dumping. If subsidization or dumping and injury exist, then duties are to be imposed on the importers.

---

[4]Commerce's export promotion programs involve offering business counseling, training, and help with finding overseas representation, as well as providing market research information and trade fair opportunities.

[5]Commerce's Import Administration unit also administers other import programs, such as those under the machine tool and semiconductor agreements with Japan.

Commerce chairs the interagency Committee for the Implementation of Textile Agreements (CITA), comprised of USTR and the Departments of State, the Treasury, and Labor. ITA's Office of Textiles and Apparel has a staff of about 40 that supports CITA's operations, including monitoring textile imports and domestic production data. Since its establishment in 1972, CITA has supervised the implementation of textile agreements and proposed and implemented textile and apparel import restraints. It currently is charged with overseeing the GATT Uruguay Round Agreement on Textiles and Clothing, which provides for the integration of textile and apparel products into normal trade rules by 2005 and allows the imposition of interim import restraints.

Commerce also provides information and analyses that USTR uses in performing investigations into other unfair trade practices. Under section 301 of the Trade Act of 1974 (Public Law 93-618, Jan. 3, 1975), as amended, USTR can investigate alleged unfair trade practices and recommend imposing import restrictions on the goods and services of foreign countries that are using unfair practices that are found to harm U.S. interests. USTR looks to Commerce to generate much of the information and analyses that serve as the basis for these investigations.

Trade and Investment Data Collection, Analysis, and Dissemination

Several federal agencies collect, analyze, and disseminate international trade and investment data that serve as a basis both for federal decisions on trade matters and business decisions on exporting and importing. The Treasury Department's Customs Service generates basic trade data from documents provided by importers and exporters. Within Commerce, the Bureau of the Census, the National Technical Information Service, and the Bureau of Economic Analysis (BEA) compile current statistics on exports, imports, shipping, and investment. Several agencies, including the Departments of Agriculture, Commerce, Labor, the Treasury, and ITC, analyze and disseminate this information.

INTERAGENCY MECHANISMS ARE USED TO COORDINATE TRADE ACTIVITIES

Federal agencies execute U.S. trade responsibilities through an extensive network of formal and informal interagency relationships. In trade policy, federal agencies have used a long-standing interagency process to reach consensus on trade issues. In export promotion, federal agencies use a fairly new and, as a result, still evolving interagency process to integrate their export strategies and coordinate their activities. In trade regulation (e.g., antidumping and countervailing duties and export controls) and trade data collection and dissemination, fewer agencies are involved and, with regard to the former, the laws and regulations more clearly delineate responsibilities.

On the basis of recent work in three of these areas--trade policy; export promotion; and trade data collection, analysis, and dissemination--I would like to share with you our views on these interagency mechanisms.

Trade Policy

In the area of trade policy, the interagency decision-making process has evolved over a 20-year period into a sophisticated mechanism for transforming the often disparate views of multiple agencies into a uniform U.S. trade policy. Trade agencies have used the interagency decision-making process to attain several major achievements. Chief among these achievements have been the successful conclusion of the negotiations leading to the NAFTA agreement and the GATT Uruguay Round agreements. We have reported[6] that, while these accords were extremely complex and difficult to negotiate, both can be expected to benefit the United States.

Our work on international trade agreements also highlighted the importance of monitoring and enforcing foreign government compliance with their commitments in order to ensure that U.S. firms obtain anticipated benefits. Despite negotiating successes, our past work demonstrates that the federal agencies responsible for monitoring and enforcing trade agreements--primarily USTR, Commerce, and State--often experienced difficulty with their implementation, which can require substantial investments of resources and coordination among agencies. For example, we reported on monitoring and enforcement problems with respect to the GATT Tokyo Round Government Procurement Agreement, Voluntary Restraint Agreements on steel and machine tool imports, and the U.S.-European Union Civil Aircraft agreement.[7]

Export Promotion

In export promotion, the interagency decision-making mechanism remains in its formative stages. During 1991-92, our work found a federal export promotion effort that was fragmented among 10

---

[6]See our September 1993 testimony, North American Free Trade Agreement: A Focus on the Substantive Issues (GAO/T-GGD-93-44, Sept. 21, 1993), and our February 1994 testimony, International Trade: Observations on the Uruguay Round Agreement (GAO/T-GGD-94-98, Feb. 22, 1994).

