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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Problems Hamper Foreign Commercial Service's Progress

On April 1, 1980, the President transferred primary responsibility for overseas commercial work from the Department of State to the Department of Commerce, which resulted in the creation of the Foreign Commercial Service. GAO found that serious resource problems hindered the Service's first years of operations and that progress toward attaining a revitalized commercial service overseas has been uneven.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses problems resulting from the transfer of authority for commercial work from the State Department to the Commerce Department under the President's Reorganization Plan No. 3 of 1979. Current overseas operations of the new Foreign Commercial Service, established as a result of the transfer, are also discussed. This review was made to determine whether progress is being made in improving the delivery of commercial services to American exporters, a key factor in the Federal Government's attempts to improve the international competitiveness of American business. At the specific request of Congressman Benjamin S. Rosenthal, we have also reviewed certain areas of interest to the Subcommittee on Commerce, Consumer and Monetary Affairs.

We are sending copies of this report to the Director, Office of Management and Budget, and the Secretaries of State and Commerce.

John D. Heller

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROBLEMS HAMPER FOREIGN
COMMERCIAL SERVICE'S PROGRESS

DIGEST

On April 1, 1980, the President transferred primary responsibility for overseas commercial work from the State Department to the Commerce Department, which created the Foreign Commercial Service (FCS). With this reorganization, it was expected that U.S. exporters would have the assistance of a unified export promotion system and a motivated, well-trained, and competent overseas commercial staff to help meet the increasing competition in world markets.

GAO reviewed FCS operations both in Washington and overseas and found that numerous resource and policy problems have hindered FCS' first years of operations and caused uneven progress toward the revitalization of commercial work overseas.

TRANSFER OF RESPONSIBILITY

FCS began operations with serious resource problems that have hampered its ability to substantially improve the implementation of overseas commercial work. (See pp. 10 to 23.)

GAO found numerous indications that FCS needs to reallocate its overseas staff, both among and within countries. Although FCS has taken some steps to correct this problem, much more remains to be done. Further, the lengthy procedures necessary to transfer positions among countries make it unlikely that FCS can attain the desired allocation of staff in the near future. (See pp. 11 to 14.)

Also, FCS began operations with inadequate information concerning its financial resources and needs, due primarily to the prolonged negotiations with State on the budget transfer and the perceived unreliability of the State budget figures. This uncertainty caused FCS to be very conservative in allocating funds to the posts during fiscal years 1980 and 1981, causing the overseas commercial staffs to plan minimal activities and, in some instances, disrupting the implementation of programs and activities. In addition, FCS could not begin development of an adequate budget management system until fiscal year 1982. (See pp. 14 to 20.)

FCS HEADQUARTERS DEFICIENCIES CAUSED PROBLEMS DURING FIRST YEARS

Commerce provided FCS with a headquarters staff lacking sufficient positions and the experience necessary to start up and operate an organization of FCS' size. Headquarters deficiencies caused initial delays and false starts in developing management systems, creating operating problems that have marred FCS' first years of operations. (See pp. 24 to 26.)

FCS headquarters did not provide adequate day-to-day support for the overseas staffs. GAO found numerous instances where headquarters responses to post requests were untimely and some requests never even received responses. (See pp. 26 and 27.)

Headquarters deficiencies also contributed to difficulties experienced by FCS in developing an education program for its overseas staff. FCS headquarters was unable to provide the oversight necessary to insure the program's success, resulting in the development of an education curriculum of little or no value at a cost of over $300,000. In addition, FCS did not properly administer the appointments of two specialists who participated in this effort, resulting in the violation of Federal and Commerce Department rules and guidelines governing the use of experts and consultants. (See pp. 27 to 29.)

Headquarters deficiencies were also a factor in the poor management of its recruitment, training, and placement system, which resulted in

--long-term vacancies overseas,

--the assignment of recruits overseas before they had received all necessary preparatory training, and

--the placement of recruits in locations where their talents and backgrounds are not fully utilized.

These deficiencies have hindered overseas commercial operations. (See pp. 29 to 33.)

COMMERCIAL ACTIVITIES OVERSEAS: UNEVEN PROGRESS

Progress toward the attainment of a new revitalized commercial service has been uneven. Some overseas posts, on their own initiatives, have developed innovative export promotion programs and procedures which should result in both a more effective use of available resources and improved services to U.S. exporters. (See pp. 36 to 38.)

The commercial staffs at a number of posts, however, lacked the independence from the Embassies' economic sections necessary to fully control their work assignments. Soon after FCS was established, the Commerce and State Departments came to an agreement recognizing an Ambassador's authority to delegate responsibility for coordinating functions falling broadly within the economic area to another high-ranking Embassy official. In practice, this responsibility has usually been given to the senior economic officer. GAO noted that at some posts the distinction between coordinating responsibility and direct control over commercial activities has been blurred. This gives the impression that FCS has yet to achieve the enhanced status intended by the reorganization and has resulted in the commercial staffs performing what are essentially economic functions, limiting the time they can devote to commercial work. (See pp. 38 to 41.)

At a number of posts where FCS had attained sufficient independence, GAO noted poor coordination between the commercial and economic sections, resulting in (1) an inadequate exchange of information, (2) overlapping and duplicative reporting and, in some cases, (3) a failure to report at all since each group thought the other was performing the task. (See pp. 41 and 42.)

GAO also found that the commercial staffs overseas continue to devote too much time to reactive programs and activities, limiting the time available for active promotion of exports. In particular, many posts devote an inordinate amount of time to planning and other administrative work as well as to certain Commerce information programs. Poor Commerce headquarters administration unnecessarily increases the amount of time the commercial staffs must devote to these programs and delays the transmission of information to and from the requester. GAO further notes that a credit information program is not needed in certain countries since adequate commercial alternatives exist. (See pp. 43 to 48.)

RECOMMENDATIONS

GAO recommends that the Secretaries of State and Commerce direct Ambassadors at FCS posts to (1) fully abide by pertinent provisions of the State-Commerce Memorandum of Understanding so that supervision or authority over commercial activities overseas is not delegated below the Deputy Chief of Mission level and (2) require regular staff meetings at all levels between the economic sections and FCS and joint distribution of economic and commercially relevant cable traffic. This will assure FCS the necessary level of independence and provide for an adequate interchange of information between the FCS and economic sections. (See pp. 38 to 42.)

GAO is also making several recommendations to improve commercial operations overseas and to eliminate a credit information program in those countries where adequate commercial alternatives exist. (See pp. 51 and 52.)

AGENCY COMMENTS

The Commerce Department generally agreed with GAO's conclusions and said it was taking steps to correct the deficiencies cited. (See app. I.) The State Department agreed with the substance of GAO's recommendations and provided its views on the reorganization and the implementation of commercial work, both before and after the transfer of authority. (See app. II.) State also commented that greater accuracy and balance in certain parts of the report could have been achieved had more time been spent in interviews at the State Department, particularly with more senior officers.

GAO believes that the report presents a current, balanced, and accurate picture of information obtained from numerous sources. Officials from the Commerce and State Departments and the Office of Management and Budget were interviewed including all State Department officials identified to GAO as knowledgeable concerning the implementation of the transfer. Furthermore, numerous high-level State Department officials were interviewed overseas, including Ambassadors, Deputy Chiefs of Mission, economic ministers, economic and administrative counselors, and economic officers.

Commerce and State summary comments and GAO's evaluations are included in the appropriate sections.

Contents

ABBREVIATIONS

ADS	Agent/Distributor Service
DPS	Direct Program Support
FCS	Foreign Commercial Service
FSN	Foreign Service National
GAO	General Accounting Office
OICR	Office of International Commercial Representation
PCAP	Post Commercial Action Plan
USCS	U.S. Commercial Service
WTDR	World Traders Data Reports

CHAPTER 1

INTRODUCTION

U.S. Government export promotion activities are designed to improve the U.S. balance of trade and overall economy. Until April 1980, the Commerce and State Departments shared responsibility for implementing these activities. State Department commercial officers, attached to Embassies and consulates overseas, implemented export promotion programs that were developed and managed by the Commerce Department in Washington, D.C. This arrangement led to congressional and private sector criticism of the U.S. Government's export promotion administration and performance. Thus, in April 1980, in accordance with the President's Reorganization Plan No. 3 of 1979, primary responsibility for overseas commercial work was transferred to the Commerce Department. A new agency--the Foreign Commercial Service (FCS)-- was created in Commerce to implement this responsibility.

COMMERCIAL SERVICES PROVIDED OVERSEAS

Commercial services provided by U.S. Embassies or consulates play an important role in supporting and representing American trade and investment interests abroad, particularly in export expansion. They range from notifying American firms of existing export opportunities to representing American firms' interests in trade and investment disputes overseas. To understand these various programs and activities, it's convenient to think in terms of the various client groups and specific examples of how they might be served. The first Director General of the Foreign Commercial Service cited seven distinct client groups, all vying for the commercial officers' time and available budgetary resources.