[7]See, for instance, The International Agreement on Government Procurement: An Assessment of Its Commercial Value and U.S. Government Implementation (GAO/NSIAD-84-117, July 16, 1984), International Procurement: Problems in Identifying Foreign Discrimination Against U.S. Companies (GAO/NSIAD-90-127, April 5, 1990), International Trade: Administration of Short Supply in Steel Import Restraint Agreements (GAO/NSIAD-89-166, June 5, 1989), and International Trade: Long-Term Viability of U.S.-European Union Aircraft Agreement Uncertain (GAO/GGD-95-45, Dec. 19, 1994).

agencies and lacked any governmentwide strategy or priorities. We reported[8] that federal efforts in this area suffered from inefficiency, overlap, duplication, and apparent funding anomalies that increased costs and undermined the effectiveness of export promotion activities. For example, the federal government at the time maintained a fragmented and inefficient service delivery network that likely confused and discouraged U.S. firms that were seeking export assistance.

In October 1992, Congress passed legislation to address these problems. Title II of the Export Enhancement Act of 1992 (Public Law 102-429, Oct. 21, 1992) did not reorganize federal export promotion agencies but, instead, created an interagency mechanism through which the administration, working closely with Congress, might rationalize and strengthen federal efforts to promote exports. This legislation codified the interagency TPCC and tasked it to issue a report by September 30, 1993, (and annually thereafter) describing a governmentwide strategic plan for federal export promotion activities and its implementation. The strategy was to articulate governmentwide federal export promotion priorities and present a unified budget proposal to the President based on those priorities.

We have monitored TPCC activities since passage of the legislation. USDA, which commands by far the largest portion of the federal export promotion budget, at least initially withheld full participation in TPCC deliberations. Even those agencies fully participating are experiencing difficulty blending their separate views into a unified export promotion strategy. In testimony,[9] we characterized the TPCC's first annual report, issued September 30, 1993, as a work in progress. This annual report, as well as the 1994 update, did not establish governmentwide export promotion priorities nor a unified export promotion budget proposal. We believe that both are necessary to move the interagency coordination process forward as a vehicle for improving the effectiveness and efficiency of federal export promotion efforts.

Despite the absence of governmentwide priorities and a unified budget proposal, the TPCC reports contained 65 recommendations for improving federal export promotion efforts. These included several recommendations for major improvements, as well as many others that

---

[8]See, for example, Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992), and our August 1992 testimony, Export Promotion: Federal Approach Is Fragmented (GAO/GGD-92-68, Aug. 10, 1992).

[9]See our July 1993 testimony, Export Promotion Strategic Plan: Will It Be a Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993); September 1993 testimony, Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993); and October 1993 testimony, Export Promotion: Governmentwide Plan Contributes to Improvements (GAO/T-GGD-94-35, Oct. 26, 1993).

called for incremental innovations that, if taken together, would add to meaningful change. Several are well into implementation, such as (1) establishment of a federal advocacy center and network through which high-level federal officials can intercede on behalf of U.S. firms seeking export contracts and (2) creation of a network of U.S. Export Assistance Centers, which combines the domestic service delivery networks of Commerce, the Eximbank, and the SBA into "one-stop shops."

Trade and Investment Data Collection, Analysis, and Dissemination

A number of federal agencies are responsible for collecting international trade and investment data. Laws and regulations to protect confidentiality restrict sharing of data, both within and among agencies. A recent initiative to create interagency ties has improved the quality of federal information on foreign direct investment in the United States (FDIUS). Commerce is the principal federal agency responsible for collecting data on FDIUS. To improve the quality of these data and enhance analysts' ability to assess the impact of that investment on the U.S. economy, the Foreign Direct Investment and International Data Improvements Act of 1990 (Public Law 101-533, Nov. 7, 1990) was enacted. This legislation authorized Commerce's BEA to share confidential data on FDIUS with Commerce's Bureau of the Census and the Department of Labor's Bureau of Labor Statistics (BLS), and authorized Census to share data with BEA.

Without imposing any additional reporting burdens on survey respondents,[10] the agencies involved have generated new data that provide a richer description of the characteristics and operations of affiliates of foreign firms operating in the United States and enable analysts to draw more meaningful comparisons between such affiliates' operations and those of U.S. firms. For example, by comparing the market and employment shares of foreign-owned establishments with those of U.S. establishments, Commerce has been able to respond to concerns about the possibility that foreign investors might be acquiring a disproportionate amount of ownership in certain U.S. industries.

ISSUES FOR CONSIDERATION ABOUT THE IMPACT OF ABOLISHING COMMERCE ON MANAGING THE FEDERAL GOVERNMENT'S TRADE RESPONSIBILITIES

The Department of Commerce Dismantling Act, which was recently introduced in both the Senate and House of Representatives, would abolish the Commerce Department, eliminate several of its component parts, and transfer the remainder to other federal agencies. We believe there are issues that should be considered about how some

---

[10]Data provided by Commerce and BLS officials show that from 1991 to 1995, the BEA-Census and BEA-BLS data link projects have been conducted at an average annual cost of about $1.2 million.

provisions of this legislation, in their present form, could affect the conduct of certain federal trade responsibilities.

Certain provisions that, in their present form, could have an adverse effect on trade policy-making and negotiations call for immediate elimination of ITA's IEP (country desk) and eventual elimination of its TD (industry desk) offices. These offices devote almost half their time to supporting USTR trade policy activities.[11] Eliminating these offices would deprive USTR of much of the analytic support that it needs to formulate trade policy and U.S. negotiating strategy. USTR has fewer than 170 staff and, at this staffing level, will continue to need to rely on others for analytic support. With IEP and TD eliminated, it is not clear who within or outside of government would be able to perform this work for USTR.

Another provision would transfer the foreign operations of USCS and Commerce's Import Administration to USTR. While such a move might serve to better integrate export promotion and trade regulation with trade policy, it is also important to consider the impact this might have on USTR. USCS employs overseas about 800 commercial officers and Foreign Service national employees in 134 offices worldwide. Managing this network is a highly complex logistical undertaking, especially considering that commercial officers tend to relocate every few years. Grafting this larger organization onto USTR could divert USTR's attention from fulfilling its current responsibilities.

Another provision would eliminate the USCS' domestic network. The domestic office staff often serve as a link between U.S. businesses seeking information and analysis on foreign country markets and commercial officers overseas who can provide the needed information. Domestic office and country and industry experts also help organize and recruit companies for overseas trade missions and trade events that are supported by USCS commercial staff. Thus, totally eliminating the USCS' domestic network, as well as the IEP country desks and TD industry desks, would abolish the offices that task the USCS' overseas commercial network and, as a result, would effectively sever the link between Commerce's foreign network and U.S. firms.

The Department of Commerce Dismantling Act would also split Commerce's export control function. The Senate bill transfers Commerce's export licensing authority to the Defense Department, and the House bill transfers it to the State Department. Both bills would transfer Commerce's export controls enforcement operations to the Treasury Department, where they would be performed by the Customs Service. Administering the export

---

[11] Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s, U.S. Department of Commerce, Office of Inspector General, IRM-4523 (Washington, D.C.: U.S. Government Printing Office, Mar. 17, 1993), pp. 31-7.

licensing of dual-use commercial products has always involved a balancing of national security, foreign policy, and commercial interests. Therefore, consideration should be given to whether placing Commerce's licensing authority for such products in either the Defense or State Departments might alter the necessary balancing of interests.

OPPORTUNITIES FOR COST SAVINGS IN TRADE PROGRAMS

When restructuring the federal trade function, opportunities for cost savings are an important consideration. In the area of export promotion, the greatest potential for cost savings is at USDA. In 1991, we conducted the first review of how federal resources to support exports were being spent across the government. We reported (see fn. 8) that, in fiscal year 1991, USDA received about 74 percent of federal outlays in support of exporting and approximately 45 percent of the export credit made available by federal agencies. Yet agricultural exports accounted for about 10 percent of U.S. exports. In contrast, Commerce received approximately 7 percent of federal export promotion outlays during that period. Therefore, any reorganization of the trade function that has cost savings as a goal should also include agencies other than Commerce.