1. Resident national business and government community.

2. Resident American business community.

3. Visiting American business community.

4. U.S.-based business community.

5. Industry sector organizations.

6. State and local governments.

7. U.S. Government.

Resident national business and government community

The resident national business and government community consists of the private firms, distributors, government purchasing agents, etc., that are indigenous to the local economy where the Embassy or consulate is located. This is one of the most important client groups affecting the demand for U.S. products and services. For example, in recognition of this group's importance, the commercial staff at the U.S. Embassy in London has heavily oriented its workload toward the United Kingdom's business community. As a result, the commercial officers should be better able to capitalize on export opportunities like those which developed with the depreciation of the dollar in 1979. At that time, many United Kingdom distributors turned to the Embassy for information about products they wanted to distribute and U.S. manufacturers they wanted to represent.

In developing countries, the governments are often involved in major projects, so it is important for the commercial staffs to know the officials who make decisions on procurements and major projects as well as the limited number of reliable agents who can effectively represent U.S. exporters. A representative of a major association of U.S. engineering consulting firms, whose members are very active in developing countries, told us that his members expect the commercial officers to be their eyes and ears overseas, visiting government offices and private entities and identifying future projects. For example, if the ministry of transportation in a country is considering a new railroad, he would expect the commercial officer to be on top of the situation so that American engineering/consulting firms could have a head start. The services these firms could provide would then be an important first step in selling other U.S. goods because U.S. consultants often draw up their plans using U.S. specifications. These views were echoed by a representative of a major service sector firm who stated that commercial officers should be fully integrated into the local government and business community. He added that just setting up a meeting between a local decisionmaker and a U.S. firm can be critical. In his opinion, commercial officers in the past have been too passive to effectively perform this function.

The commercial officer can also inspire latent demand for U.S. goods and services. For example, a 1981 Georgetown University publication, entitled "The Role of Embassies in Promoting Business", cites a case of a Foreign Service officer in an oil exporting country which was enjoying a $5-billion trade surplus with the United States. This officer noticed that the military had no U.S.-made vehicles and reasoned that if the military went "American" other sectors might follow. He explained to the army's chief of staff the advantages of U.S.-made trucks and buses and offered to bring in U.S. representatives for discussions. The official agreed and within 6 months U.S. firms had orders for $140 million, with one U.S. firm winning its largest contract ever.

Resident American business community

Generally speaking, U.S. firms overseas already have well-established commercial ties and don't need the basic export promotion services that comprise the bulk of Government commercial activity. In some cases, these firms have established local manufacturing subsidiaries and, therefore, are interested in exporting to third-country markets. For example, there are approximately 700 American firms in Singapore, but they have relatively little interest in promoting U.S. exports to that market. In Singapore as in other countries where U.S. firms have a large presence, the American business community looks to the Embassy to support and protect its considerable commercial and investment interests. A 1981 FCS survey of the overseas business community identified the most important service the Embassy could provide in some countries as representing, monitoring, protecting, and advocating U.S. commercial and investment interests through close relations with local business and through contacts with the host government; e.g., monitoring trade agreement compliance, assisting with trade complaints, identifying and recommending changes in U.S. laws and regulations which disadvantage U.S. commercial competitiveness, etc.

In practice, this means providing assistance and representation in cases involving major investment proposals, public sector contracts in developing countries where Embassy support can be invaluable, or problems with the host government. For example, in a trade discrimination case in West Germany, a local U.S. firm sought the assistance of the U.S. Embassy because it felt it had been unjustifiably discriminated against in a computer procurement by a local university. A company spokesman told us that the firm would not have pursued this case were it not for the active assistance and support of the commercial counselor and the Embassy in Bonn. The company has since filed a lawsuit alleging trade discrimination in violation of the multilateral trade negotiation agreements.

U.S. firms located overseas do not always seek out Embassy assistance because close identification with the United States is sometimes considered a liability. In some countries where political sensitivities exist, U.S. multinationals sometimes downplay their "foreign" ownership and are therefore hesitant to use the Embassies' services.

Visiting American business community

The visiting American business community can be either from a regional headquarters or from the United States. Multinational firms often establish headquarters in each overseas region in which they operate. In Europe, regional headquarters are sometimes located in Brussels. In Asia, regional headquarters are found in Hong Kong, Singapore, Australia, or the Philippines. Visitors from these regional headquarters often look to the Embassy for various types of assistance while they are incountry.

Visiting American business representatives from the United States are often interested in establishing distributorships or getting in on major projects or investment opportunities. A representative from an export management company who recently returned from a business trip to the Far East told us that he relies heavily upon the Embassies for export services since his firm has no overseas offices and that he always stops at the Embassy first in each country. In anticipation of his trip he usually notifies the Embassy of his visit and the reason for it. Besides seeking general information on economic and business conditions in the country and specific background information on firms, he looks to the Embassy primarily for contacts; i.e., names and telephone numbers of potential distributors.

U.S.-based business community

This group is composed mainly of small- and medium-sized firms that do not export or that export in very small quantities. The Commerce Department has a number of export promotion programs to interest and assist these firms in exporting, including the:

--World Traders Data Reports, which are credit reports on individual foreign firms prepared by the overseas commercial staff.

--The Agent/Distributor Service, which provides requesting U.S. firms with lists of foreign agents or distributors who are interested in selling their products.

--The Trade Opportunity Program, which informs U.S. firms of export opportunities overseas.

While these and other Commerce programs differ, they all have the same ultimate objective of bringing U.S. exporters and foreign importers together.

Industry sector organizations

The fifth client group consists of industry organizations, such as trade associations, which are composed of many firms in one industry or a group of similar industries. According to the first Director General, working with these groups can result in a high payoff since they can speak for many firms and can enlist firms to participate in Commerce programs or events.

State and local governments

Assistance to this group usually takes the form of briefings and making appointments and other arrangements for the many State and local trade missions sent overseas. During fiscal year 1981 alone, the Embassy in Mexico assisted 21 official State and local government-sponsored trade missions and an unknown number of unofficial ones. Assistance is also provided to the more than 30 States which have representation overseas. For example, two State development officials based in Europe cited the dissemination of trade and inward investment leads from all over Europe and the Middle East as the single most important Embassy service.

U.S. Government

The last group consists of Commerce headquarters and other U.S. Government agencies, such as the United States Trade Representative, the Overseas Private Investment Corporation, and the U.S. Export-Import Bank. For example, Commerce's Assistant Secretary for Trade Administration requests information on foreign boycott activities and assistance in seeking compliance with export control regulations, and the Assistant Secretary for International Economic Policy asks for information on trade policy and the foreign investment climate. The Overseas Private Investment Corporation requests information on such things as projects it has insured or financed or projects for which insurance or financing is proposed. Information on such topics as official export financing provided by competing countries and implementation of the multilateral trade negotiation agreements is also provided to the Export-Import Bank and the U.S. Trade Representative, respectively. In addition, these agencies send official visitors who require background briefings and who look to the Embassy to arrange meetings with local business and government officials.

STATE DEPARTMENT IMPLEMENTATION OF OVERSEAS COMMERCIAL WORK CONSIDERED INADEQUATE

Prior to the establishment of the Foreign Commercial Service, the State Department was primarily responsible for implementing U.S. export promotion programs at all overseas posts. It did not, however, have complete authority over these programs, which were developed and managed in Washington by the Commerce Department. The State Department commercial officers overseas, therefore, were the delivery arm of Commerce-generated programs.

According to a 1977 study by the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, the State Department devoted fewer resources to commercial matters than to other functions and failed to recruit employees with strong commercial experience to perform its commercial functions. Further, employees engaged in commercial activities suffered from lower career status and fewer promotions within the Department and were often encouraged to work on noncommercial matters.

The first Director General of the FCS, a former State Department officer with many years of overseas experience, also stated that many commercial attaches lacked knowledge about U.S. business and exporting and were given little helpful guidance by the State Department on how to effectively aid U.S. companies.

According to the Subcommittee study, a further indication of the low regard with which the State Department held commercial affairs at the time was demonstrated by the tendency of the overseas posts to divert manpower and budgetary resources from commercial to political, economic, and other areas. For example, commercial attaches were required to do economic reporting, which left little time for commercial work, and sometimes the sole commercial specialist in charge of a program was removed to work on other matters an Ambassador deemed more important. A former commercial officer, who retired in the mid-1960s and who is now a successful independent businessman overseas, told us that most officers sat at their desks and filled reporting requirements, never getting out of the office.

Joint State-Commerce management of export promotion programs was also viewed as a problem; a Joint Evaluation Report published in February 1977 pointed out:

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

The 1977 Subcommittee study was even more critical of both agencies' failure to cooperate. The study concluded that chronic conflicts and problems between Commerce and State seriously undermined the effectiveness of export promotion programs and precluded effective resolution of their problems.

RESPONSIBILITY FOR COMMERCIAL AFFAIRS TRANSFERRED FROM STATE TO COMMERCE

Congressional and U.S. business concerns over the quality of U.S. export promotion efforts appeared to become more acute as the U.S. export market share worldwide continued to decline and as export competition intensified between U.S. firms and their major international competitors. The Multilateral Trade Negotiations legislation (Public Law 96-39) signed by the President on July 26, 1979, was the vehicle for reorganization since it required the President to submit a reorganizational proposal to the Congress. The Multilateral Trade Negotiations agreements, among other things, reduced import tariffs, especially on manufactured goods, and contained provisions for coping with non-tariff barriers, including discriminatory government procurement practices. Congress believed that Government organization of international trade functions needed to be improved to enable U.S. firms to take full advantage of the increased export opportunities emanating from the newly signed agreements.