According to our work, savings could be achieved in these areas:

1. **Public Law 480 Title 1 Food Aid**: Public Law 480 title 1 food aid has both economic development and market development objectives. We recently reported[12] that Public Law 480 title I food aid contributed only minimally to economic development in beneficiary countries and that its contribution to long-term market development for U.S. agricultural commodities had not been demonstrated. Funding for the Public Law 480 title 1 food aid program was $291.3 million in fiscal year 1995.

2. **Cargo Preference Requirements for Food Aid**: Current statutes require that at least 75 percent of food aid cargoes be transported on U.S.-flag ships. The average cost of using these ships is significantly higher than those of foreign-flag vessels. In a 1994 study,[13] we reported that the application of the cargo preference requirement to food aid contributed minimally to realizing the objectives of section 101 of the Merchant Marine Act of 1936, as amended (46 U.S.C. Appx. 1101). Funding for the cargo preference requirement has averaged about $200 million annually in recent years.

---

[12]Food Aid: Competing Goals and Requirements Hinder Title I Program Results (GAO/GGD-95-68, June 26, 1995).

[13]Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, Sept. 29, 1994).

3. Market Promotion Program: This USDA program provides funding for not-for-profit associations for the promotion of U.S. products in foreign markets. The funds can be used either by the industry associations or passed along to for-profit companies to advertise their brand-name products in foreign markets. We reported in 1993[14] that some of this funding is being used by large corporations (e.g., Gallo Wines and M&M Mars) that appear to have no need for taxpayer funding to promote the sale of their products. We also reported that some industry associations appear to have the ability to generate funds from their membership to promote their commodities overseas. Funding for the Market Promotion Program was $85.5 million in fiscal year 1995.

4. Export Enhancement Program: This program was created in 1985 to counter European Community (now European Union) agricultural export subsidies, regain market share for U.S. agricultural exporters, and pressure the European Community to negotiate a reduction in or elimination of agricultural export subsidies. The recently completed GATT Uruguay Round agreements require signatories to reduce agricultural subsidies and commit themselves to conduct further negotiations aimed at achieving additional reductions in subsidized agricultural exports. Compliance with this agreement restrains European Union spending on agricultural export subsidies. In 1993, the EU spent $11.7 billion for direct export subsidies. Funding for the Export Enhancement Program was $800 million in fiscal year 1995.

5. General Sales Manager (GSM) Export Credit Guarantee Programs: USDA is statutorily required to make available not less than $5.5 billion a year in export credit guarantees (under the GSM-102 and GSM-103 programs) for the export of U.S. agricultural commodities. We reported in 1992[15] that borrowers of these funds were generally from developing countries that were fairly high credit risks. As a result, guaranteeing loans under these programs was quite costly because of the risk of default. Savings could be realized in these programs by reducing the credit guarantees made available to the most risky borrowers and, thereby, reducing the risk of default on the part of the program's beneficiaries.

---

[14] International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993), and Small Business Participation in MPP (GAO/GGD-93-42R, May 19, 1993).

[15] Loan Guarantees: Export Credit Guarantee Programs' Costs Are High (GAO/GGD-93-45, Dec. 22, 1992).

A FRAMEWORK FOR REORGANIZATION

On May 17, 1995, the Comptroller General testified before this Committee on issues and principles Congress might use in efforts to restructure the federal government.[16] He listed five key lessons learned from our observations of past efforts to reorganize or restructure government, both within and outside the United States. We believe that these principles are useful as a structure for understanding the issues surrounding current proposals to eliminate Commerce and their impact on federal trade activities.

The principles are as follows:

1. Reorganization demands an integrated approach. The interconnectedness of federal structures and activities should not be underestimated. Reorganizations that do not consider the broader picture could create unintended consequences for the future.

2. Reorganization plans should be designed to achieve specific, identifiable goals. Reorganization efforts are better served if specific goals are identified. Even if decisionmakers find it difficult to reach a shared understanding of goals, certain overarching goals should be kept in mind. These include the need to create a structure that operates efficiently, economically, flexibly, and in a businesslike manner with full accountability.

3. Once the goals are identified, the right vehicle(s) must be chosen for accomplishing them. Deliberations on government reorganization often include a discussion on the role of the federal government and how that role, if any, should be exercised.

4. Implementation is critical to the success of any reorganization. No matter what decisions are made about how to reorganize the trade function, fulfilling the promise of any new plan will depend on its implementation. Assessing implementation will require that trade agencies have the basic program and financial information needed to gauge progress, improve performance, and establish accountability.

5. Oversight is needed to ensure effective implementation. The process of reorganizing government should not stop when a plan is adopted. It is important that Congress continue to play a significant role in both its legislative and oversight capacities to establish, monitor, and maintain both governmentwide and agency-specific management reforms.

---

[16]See our May 1995 testimony, Government Reorganization: Issues and Principles (GAO/T-GGD/AIMD-95-166, May 17, 1995).

CONCLUSIONS

The proposed legislation for abolishing the Department of Commerce provides decisionmakers the opportunity to deliberate on which trade functions are appropriate for the federal government, who in government should perform these functions, and how the federal agencies can be best organized to ensure the efficiency and effectiveness of these activities. The Comptroller General's five principles for reorganization provide a framework for these deliberations and for addressing the issues raised in this testimony.

- - - - -

Mr. Chairman, this concludes my prepared statement. I would be pleased to try to answer any questions you or other Members of the Committee may have.

TRADE-RELATED FUNCTIONS OF THE FEDERAL GOVERNMENT

One way to categorize the federal government's international trade-related activities is to divide them into six groups: trade policy; export promotion; trade regulation; trade and investment data collection, analysis, and dissemination; taxation; and other functions.

1. Trade Policy

   Agencies involved include the U.S. Trade Representative; and the Departments of Agriculture, Commerce, State, and Transportation. Activities include the following:

   A. Working through an interagency process to formulate and coordinate international trade or investment policies, and coordinating those policies with domestic policies and with U.S. business and consumer interests and state and local governments.

   B. Negotiating international trade or international investment agreements.

   C. Funding and representing U.S. interests in trade-related international organizations.

   D. Monitoring and enforcing other countries' compliance with trade agreements.

2. Export Promotion

   Agencies involved include the Departments of Agriculture, Commerce, Energy, and State; the U.S. Export-Import Bank, the Overseas Private Investment Corporation; the Trade and Development Agency; and the Small Business Administration. Activities include the following:

   A. Formulating and coordinating export promotion policy.

   B. Combating foreign export subsidies.

   C. Financing and insuring U.S. trade or U.S. investments in other countries, or funding feasibility studies on major infrastructure and development projects.

   D. Providing "trade facilitation" services to the public, such as export counseling, foreign market analyses, or trade missions or trade fairs.

   E. Providing government-to-government advocacy on behalf of U.S. businesses.

F. Developing foreign markets for U.S. goods and services.

G. Providing tourism promotion services and formulating and coordinating tourism policy.

3. Trade and Investment Regulation

Agencies involved include the Departments of Agriculture, Commerce, Defense, Justice, Labor, State, and the Treasury; and the International Trade Commission. Activities include the following:

A. Licensing and restricting exports, imports, or foreign investments in the United States for national security, foreign policy, or short supply reasons.

B. Inspecting exports or imports for health, safety, or certain other reasons.

C. Enforcing U.S. laws on illegal drugs, money laundering, counterfeit goods, and other cross-border activities.

D. Enforcing U.S. laws that seek to protect U.S. companies or workers from "unfair" or harmful foreign trade practices, such as antidumping and countervailing duties laws; and providing financial assistance to offset such harm, such as trade adjustment assistance.

E. Enforcing U.S. rights under trade agreements and responding to certain foreign practices (secs. 301-310 of the Trade Act of 1974, as amended.)