The President responded with Reorganization Plan No. 3 which was submitted to Congress on September 25, 1979. The purpose of the reorganization was to provide for better leadership and coordination of U.S. trade policy, to enhance the Government's ability to promote U.S. exports, to strengthen administration of the U.S. trade laws, and to otherwise increase the Government's effectiveness in strengthening U.S. international trade competitiveness. In his accompanying message to the Congress, the President said that the reorganization plan would place both domestic and overseas export promotion activities under a single organization charged with aggressively expanding U.S. export opportunities. According to the President's plan, the principal activity of commercial officers is to promote U.S. exports. The Commerce Department was given responsibility for implementing U.S. Government non-agricultural export promotion programs. This was accomplished primarily through transferring responsibility for overseas commercial work at major posts from the Department of State to the Department of Commerce.

State transferred to Commerce a small number of domestic positions and an overseas organization composed of 664 positions located in 65 countries. Overseas, Commerce received 162 commercial officer positions, 487 Foreign Service National (FSN) employees, and 15 secretarial positions. Officer positions will be filled with FCS personnel over a 5-year period (1980-84) to coincide with the tours of duty of the State Department incumbents, who will be on detail to FCS until transferred to new positions.

	End of Fiscal Year				
	1980	1981	1982	1983	1984
Positions to be filled by Commerce employees	62	97	127	152	162

Lastly, Commerce received from State 6 headquarters staff positions and 9 training complement positions. 1/

As demonstrated by the legislative history leading up to the reorganization, Congress also expected that the new Foreign Commercial Service would enhance the status of commercial pro-

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1/ Positions for officers receiving training in the United States, usually at the State Department's Foreign Service Institute.

grams and attaches overseas and would consist of well-trained, commercially oriented individuals familiar with host-country languages and customs. These commercial attaches were to aggressively promote U.S. exports abroad by actively seeking out trade opportunities through personal contacts with foreign business and government representatives.

OBJECTIVES, SCOPE, AND METHODOLOGY

We made this review because of congressional and executive branch interest in having an effective and efficient export promotion program. After our review was begun, we also received a request from the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations to look into the transfer of authority for commercial work and the operations of the FCS. We discussed this request with the Subcommittee staff and incorporated their concerns into our review.

The basic objectives of our review were to:

--Determine how the transfer of responsibility for commercial work from State to Commerce was conducted, including whether State transferred the appropriate level of resources for commercial work and whether both sides negotiated the transfer with adequate information.

--Evaluate and report on Commerce's readiness to absorb this major new undertaking.

--Assess FCS' progress in fulfilling the expectations of the President's trade reorganization plan.

We did not determine what effect Government export promotion efforts have had on overall U.S. exports, i.e., the question of additionality, since any result, by its very nature, would be highly speculative. We also did not independently evaluate the effectiveness and desirability of various export promotion programs, although we did review Commerce-generated studies on this subject. Since our main focus was on FCS as a delivery system, we did not, in most cases, attempt to judge the value of existing export promotion programs.

We reviewed the President's reorganization plan establishing the FCS and the legislative history leading up to that decision. We interviewed officials and staff; reviewed pertinent agency files; and examined appropriate budgetary, organizational, and procedural documents at FCS headquarters, the Office of Management and Budget, and the Departments of Commerce, State, and Agriculture. We also spoke with private industry representatives of both corporations and associations, to determine their views regarding the quality of services provided by FCS.

We visited 12 countries 1/, including both developing and developed markets, which accounted for approximately 60 percent of total U.S. manufactured exports in 1980. These countries were selected on the basis of their importance as export markets for the United States. At the Embassies and at selected consulates in these countries we interviewed Ambassadors or Deputy Chiefs of Mission; economic ministers; commercial counselors and staff, including Foreign Service Nationals; economic and administrative counselors; and export development officers. To assure uniformity of results, we used a structured questionnaire format. We also reviewed various Embassy files of cable traffic and budgetary and staffing documents. In all 12 countries, we interviewed U.S. corporate officials, including members and staff of the American Chambers of Commerce overseas. Finally, to supplement our overseas work we reviewed the State and Commerce Departments' Inspectors General reports on the Embassy commercial sections in 16 FCS countries.

We performed our review in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

AGENCY COMMENTS AND OUR EVALUATION

The State Department objected to our statement that, when it was responsible for overseas commercial activities, the overseas posts diverted manpower and budgetary resources from commercial to political, economic, and other areas. State said that, although commercial resources were reduced at the discretion of some posts, they were substantially increased at others, such as in Communist and developing countries, where U.S. firms relied more heavily on U.S. Embassies.

Our statement was attributed to a House Government Operations Committee report, entitled "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State." This information was also corroborated by a joint State-Commerce evaluation report published in February 1977. Both reports discuss commercial resource diversion at individual posts. We cannot verify the accuracy of State's implicit claim that the increase in commercial resources in developing and Communist countries made up for any decrease in other countries since we did not review inter-country allocations of commercial resources prior to the reorganization. Furthermore, the State Department did not provide any documentary evidence to support its claim.

State also took exception to a quote in the draft which demonstrated the low regard held by an American businessman about the capabilities of State Department commercial officers. This quote was deleted from the report since we felt it was not essential in making our point.

1/ Mexico, Canada, Japan, West Germany, United Kingdom, France, Belgium, Saudi Arabia, Australia, Singapore, Malaysia, and Hong Kong.

CHAPTER 2

FCS BEGINS OPERATIONS WITH STAFF AND BUDGET PROBLEMS

The Foreign Commercial Service began operations with serious resource problems that continue to hamper its ability to substantially improve commercial work overseas. These include

--an overseas staff that needs to be reallocated both among and within countries and

--the lack of an adequate information system upon which to base budgetary decisions.

Both these problems resulted, in part, from a lack of reliable data, which precluded precise determinations on the resources to be transferred. In addition, the need to reallocate the overseas staff transferred is a reflection of FCS' new, more aggressive export promotion mandate. FCS has begun making the studies and taking the actions necessary to correct these problems. Nevertheless, much remains to be done.

OVERSEAS STAFFING PROBLEMS

We found numerous indications that FCS needs to reallocate its overseas staff, both among and within countries. Some posts, such as those in West Germany, appeared overstaffed for the commercial workload; while others, such as in Saudi Arabia and Canada, appeared understaffed. In a number of countries we visited, FCS also needs to disperse staff away from the capital cities and into outlying commercial centers.

FCS has completed a study which also tentatively shows the need for a substantial reallocation of its overseas staff. This study incorporates numerous objective factors for each FCS country (such as current levels of gross national product, import market for manufactured goods, size of U.S. exports, and apparent domestic consumption), projections of future growth rates for those factors, and various subjective judgements on country developments that affect trading patterns. Although we have not evaluated the efficacy of the methodology used in this study, we believe it is generally consistent with our findings that FCS needs to reallocate its overseas staff.

Unreliable data used in the transfer

The transfer of misallocated overseas staff resulted, in part, from the use of unreliable data in implementing the transfer. In accordance with a determination by the Office of

Management and Budget, State transferred to Commerce all officer positions coded as "commercial" under State's personnel classification system as of a certain date. The 65 countries in which these officer positions were located became Foreign Commercial Service countries. State also transferred to Commerce all Foreign Service National employees who were devoting at least 70 percent of their time to commercial work. Workload statistics found in the overseas posts' annual field budget estimates were used in determining which FSN employees to transfer.

Integration of the commercial and economic sections at many posts, however, had blurred the distinction between the two functions, complicating determinations concerning job categories and allocations of time. State officials agree that the personnel codings used to determine the transfer of officer positions were not necessarily accurate reflections of the time allocated to commercial work by State Department officers. Similarly, the field budget estimates were not necessarily reliable estimates of the time devoted to commercial work by FSN employees.

Information we obtained concerning the transfer of FSN staff demonstrates the unreliability of the data bases used. On the one hand, State Department officials claimed that the field budget estimates tended to overstate the amount of time FSNs devoted to commercial work, so certain FSNs were transferred who were, in fact, devoting less than 70 percent of their time to commercial work. On the other hand, in reviewing FCS operations overseas, we found that a number of FSN employees who devoted more than 70 percent of their time to commercial work were not included in the transfer.

Two FSNs at the consulate in Monterrey and one at Guadalajara, Mexico, were not transferred despite the fact that they each spent the overwhelming majority of their time on commercial work. According to an interagency reclassification team dispatched to these posts just prior to the transfer of responsibility, all three individuals were spending at least 70 percent of their time on commercial work. This information was corroborated in our October 1981 interviews with these FSNs. The senior FSN in Monterrey told us that he and his colleague have consistently devoted about 80 to 90 percent of their time to commercial work over the past 5 years. The FSN in Guadalajara stated that at the time of the transfer she was spending about 80 percent of her time on commercial work.

Differing views of commercial work

Of greater importance, however, the need for a reallocation stems from FCS' mandate to place greater emphasis on the active promotion of U.S. exports. The allocation of staff that FCS inherited from the State Department is, in many cases, not suitable to its new mandate to aggressively promote U.S. exports by integrating into the host-country business community and by actively assisting U.S. business representatives.

For instance, FCS appears to maintain too large a staff in West Germany, which is one of the most accessible markets in the world for U.S.-manufactured goods. At the time of the transfer, FCS maintained a staff of 15 officers and 44 FSN positions in West Germany, the largest concentration of FCS positions worldwide. Yet, exporting to West Germany appears to present no particularly onerous logistical, linguistic, or regulatory obstacles. In addition, West Germany's transportation and communications systems rank among the best in the world.

In contrast, even recognizing that Canada represents a relatively easy market to do business in, FCS received too small a staff in Canada, the largest importer of U.S.-manufactured goods in the world. At the time of the transfer, the FCS staff consisted of only three commercial officer positions (one each in Ottawa, Montreal, and Calgary) and six FSNs. Further, FCS had no officer position in Toronto, the commercial and financial center of Ontario Province, which accounts for about 70 percent of Canada's imports from the United States. The two FSNs performing commercial work in Toronto were barely able to keep up with routine program requests, much less actively promote exports. In its fiscal year 1983 budget proposal, FCS is requesting three additional positions for Canada.

The FCS also appears to be under-represented in Saudi Arabia, which has the most active commercial post in the Middle East and may have more growth potential for U.S. goods than any other country in the world. The lack of staff limits the amount and type of assistance FCS can give U.S. business representatives in Saudi Arabia, where it can be very difficult and time consuming to make contacts and obtain basic information.

In a number of the countries we visited, the commercial staffs were heavily concentrated in political capitals. Political capitals are often centers of commercial activity, but FCS should also have staff in outlying commercial centers, which contain a large portion of the host-country business community, to obtain trade leads and other commercial information. Many visiting and incountry U.S. business representatives do not have ready access to FCS staff, who may be located hundreds of miles from these centers of commercial activity.

In Mexico, for example, Commerce maintains a combined trade center and Embassy FCS staff of 8 officers and 15 FSNs, all of whom are located in Mexico City. Although Mexico City is undoubtedly the most important commercial center in Mexico, accounting for about 50 percent of gross national product, such a staffing pattern ignores other important commercial centers such as Guadalajara and Monterrey. The latter city is the second largest commercial-industrial center in Mexico, accounting for approximately 25 percent of gross national product and serving as headquarters for 9 of Mexico's 50 largest firms and two of its largest private corporations. Despite Monterrey's commercial importance, we found that the State Department's economic/commercial/political officer spends only about 20 percent of his time on commercial work. Although two State Department FSNs spend approximately 80 to 90 percent of their time on commercial work, much of it is reactive, such as servicing Commerce export promotion programs and responding to business inquiries. These demands leave them little time for outreach or aggressive export promotion activities. During fiscal year 1981 the Monterrey post submitted only two trade opportunity reports.

Another example of this type of misallocation is the FCS staffing pattern in France. FCS maintains a combined trade center and Embassy staff of 7 commercial officers and 25 FSNs in Paris, while deploying only one FSN position each at the consulates in Bordeaux, Lyon, Marseilles, Nice, and Strasbourg. Paris is undoubtedly the most important commercial center in France, accounting for about 50 percent of gross national product. Nevertheless, this staffing pattern virtually ignores other important commercial centers, such as the Lyon consular district, which accounts for approximately 25 percent of French gross national product and about 26 percent of French imports of U.S. products. Indeed, this district accounts for more U.S. imports annually than Austria, Denmark, Norway, and Greece.

<u>FCS slow in reallocating overseas staff</u>

FCS management has been slow to correct the misallocation of its overseas staff. Further, the lengthy procedures and numerous levels of review necessary to transfer overseas positions among countries make it unlikely that FCS can attain the desired allocation of staff in the near future.

FCS has done little more than undertake the preliminary reallocation study mentioned earlier. As of December 1981, a full 20 months after its creation, FCS had instituted procedures to transfer only 15 positions by closing FCS commercial operations at certain marginal posts and reprogramming these positions to posts in need of more staff (e.g., the consulate general in Toronto). Most recently, FCS is requesting in its fiscal year 1983 budget an additional 16 overseas positions, most of which will be placed in Latin American and Middle Eastern countries where FCS believes it is presently under-represented.

Further, FCS reallocation proposals are not automatic. To the contrary, the procedures for transferring positions between countries are replete with pitfalls and can be lengthy. Before being implemented, an FCS proposal to transfer an overseas position must be approved by the (1) pertinent Commerce Department regional offices, (2) pertinent State Department regional bureaus, and (3) overseas missions involved.

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

Nevertheless, State's regional bureaus and overseas missions could raise objections to the transfer of an FCS commercial position and have already done so. When no objections are raised, the review process normally takes about 2 months to complete. When objections are raised, however, the review process has taken as long as 8 months to complete.

Conclusions and observations

FCS began operations with an overseas staff in need of reallocation because of

--the lack of an adequate information base upon which to implement the transfer of overseas staff and

--FCS' greater emphasis on active export promotion, which requires a different allocation of staff resources than existed under the State Department.

FCS, however, has not made sufficient progress in reallocating staff. Further, the quick resolution of this problem seems unlikely because of the lengthy procedures and numerous approvals required for FCS to transfer positions among posts. FCS, in cooperation with State, should make prompt reallocation of overseas commercial staff, both inter- and intra-country, one of its chief priorities.

LACK OF ADEQUATE BUDGET INFORMATION BASE

The Foreign Commercial Service began operations essentially in the dark concerning its financial resources and needs, substantially limiting its operations during its first 18 months. The lack of an adequate State Department financial information base, combined with the lack of time to develop the necessary information, resulted in a problematic transfer. The need for subsequent negotiations and the perceived unreliability of the budget figures transferred, especially in the important area of direct program support, caused FCS to pursue a highly conservative spending policy for fiscal year 1980 and much of 1981. While FCS has taken some steps in developing a post-by-post understanding of its financial needs, much remains to be done.

State unable to determine amount of funding to transfer

State's financial accounting system is not organized on a functional basis, but rather on a geographical basis. Consequently, while this system allows State to determine the amount of funding allocated to each Embassy, it does not give State the capability to quickly determine how much it spends on each of its various functions, such as commercial activities. Further, State was not given sufficient time to collect this information. Virtually no preparation had been made prior to September 1979 when the President made public his trade reorganization proposals. The agencies involved were given until January 1980--a period of about 3 months--to iron out the specifics of a major transfer of financial resources.

To add to the confusion, negotiations between Commerce and State concerning the transfer of funding took place before final action on their fiscal year 1981 budgets. Consequently, State needed to make transfer commitments for fiscal year 1981 before it knew what its budget would be.

As shown in table 1, the transfer agreement adopted in January 1980 provided for the transfer of funding in eight budget categories: (1) commercial officers' salaries, including base salary, benefits, post differential, allowances, rent and utilities, and home leave, (2) FSN salaries and benefits, (3) American secretaries' salaries, (4) post assignment travel, the costs associated with transferring an officer to an overseas post, (5) direct program support (DPS), including travel, printing and publishing, commercial library, etc., (6) representation funds for entertainment (luncheons, etc.) used in the course of official business, (7) foreign affairs administrative support, charges for administrative support provided overseas by the State Department to other agencies, and (8) domestic support.

For a number of these categories, State was able to generate information to develop reasonable estimates of how much to transfer. For instance, for commercial officers' salaries, State simply computed the salaries of the individuals filling the 162 positions transferred; if the positions were vacant, State used the salaries of the last persons to fill them. Similarly, State encountered little or no difficulty in calculating the funds to be transferred for FSN salaries, American secretaries' salaries, commercial officers' allowances, and domestic support positions.

Table 1

Funds Transferred to Commerce

	Fiscal year 1980 (note a)	Fiscal year 1981
	(000 omitted)	
Foreign Service Officer salaries	$ 4,122	$ 8,516
Foreign Service National salaries	4,232	9,639
Post assignment travel	620	853
Direct program support	919	2,010
Representation	55	111
American secretaries' salaries	245	478
Domestic support	284	367
Foreign affairs administrative support	1,122	2,580
Total	$11,599	$24,554

a/Apr. 1 to Sept. 30, 1980.

Computation of the amounts to transfer for other budget categories was not as straightforward, however. Direct program support posed the greatest difficulties. State officials explained that it would have been extremely difficult for them to develop a precise estimate of the amount of DPS funding spent on commercial work at the posts transferred. This money is allocated on a post-by-post basis, not on a functional basis. Internal records maintained by the posts concerning the use of DPS money were uneven and in many cases unreliable. Therefore, State turned to the fiscal year 1980 field budget estimates for the necessary information. State Department officials have readily admitted that these estimates are not a reliable source of budgetary information. The instructions provided to the officers who developed these estimates left much room for interpretation. Of greatest importance, the difference between economic and commercial work was not clearly delineated, so expenditures included under "commercial work" in one estimate were not necessarily the same as those included under "commercial work" in another estimate.