F. Enforcing U.S. antiboycott laws and the Foreign Corrupt Practices Act of 1977, as amended (15 U.S.C. section 78dd-1).

G. Administering foreigners' blocked assets in the United States or adjudicating U.S. citizens' claims against foreigners.

4. Trade and Investment Data Collection, Analysis, and Dissemination

Agencies involved include the Departments of Agriculture, Commerce, Labor, and the Treasury; and the International Trade Commission. Activities include the following:

A. Documenting and tracking trade and investment transactions and maintaining U.S. tariff schedules.

B. Analyzing or distributing trade and investment data to government decisionmakers or to the public.

5. Taxation

The main agency involved is the Department of the Treasury. Activities include the following:

A. Collecting customs duties and fees.

B. Taxing U.S. persons or corporations overseas or foreign persons or corporations that owe U.S. taxes.

6. Other Trade-Related Functions

Agencies involved include the Departments of Commerce, Justice, State, and the Treasury; and the Federal Reserve System. Activities include the following:

A. Issuing patents and registering trademarks.

B. Developing and maintaining information on U.S. product standards.

C. Regulating the banking activities of subsidiaries of foreign companies in the United States and subsidiaries of U.S. companies located abroad.

D. Enforcing U.S. antitrust laws that affect U.S. companies' ability to trade or invest abroad.

E. Adjudicating disputes over traded goods, e.g., the International Trade Commission's "section 337" cases).

Sources: Budget of the U.S. Government for Fiscal Year 1996 (Washington, D.C.: U.S. Government Printing Office, 1995); Federal Staff Directory 1993/1 (Mount Vernon, Virginia: Staff Directories, Ltd., 1993); Export Programs: A Business Directory of U.S. Government Services, Trade Promotion Coordinating Committee (Washington, D.C.: U.S. Government Printing Office, 1995); GAO.

U.S. GOVERNMENT AGENCIES INVOLVED IN INTERNATIONAL TRADE

We discuss in the following paragraphs the major trade agencies and some of their responsibilities. We have not undertaken to catalogue the tasks or offices within each agency that deal in some way with international trade issues.

1. **The Office of the United States Trade Representative** (USTR) has primary responsibility for developing and coordinating U.S. international trade policy and lead responsibility for the conduct of international trade negotiations.[1] Under section 301 of the Trade Act of 1974, as amended, USTR is also authorized to investigate allegations that foreign countries are denying benefits to the United States under trade agreements or are otherwise engaged in unjustifiable, unreasonable, or discriminatory acts that burden or restrict the commerce of the United States. Section 301 authorizes and in some cases mandates action by USTR to enforce the trade agreement rights or to obtain the elimination of the offending act, policy, or practice. USTR is authorized, subject to the direction of the President, if any, to take any action within the President's authority with respect to trade in goods and services. The remedies available include suspending trade agreement concessions; imposing duties, fees, or various import restraints; and denying services licenses.

2. **The Department of Agriculture** administers a number of trade programs that are intended to enhance the competitiveness of U.S. exporters of agricultural products. These programs include the concessional (i.e., below market interest rate) sales program, export credit guarantee programs, and export promotion programs. The agency also provides input and expertise to U.S. negotiators and policymakers on matters of agricultural trade.

3. **The Department of Commerce** has become the focal point of operational responsibilities in the nonagricultural trade area. The agency's trade responsibilities include export promotion, administration of the antidumping and countervailing duty laws designed to reduce unfair trade practices by competitor exporting nations, and export licensing. Commerce also provides support during trade negotiations.

4. **The Department of State** participates in the formulation of U.S. trade policy by bringing its foreign policy perspective to bear on trade issues. The State Department also licenses the export of military goods.

---

[1]In 1980, various trade functions were reorganized by an executive order issued pursuant to a provision in the Trade Agreements Act of 1979 (Public Law 96-39, July 26, 1979). USTR's status was essentially codified by the Omnibus Trade and Competitiveness Act of 1988 (Public Law 100-418, Aug. 23, 1988).