The transfer of DPS funding was further complicated by the fiscal year 1981 budget process. The State Department had made a commitment to transfer approximately $2.88 million in budgetary authority to Commerce for DPS for 1981 contingent upon Congress appropriating to State its full fiscal year 1981 DPS request. Subsequently, however, Congress reduced State's fiscal year 1981 DPS appropriation by about $8 million. State determined that $870,000 of the $8 million decrease represented money that would have been spent in support of commercial work in the 65 countries transferred and, over Commerce's objections, subtracted that amount from the $2.88 million it had committed to transfer.

As further evidence of the problematic nature of the transfer, both State and Commerce did not provide for the transfer of funding for training and short-term lease costs. The State negotiators did not transfer money for short-term lease costs because they were unaware that any of the commercial staffs in the 65 countries occupied private space. According to both State and Commerce officials, funding for training was simply overlooked.

Impact of funding transfer on FCS' first 18 months of operations

The January 1980 agreement was seen as preliminary by both agencies, creating the need for subsequent negotiations. In particular, FCS sought major supplemental transfers of funds for direct program support, short-term leases, and training at the Foreign Service Institute. The uncertainty created by these negotiations, which were to continue for over a year, combined with the perceived unreliability of State's budget figures and the prolonged fiscal year 1981 budget process, limited FCS operations during its first 18 months.

According to Commerce officials, as long as there were outstanding issues with regard to the transfer, FCS had to operate in an "extraordinarily conservative mode." The issues which remained under negotiation after the establishment of FCS in April 1980 involved significant amounts of money relative to FCS' overall operating budget. In addition, there was a discrepancy between the amounts transferred and the amounts the posts requested during the second half of fiscal year 1980. With this experience, Commerce officials feared that FCS might run out of money before the end of fiscal year 1981 if it spent money on the assumption that it would be successful in its negotiations with State.

Also, FCS knew in January 1981 that it would not be successful in obtaining a supplemental transfer in DPS funding from State. FCS management saw this as particularly damaging to its efforts to revitalize commercial operations overseas. DPS includes funding for purchases and activities deemed essential to the successful implementation of commercial work abroad, including travel; contractors to service requests for the World Traders Data Report (WTDR) and Agent/Distributor services; publishing the post commercial newsletters; other copying and printing; all communications, including telephone, telex, and mail; reference material for the commercial libraries; and office equipment, furniture, and supplies.

Commerce was not in a position to make up the perceived DPS shortfall. On the contrary, an increased emphasis on budget reductions and the protracted fiscal year 1981 budget process caused it to further limit FCS spending during the first half of fiscal year 1981. Although Commerce was able to provide FCS with $500,000 for DPS from carryover funds early in 1981, it also faced a number of budget cutting proposals, one of which resulted in an $184,000 reduction in FCS' direct program support fund. In addition, Commerce had to operate on two continuing resolutions during the start of the fiscal year. In fact, it did not know its final operating budget until March 1981--6 months into the fiscal year.

This budgetary uncertainty during April 1980 to March 1981 caused FCS management to use a pessimistic scenario in allocating DPS funds to the posts. During fiscal year 1981, the posts were directed to submit budget proposals sufficient to operate only at bare minimum levels. In fiscal year 1981, the amounts requested exceeded by nearly $1 million the approximately $2.43 million FCS had available for direct program support (including representation), so many posts received substantially less than they had requested.

As a consequence, the overseas commercial staffs planned minimal activities for this period. In some cases, commercial assistance to the American business community was less than that provided previously by the State Department. A cable to Washington from the commercial staff at the U.S. Embassy in Santiago, Chile, stated that:

> "This total budget estimate and request * * * is also a bare minimum in DPS * * *.
>
> *   *   *   *   *
>
> "Certainly if inflation is considered, this level of spending is in fact below the DPS support for commercial efforts in Santiago before there was a separate FCS budget."

Similarly, a cable from the commercial staff at the Embassy in Santo Domingo, the Dominican Republic, stated:

> "* * * if our funding through FY 81 continues at the levels authorized thus far, programs in the Direct Program Support (DPS) category will not receive funding sufficient to continue operating at even minimum levels."

Even where the minimal funding did not reduce commercial operations, the commercial staffs complained that their DPS funding limited them to doing no more than was done previously under the State Department. The new FCS commercial staffs, therefore, were able to do no more than perpetuate a level of service considered to be inadequate in the first place.

Our review of FCS operations overseas also found instances where insufficient funding actually disrupted commercial work. Posts were forced to halt publication of their commercial newsletters and were unable to renew WTDR contracts and/or purchase up-to-date publications for their commercial libraries. One post complained that lack of funds forced the commercial staff to discontinue visits to a nearby commercial-financial center that it had previously visited periodically to promote U.S. trade, gather commercial intelligence, and maintain contacts with local business officials.

Toward the middle of fiscal year 1981, FCS' funding outlook improved because:

1. State and Commerce reached final agreement on the transfer of funding on March 2, 1981. State agreed to transfer $844,000 to Commerce for short-term leases and deduct from FCS' foreign affairs administrative support bill any short-term lease costs above the amount transferred, with some exceptions. State had earlier agreed to provide FCS with a credit of $226,000 for training at the Foreign Service Institute during fiscal year 1981.

2. Commerce, after having finally received its budget for trade promotion in March, was able to give an additional $870,000 to FCS for direct program support.

3. Appreciation of the dollar during the early part of calendar year 1981 increased the buying power of the DPS money made available to the posts, half of which is spent in foreign currency. This appreciation was especially significant in Europe.

As a consequence, FCS was able to meet 100 percent of the posts' minimum requests during fiscal year 1981.

Unfortunately, many posts were unable to use this additional money. They had already planned minimal operations for the fiscal year, which for the most part could not be changed so late in the year. The posts did not have the opportunity to do the advanced planning and groundwork necessary for many commercial programs. This savings, therefore, was not a positive occurrence since it came at the expense of any improvement in commercial operations overseas. The posts were able to spend only about 85 percent of their bare-minimum DPS funding requests.

<u>Inability to evaluate needs hurts FCS operations</u>

The budgetary uncertainty placed a premium on the timely completion of an indepth evaluation of needs--the first step in developing an adequate budget management system. FCS, however, could not promptly undertake such a study, primarily because the perceived unreliability of State's budget figures left it without prior year data upon which to project future needs. Thus, FCS was forced to operate virtually "in the dark" with regard to the adequacy of the overall budget. In addition, because of the lack of reliable criteria upon which to judge the posts' budget submissions, FCS had to accept these budget requests at face value and had no means of insuring a proper allocation of resources among the overseas posts and headquarters.

It wasn't until the beginning of fiscal year 1982 that FCS began to develop an evaluation of needs, using the experience gained during 1981 as a base of knowledge. The first step in this evaluation is to be able to determine the relative funding requirements of the posts and headquarters operations. Evaluating the operation of each post firsthand would be impractical, however, so the staff has decided to initiate studies of each DPS budget category using objective criteria to arrive at each post's needs.

Collecting the information necessary for these studies has been complicated by the budget categories (or "object class categories") used by the Commerce Department. As it now stands, FCS cannot use Commerce-generated figures to determine how much was spent on various programs and activities because the object class categories do not necessarily correspond to FCS' overseas activities. For instance, WTDR contract expenditures could be included in "contracts" with expenditures for other contractual services or with "market research" with other research-related expenditures. The same is true for other programs and activities, such as the commercial library and newsletter. To obtain such information, FCS must ask each post to collect the data and send it to Washington.

As of December 1981, FCS had only initiated preliminary studies dealing with travel and representation. The evaluation of travel funding needs tentatively demonstrates a misallocation among the posts. The travel study, which considers such factors as the country's importance as a market for U.S.-manufactured goods, the size of the staff, and a decentralization factor (to take into account the number of commercial centers in a given country) tentatively shows that the countries that should receive the largest amounts of travel money are, in rank order, Australia, Canada, and Brazil. In contrast, Canada had one of the smallest travel allowances during fiscal year 1981.

We did not evaluate the efficacy of the methodology used in these studies, but we believe they constitute a constructive step toward the development of a viable budget management system. When completed, these evaluations will give FCS a basis upon which to judge the adequacy of its overall budget and criteria upon which to allocate resources among the overseas posts and headquarters operations. In this way, FCS will be in a better position to exercise effective control over its spending rather than simply reacting to budgetary requests and problems.

Conclusion and observations

The State Department did not have readily available the budgetary information necessary to properly implement the transfer of commercial affairs to Commerce and was not given sufficient time to generate this information, resulting in a problematic transfer of funds and the need for further negotiations. Consequently, FCS was forced to begin operations before negotiations on its budget were completed and with certain budget figures on which FCS management could place little or no reliance. FCS, therefore, spent very conservatively during its first year of operation, causing the commercial staffs to plan minimal programs and causing disruptions in overseas operations. FCS only recently began developing an information base upon which to make budgetary decisions. We believe FCS should develop a budget management system that enables it to (1) judge the adequacy of its overall budget, (2) analyze the posts' funding requests to ensure that the level of spending at each post to some extent reflects that post's projected workload, and (3) determine, in a timely manner, how much it spends on the various programs it services and on other post activities.

AGENCY COMMENTS AND OUR EVALUATION

Both the Commerce and State Departments commented on our findings concerning the transfer of overseas staff and budget resources to the Foreign Commercial Service.

Commerce generally agreed with our findings that: FCS needs to reallocate its overseas staff and lacked an adequate budget management system. Commerce also discussed various steps it has taken or plans to take to address these problems. In particular, Commerce's comments include a detailed explanation of the reallocation study findings and proposed overseas staffing changes (see p. 10 of this report), noting that the study bears out our conclusions. Commerce has not yet provided a schedule for implementing the proposed changes. Commerce also provided additional information on FCS funding difficulties during the last quarter of fiscal year 1981 and fiscal year 1982, and stated that FCS instituted a budget management system in fiscal year 1982 and plans to develop a system for tying post programs to budgetary resources in fiscal year 1983. Our report notes that FCS had taken the first steps in implementing a budget management system during the beginning of fiscal year 1982 but we could not evaluate this new system because it had not been fully implemented.

State voiced three reservations concerning our findings on the implementation of the transfer.

1. In an overall conclusion, State asserted that "an unusually small amount of time was spent interviewing officers in the Department of State in Washington. Greater accuracy and balance in certain parts of the report could have been achieved if more time had been spent in interviews at the State Department, particularly with more senior officers."

Our findings present a composite picture, which we view as both balanced and accurate, of information obtained from all sources. We interviewed a wide range of officials from Commerce and State and the Office of Management and Budget. We spoke with all State Department officials that State identified to us as knowledgeable concerning the implementation of the transfer. Indeed, State Department documents and interviews with State officials, including several with managerial responsibilities, served as our primary source of information on the implementation of the transfer. To the extent we did not speak with more senior officers at State, it was because such officers were not identified to us as knowledgeable about the subject matter. In addition, our primary aim in reviewing the implementation of the transfer was to determine the reasonableness of the data upon which determinations were based and we have found that individuals at senior levels are often not sufficiently familiar with the type of detailed information we needed.

2. State took exception to an alleged implication that it historically misallocated staff within and among countries, contending that "the staffing patterns Commerce inherited, based on worldwide workload and business demands, were optimal for their time considering the limited resources available to the Department of State."

The scope of our work did not include an historical review of State's implementation of overseas commercial work, so we cannot comment on whether State's allocation of its staff was reasonable in light of its worldwide workload, resources, and perception of commercial work. We are, however, concerned with whether the allocation of FCS' overseas staff is in accordance with its new mandate to place <u>greater</u> emphasis on the active promotion of U.S. exports. Although we found that the implementation of FCS' new mandate requires a different allocation of overseas resources, we intended no criticism of State's historical allocation of overseas commercial resources.

3. State took exception to our findings that it initially transferred insufficient funds and that Commerce's planning process subsequently was hampered by a dearth of accurate figures on which to base projections. State argued that, to the contrary, the resources identified and transferred to Commerce accurately reflected the level of investment available and being used by State prior to the transfer.

Our findings that State initially transferred insufficient funds and that the perceived unreliability of State's budget figures subsequently hampered Commerce's planning process are well supported in the report, largely with documentary and testimonial evidence obtained from State. In contrast, State provides no support for its assertions and, in fact, appears to cast doubt on the accuracy of the transfer figures elsewhere in its comments when it notes that:

"There has never been a separate budget for the commercial function in the State Department. Economic/commercial sections overseas shared common resources as cost efficiently as possible and were sufficiently integrated to make precise cost allocations difficult."

During our review, we also noted a State Department Solicitation Document dated February 4, 1980, just 2 months before the transfer, requesting proposals for the development of a new financial management system for State, which states in part:

"The Department's present accounting and related data systems fail to provide all the needed programs, functions, and activities information needed by management. The Department's present accounting system does not satisfy minimal funds control and account integrity. To be sure, certain segments of the system are efficient; but the overall system is weak.

"--Adequate cost information is not available. Managers do not know what it costs to run a particular organization, function, program, or activity in the Department." (Underscoring supplied.)

CHAPTER 3

FCS HEADQUARTERS DEFICIENCIES CAUSE PROBLEMS DURING FIRST YEARS OF OPERATIONS

The Foreign Commercial Service began operations with a seriously deficient headquarters staff and, as a result, faced great difficulty attempting to institute and routinize the management systems necessary to support its overseas operations. These initial delays and false starts created operating deficiencies which have marred FCS' first years of operations. FCS management has taken steps to improve headquarters operations, but many systems essential to the proper functioning of FCS are still not fully in place.

COMMERCE DID NOT ESTABLISH AN ADEQUATE HEADQUARTERS MANAGEMENT CAPABILITY FOR FCS

The newly created FCS headquarters staff faced numerous major tasks in starting up FCS operations. Commerce did not have adequate time to put the necessary management systems in place before the transfer of responsibility. Consequently, FCS headquarters faced the dual responsibilities of meeting the day-to-day requirements of supporting the overseas operations and creating and routinizing the administrative systems necessary to manage FCS. In addition to reallocating overseas staff resources and developing a budget management system, FCS headquarters needed to develop an education curriculum for its officer and FSN staff; install a recruitment, training, and placement system; and provide for participation in Commerce's system for planning and monitoring its overseas activities.

FCS receives inadequate headquarters staff

Commerce provided FCS with a headquarters staff lacking sufficient positions and the necessary experience to start up and operate an organization of FCS' size. For its headquarters, FCS received only 17 positions, 14 of which were filled. These individuals had comprised the staff of the defunct Office of International Commercial Representation (OICR), which had provided Commerce input into State Department deliberations on commercial work overseas. Commerce did not give FCS any of the six headquarters positions included in the transfer from State. Instead, Commerce placed these positions in the Office of the Secretary, where they ostensibly provide administrative support to FCS.

The members of the OICR group did not have the type of experience necessary to effectively carry out FCS headquarters responsibilities. The tasks they performed while with OICR were very different from those they now perform at FCS headquarters.

OICR had an annual budget of less than $800,000 and served only in an advisory capacity. It did not directly manage nor did it actually provide any administrative support for the overseas staff, with the one exception of training for commercial FSNs. Overnight and with no training or preparation, these individuals became responsible for managing a high-visibility, worldwide organization of over 600 persons with a budget of approximately $28 million.

Commerce has been unable to substantially supplement FCS headquarters staffing. Repeated attempts by FCS to secure additional staffing has resulted only in the reprogramming of five positions to FCS headquarters. Commerce's efforts to obtain budgetary authority for additional FCS headquarters positions have been unsuccessful. Most recently, Commerce has included in its fiscal year 1983 budget proposal a request for 15 additional headquarters positions for FCS.

Reliance on detailed personnel

Realizing the need for additional headquarters staffing, FCS management has brought on numerous individuals on detail from the State Department and from other Commerce Department agencies to manage FCS headquarters operations. The need to rely on these detailees has lessened the effectiveness of FCS headquarters operations.

First, many of these detailees were on short-term appointments. We were able to count 60 individuals, not including the 17-member OICR staff, who worked in one capacity or another for FCS headquarters during its first 18 months of operations. What's more, FCS had often failed to provide these detailees with position descriptions clearly outlining their responsibilities. Many detailees received no position descriptions at all. This staffing policy created an organization that was in a constant state of flux, precluding the routinization of procedures and necessitating the continual "reinvention of the wheel" as one detailee replaced another.

Second, a number of the detailees were ill suited for the positions. Some had little more management and operations background than the former OICR staff they were supervising. In addition, the State officers were generally new to the Commerce Department and, therefore, had little knowledge of its operations, which hampered their ability to discharge their responsibilities. Further, this staffing pattern worked to alienate the former OICR staff, who were continuously passed over for management positions in favor of individuals they felt were no more capable of doing the job than they were.

Third, FCS headquarters management tended to emphasize programmatic and policy activities to the detriment of support for the overseas commercial staff. During its first 18 months of operations, FCS headquarters devoted an extensive amount of time and resources to program and policy questions, such as developing a cooperator program for the industrial sector similar to the program operated by the Foreign Agricultural Service. In contrast, FCS devoted insufficient resources to developing and routinizing the support programs essential to the proper functioning of FCS. For example, one manager working with a small permanent staff was responsible for developing and operating all FCS personnel systems--including recruitment, training, and placement--and an education program.

We do not question FCS' role in Commerce Department deliberations on export policy and programs. Commerce's Organization and Function Order No. 41-6 (effective Jan. 16, 1981) created within FCS an Office of Operations, Planning, and Coordination which, in part:

> "establishes and maintains liaison with other Government agencies, industry consultative groups, the U.S. Chamber of Commerce, and academe to develop new, more effective techniques for promoting U.S. commercial interests abroad."

Indeed, FCS commercial staff is likely to have first-hand knowledge of the quality of export services and suggestions on areas for improvement from U.S. business representatives. However, in our opinion, FCS headquarters should have devoted more of its domestic resources to creating and routinizing management support systems, especially in light of the short-staffing situation. Once these systems were in place and operating smoothly, FCS headquarters could devote resources to assisting the program agencies in their ongoing efforts to improve the delivery of export services.

FCS HEADQUARTERS UNABLE TO PROVIDE ADEQUATE DAY-TO-DAY SUPPORT FOR OVERSEAS OPERATIONS

FCS headquarters staffing deficiencies and lack of organizational continuity resulted in many tasks "falling through the cracks". Consequently, headquarters responses to post requests were often untimely. Some requests never received responses.

We noted numerous instances, such as those below, in which FCS headquarters did not adequately respond to post requests for information or assistance.

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

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

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

Various State Department Inspector General reviews of post operations have turned up similar occurrences.

This inability to provide adequate day-to-day support for the commercial staffs at the posts lessens the effectiveness of the overseas staffs, who are forced to operate without necessary information or resources and without knowing whether these will be forthcoming. It also affects their morale, which should be one of the most important assets of the new commercial service.

MISMANAGEMENT OF THE FCS EDUCATION PROGRAM

The education program was the most serious example of the impact of shortstaffing and mismanagement at FCS headquarters. Mismanagement of the Education Group, which was established to develop an education program for FCS overseas staff, resulted in the waste of more than $300,000 during fiscal years 1980 and 1981. 1/ FCS has recognized the shortcomings in this program and has taken steps to improve management control. Nevertheless, poor management of this program has delayed the completion of an education curriculum at least 18 months.

The goal of the education program was to design a training curriculum in substantive skill areas (i.e., commercial and intercultural skills) for commercial officers and Foreign Service Nationals. This program was not to include language and area studies training or overseas orientation, which is provided by State's Foreign Service Institute. The initial outline of the education curriculum was made by two education specialists provided free of charge by a major U.S. corporation. In August 1980, FCS hired these specialists on intermittent appointments as "experts" to develop the various courses and brought on a staff composed primarily of graduate students on temporary appointments to assist them.

1/ We have forwarded information on the FCS education program to the Department of Commerce Inspector General for further investigation.

FCS did not provide management oversight

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

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

Even as a curriculum aimed at junior officers and FSNs, the value of the education program developed by this Group is highly questionable. In the opinion of FCS and other Commerce officials and a business community representative who reviewed the courses, many of them bordered on the simplistic. In addition, many of the courses were left unfinished, some in very preliminary stages, when the appointments of the Group members ended.

FCS did not properly administer specialists' appointments

FCS headquarters did not properly administer the appointments of the two education specialists, resulting in the violation of Federal and Commerce Department rules and guidelines governing the use of experts and consultants. The specialists were hired on a intermittent basis but exceeded the hour and day limitations applicable to such employment.

The Federal Personnel Manual defines intermittent employment as occasional or irregular employment on programs or projects. When an expert or consultant works more than 130 days in a service year his intermittent employment ceases and he becomes a temporary expert or consultant.

Commerce's "Guidelines for Experts and Consultants" describes an intermittent appointment as:

"less than 40 hours [per week] and no set tour of duty (e.g. may work Monday and Wednesday one week, then Tuesday, Wednesday and Friday the next and not work at all some weeks or, occasionally work 40 hours in a week, but not according to a recurring pattern)." (Underscoring supplied.)

Nevertheless, according to their time and attendance records, both specialists worked a set tour of duty not in compliance with the above rules and guidelines. For over a year both specialists worked an average of over 9.5 days per biweekly pay period, one charging 40 or more hours per week on a regular basis. This caused both specialists to work far in excess of the maximum 130 days allowed under intermittent appointments. One claimed 130 days worked by March 21, 1981. The other claimed 130 days worked during the biweekly period beginning February 8, 1981. Yet no one at FCS noticed this until August 1981. By this time both specialists had claimed days worked in excess of 220 days. By working more than 130 days these persons automatically became temporary experts and, therefore, subject to different requirements.

Education curriculum being redeveloped

FCS is presently working with a local university to redevelop the commercial skills modules for use in international marketing seminars. It decided to discontinue its association with the two specialists at the end of fiscal year 1981 and has taken steps to upgrade management oversight of the redevelopment effort. Nevertheless, the almost total failure of the Education Group to develop anything of worth at a cost of more than $300,000 resulted in the loss of at least 18 months in the development of an education program. In the meantime, FCS was unable to provide training in substantive skill areas to its commercial officers and FSNs.

AGENCY COMMENTS

Commerce concurred with our findings and conclusions on the FCS education program and added that it is now: (1) making the newly developed modules available to all FCS officers, (2) conducting a series of 2-day seminars on the module subjects and (3) finishing work on a revamped FSN correspondence course. Commerce did not provide information on the number of individuals who had received this training nor did it provide a training schedule.

RECRUITMENT, TRAINING, AND PLACEMENT SYSTEM NEEDS IMPROVEMENT

Because of poor management of the recruitment, training, and placement system, FCS

--failed to fill overseas vacancies in a timely manner,

--did not provide all necessary training to recruits posted overseas, and

--failed to place all recruits in overseas positions that reflected their backgrounds and experiences.

These operational inadequacies have seriously hindered the implementation of commercial work overseas.

Mismanagement and the lack of an adequate headquarters staff led to the poor implementation of FCS' first recruitment campaign and subsequent efforts to fill individual vacancies. The first campaign was aimed primarily at bringing State Department Foreign Service officers with substantial commercial experience into FCS. Since that time, FCS has initiated a second major recruitment campaign, which seems to be better managed than the first.

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

As a result of these delays, overseas positions remained vacant for as long as 9 months to a year. We came across instances of positions being vacant for over a year in Australia and Saudi Arabia and of other long-term vacancies in Canada and Singapore.

Our review of the training given to officer recruits before being posted overseas shows that a substantial number of them failed to receive needed training. FCS provides training to its officer recruits through State's Foreign Service Institute, which provides language training, area studies training for all regions of the world, and orientation on overseas life and Embassy operations. As of December 8, 1981, 38, or nearly half, of the 79 recruits FCS posted overseas were not given needed training in at least one of these categories. Many did not receive training in more than one category.

--10 recruits slated to fill language-designated positions received significantly less than the full 20 to 44 weeks of language training. Even recruits who did attend entire language training courses were often sent overseas with less than the desired proficiency 1/.

--11 recruits without significant prior training or experience in the country or region to which they were posted received no area studies training.

--22 recruits without significant Embassy or overseas experience received no orientation.

A number of reasons were given for this failure to provide adequate training. The reason most often cited was pressure to send recruits overseas as quickly as possible to fill long-vacant positions. In several cases, FCS hired Foreign Service officers who were transferred directly from their overseas posts to their FCS positions, bypassing headquarters. A number of recruits did not receive all necessary training because the courses they needed were not scheduled during the time they spent in Washington prior to going overseas. Finally, in at least two cases, FCS did not provide needed language training to recruits filling language-designated positions because headquarters mistakenly believed the individuals spoke the language fluently.

While an officer can pursue training at the post, this is a second-best alternative. Training provided at the posts, especially language training, is generally inferior to the high-quality training provided at the Foreign Service Institute. Further, the demanding requirements placed on commercial officers once they arrive at the posts do not allow them to concentrate sufficiently on their studies.

In addition, FCS may not be using an adequate system for selecting candidates for language training. FCS provides no or very limited language training to officers who are not slated to

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1/ The Foreign Service Institute ranks language proficiency on a 5-point scale, which ranges from elementary speaking and reading proficiency (S-1/R-1) to native or bilingual speaking and reading proficiency (S-5/R-5). An individual slated to fill a language-designated position should have a rating of "professional proficiency" (S-3/R-3) at which he/she can speak the language with sufficient structural accuracy and vocabulary to participate effectively in most formal and informal conversations and read standard newspaper items addressed to the general reader, routine correspondence, reports, and technical material in his/her own special field.

fill language-designated positions. FCS, moreover, has not yet developed a system for selecting language-designated positions that reflects its new emphasis on aggressive export promotion. Instead, it continues to rely on the State Department system, which may be inadequate, given the new thrust of commercial work under FCS. For instance, only one of the nine commercial officer positions in Japan is language designated. One officer in Japan who spoke Japanese felt it was essential for commercial officers to speak the host-country language. The new FCS mandate to aggressively promote exports through personal contacts in the local business community may require language proficiency on the part of a greater number of FCS officers.

In short, FCS has sent many of its recruits overseas with insufficient training, hampering their ability to fully discharge their duties. In our opinion, the limiting effects of inadequate language training are particularly detrimental to the performance of commercial work. According to information that Commerce provided to Congress in support of its appropriations requests:

> "Of the 105 language-designated FCS positions, 64 are filled by FCS officers, all of whom have a language proficiency level of 3 in both reading and speaking, <u>or have a proficiency level of 2 and are enrolled in a language study program at post</u>." (Underscoring supplied.)

Officers with a S-2/R-2 proficiency can speak the language adequately enough to satisfy only routine social demands and limited work requirements and can read simple written material on subjects within a familiar context. We encountered a number of commercial officers who lacked sufficient language ability. These officers tended to overemphasize the passive aspects of their responsibilities, which usually require the least language proficiency, and deemphasize the active promotion of U.S. exports, which generally requires a high level of language proficiency.

In its rush to fill overseas vacancies, FCS also has placed recruits in locations where their talents and backgrounds are not best used. We came across a number of such situations. In one instance, FCS placed three inexperienced recruits at a commercial post with an Embassy staff of only five officers. Since the two senior officers were spending a large percent of their time on administrative and budgetary matters, they had to rely heavily on the junior officers to pursue trade opportunities. The junior officers' relative inexperience, however, hindered their taking active roles in export promotion. The problem was compounded by the formalistic and hierarchical nature of the host-country society, which hindered the officers' ability to gain access to government and business decisionmakers. In another instance, FCS posted a recruit who had substantial business experience in Japan at a U.S. Embassy in another country. His primary responsibility at the Embassy, which is not located in a commercial center, is making representation to the government--a diplomatic responsibility for which he has no training or experience. In yet another instance, FCS placed in a Latin American country a recruit who had extensive experience in West Germany and who spoke fluent German.

The second recruitment campaign

Based on lessons learned during the first recruitment campaign, FCS management has made improvements that are reflected in the operation of the second major campaign. This second campaign had just begun at the time we were concluding our review, so we did not review its operation in depth. Nevertheless, we noted that the recruitment staff did substantially more up-front planning and allowed themselves greater lead time than was the case with the first campaign.

AGENCY COMMENTS

Commerce concurred with our findings on the FCS' recruitment training, and placement system and provided additional information on FCS activities in this area. In particular, Commerce reports that

--The fiscal year 1982 and 1983 recruitment campaigns were conducted in a much more effective and efficient manner than the fiscal year 1981 campaign.

--FCS now has an outline of a training program it requires of all its officers and has instituted certain policies to insure that its officers overseas have adequate language capabilities.

--The second recruitment campaign produced a much more qualified pool of candidates, whose experience and qualifications were taken into consideration in determining overseas postings.

We were unable to review the fiscal year 1982 and 1983 campaigns, but note that the new policies and procedures appear to address certain of the problems we discussed.

PLANNING AND MONITORING OF POST ACTIVITIES NEEDS IMPROVEMENT

FCS headquarters also needs to improve the implementation of its responsibilities in Commerce's system for planning and monitoring overseas activities. Each fiscal year, the overseas commercial staffs develop and submit Post Commercial Action Plans (PCAPs) outlining proposed activities for the coming year. FCS headquarters is responsible for insuring that these plans are submitted on time. The PCAPs are then circulated for review and comment among the headquarters agencies whose programs and activities are serviced by the FCS commercial staffs. Disagreements among the overseas posts and headquarters agencies are resolved through negotiations at which the interests of the posts are represented by FCS headquarters. Subsequently, each post is required to submit a mid-year status report and end-of-year report.

In our opinion, this system provides each agency with appropriate input into planning overseas activities. The overseas commercial staffs are the most knowledgeable concerning the commercial situations in their countries and are in the best position to determine workload projections. Nevertheless, the headquarters agencies whose programs and activities make up the bulk of the FCS overseas workload also need to review and comment on these plans to insure no disruption of their services.

However, review by the Commerce Department Inspector General 1/ found numerous deficiencies with this system. The review found that approximately 25 percent of the posts were over a month late in submitting their proposed fiscal year 1982 PCAPs to headquarters, causing substantial delays in the planning process for these posts and that most posts did not submit the required mid-year and end-of-year reports. Also, the mid-year and end-of-year reports which were submitted lacked basic uniformity, limiting their usefulness. Further, the headquarters review and approval process was inconsistent and did not always provide for a comprehensive and thorough evaluation of these planning documents.

Commerce has recently made certain changes which should affect its planning and monitoring of FCS overseas activities. It has tied together the planning and personnel evaluation system for FCS overseas operations, which is expected to improve the incentive for the overseas staffs to develop meaningful plans and submit them on time. In addition, Commerce has recently realigned its trade operations (see ch. 5), which should affect the monitoring of FCS activities. Substantial oversight responsibilities have been given to four newly created Deputy Assistant Secretaries, each charged with monitoring FCS operations in one region of the world. While it is still too early to determine what impact this realignment will have, it appears that the centralization of oversight responsibilities may improve the monitoring of FCS overseas activities.

CONCLUSIONS

FCS began operations with an inadequate and poorly managed headquarters staff. As a result, it has not been able to provide adequate day-to-day support for the overseas operations or to

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1/ "Report on Audit of Selected Activities Administered by the Foreign Commercial Service, International Trade Administration," 2AD-118-01-2500-82-002, June 1982.

create and routinize the necessary management systems. FCS headquarters deficiencies resulted in substantial delay in the development of an education curriculum for commercial officers and FSNs. Headquarters deficiencies also caused the poor administration of the recruitment, training, and placement system, resulting in (1) long-term vacancies overseas, (2) insufficient Foreign Service Institute training, and (3) the poor placement of some recruits. In our opinion, the provision of commercial services overseas has accordingly suffered. FCS has taken some steps in improving headquarters operations, yet much remains to be done.

AGENCY COMMENTS AND OUR EVALUATION

Commerce generally agreed with our findings concerning FCS headquarters operations, but did not specifically comment on the current adequacy of headquarters staffing to support overseas operations. Nevertheless, we believe that the creation of an adequate headquarters contingent for FCS is essential to its ability to substantially improve commercial work overseas. Commerce's fiscal year 1983 budget proposal includes a request for an additional 15 FCS headquarters positions. We believe that our review shows that FCS headquarters staffing has not been commensurate with its responsibilities and that the staffing level should be at least sufficient so that FCS does not have to rely on individuals on detail to perform substantive responsibilities.

CHAPTER 4

COMMERCIAL ACTIVITIES OVERSEAS: UNEVEN PROGRESS

As discussed in chapter 1, the President and Congress intended the trade reorganization to result in an aggressive and activist commercial service whose primary mandate is to promote U.S. exports. Our review of overseas commercial operations in 12 countries during June to December 1981 shows that uneven progress has been made toward that goal.

We reviewed overseas operations to determine the effect of the reorganization on (1) post commercial activities at both Embassy and consulate levels and (2) the level and quality of services provided to the U.S. business community.

Generally, we found that some overseas posts have initiated a number of new and innovative ways to be of greater service to U.S. exporters. Many commercial officers also appear to have a greater sense of mission and a better esprit de corps since the creation of the FCS, which should be an important factor in improving the quality of service provided to U.S. business in the future. Despite these positive developments, however, various factors in a number of posts are working against the revitalization of the Federal commercial role, including FCS' lack of independence from the economic sections at certain Embassies, poor coordination between the economic and commercial staffs, lack of staff time to aggressively promote U.S. exports, and an environment not conducive to business in some FCS offices.

NEW AND INNOVATIVE EXPORT PROMOTION PROGRAMS

Some overseas posts have initiated new export promotion programs and procedures which should result in a more effective use of available resources and improved services to U.S. exporters. For example, FCS/Hong Kong, capitalizing on the status of Hong Kong as a regional corporate center for U.S. firms, started a Regional Early Alert Program in September 1981. This program alerts interested and qualified American firms in Hong Kong to trade opportunities reported by eight of the FCS posts in the region. American firms represented in Hong Kong were screened to locate regional offices which sell U.S.-originated goods and engineering-construction services throughout the area. FCS currently has 46 subscribers to the program and has been providing about 40 regional trade opportunities a week. The trade opportunities are normally received by subscribers 3 to 4 working days after the report is received by the post. Because of the program's initial success and requests by other qualified firms to join, FCS/Hong Kong plans to substantially expand both the program and other regional services.

FCS/London has been very innovative in providing an effective Agent/Distributor Service (ADS) while at the same time reducing the amount of resources used for the program. ADS requests are listed in the commercial newsletter which is sent 10 times a year to 3,000 firms (mostly United Kingdom). The requests are listed under the "Trading Prospects" section with a one or two line product description. According to the commercial counselor, FCS/London used only 10 percent of a staff year on requests in 1980, while West Germany used six staff years to process fewer requests. FCS/London's staff resources would not permit effective personal solicitations on behalf of the 500 U.S. firms that annually seek agents or distributor relationships in the United Kingdom market. British firms have responded very enthusiastically to these brief ADS solicitations; 991 products were advertised in the 14 issues published, and 914 products received a total of 4,589 responses. Also, FCS/London has persuaded trade publications to list their ADS requests free of charge. For example, Autotrade, with 6,000 subscribers, publishes London's automotive ADSs. The FSN specialists make personal contacts very selectively on only 15 to 20 percent of the ADS requests they receive, thereby freeing time for other activities. When the London FCS staff receives a reply to an ADS, it uses the post's word processor to provide all the detailed information to the requester quickly and cheaply.

FCS/Paris has instituted a program for its five consulates which directs their commercial specialists to conduct 5 to 10 direct voluntary interviews of manufacturers and importers in their districts each month. For each interview, a form is completed detailing, among other things, any specific export opportunities for U.S. firms. The posts concentrate on one product sector at a time; for example, during October and November of 1981 a minimum of 15 interviews was expected from each consulate on the sporting goods sector. At the end of each product campaign, a one-page market analysis is submitted to FCS/Paris ascertaining the size of the market, how needs are satisfied, how foreign brands are introduced, and so on. The information developed is then