5. The Department of the Treasury has responsibility for international monetary affairs, international finance and investment, and coordination of U.S. policies regarding international financial institutions such as the International Monetary Fund and the World Bank. Within the Department, the U.S. Customs Service is charged with collecting import duties and enforcing the hundreds of laws or regulations relating to international trade.

6. The Departments of Labor, Defense, Transportation, Energy, and Justice, and the Environmental Protection Agency offer support and expertise that are used to formulate and coordinate international trade policies or negotiations. For example, the Department of Labor conducts research on trade-related employment issues. A provision of the Omnibus Trade and Competitiveness Act of 1988 (Public Law 100-418, Aug. 23, 1988) requires the Secretary of Commerce, in consultation with the Secretary of Energy, to undertake a comprehensive review to assess whether existing statutory restrictions on the export of crude oil produced in the United States are adequate to protect the energy and national security interests of the United States.

7. The U.S. Export-Import Bank is an export credit agency responsible for promoting and facilitating U.S. exports. The Eximbank provides financing assistance for exporters through direct loans, loan guarantees, and export insurance. In addition, the agency is tasked with administering a congressionally funded "war chest" to be used to match export assistance by competitor countries that does not conform with international agreements.

8. The U.S. International Trade Commission (ITC) conducts studies and investigations relating to international trade, including determining whether U.S. industries have been injured or threatened with injury by reason of imports alleged to have been supported by subsidies or to have been "dumped" on the U.S. market. ITC determinations parallel the subsidies or dumping investigations conducted by the Department of Commerce.

9. The Overseas Private Investment Corporation was created to mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of developing countries, thereby complementing the development assistance objectives of the United States. The agency promotes U.S. exports by providing insurance and guarantees for U.S. investment in the markets of developing countries.

10. The Small Business Administration (SBA), in cooperation with the Department of Commerce and other relevant Federal agencies, engages in export promotion on behalf of small businesses. The 1988 Trade Act also authorizes SBA to provide export financing and to work in connection with the Eximbank to identify financing available to small businesses.

11. The Trade and Development Agency (TDA) was established as a separate agency in 1988 to promote U.S. private sector participation in development projects in developing and middle-income countries. TDA provides grant assistance to U.S. firms to prepare preliminary engineering and design of bilateral and multilateral development projects in foreign markets.

APPENDIX III

MEMBERS OF THE NATIONAL ECONOMIC COUNCIL

The President, Chair
The Vice President
Secretary of Agriculture
Secretary of Commerce
Secretary of Energy
Secretary of Housing and Urban Development
Secretary of Labor
Secretary of State
Secretary of Transportation
Secretary of the Treasury
Administrator, Environmental Protection Agency
Chair, Council of Economic Advisers
Director, Office of Management and Budget
U.S. Trade Representative
Assistant to the President for Domestic Policy
Assistant to the President for Economic Policy
Assistant to the President for Science and Technology Policy
National Security Advisers

APPENDIX IV

MEMBERS OF THE TRADE POLICY REVIEW GROUP (TPRG) AND TRADE POLICY STAFF COMMITTEE (TPSC)

Office of the U.S. Trade Representative, Chair
Department of Agriculture
Department of Commerce
Department of Defense
Department of Energy
Department of Health and Human Services
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Council of Economic Advisers
Environmental Protection Agency
International Development Cooperation Agency
National Economic Council/National Security Council
Office of Management and Budget
U.S. International Trade Commission (as an observer at TPRG meetings and a nonvoting member of TPSC)

APPENDIX V

MEMBERS OF THE TRADE PROMOTION COORDINATING COMMITTEE

Department of Commerce, Chair
Department of State
Department of the Treasury
Department of Defense
Department of the Interior
Department of Agriculture
Department of Labor
Department of Transportation
Department of Energy
Office of Management and Budget
Office of the U.S. Trade Representative
Council of Economic Advisers
Environmental Protection Agency
Small Business Administration
Agency for International Development
U.S. Export-Import Bank
Overseas Private Investment Corporation
U.S. Trade and Development Agency
U.S. Information Agency

(280138)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested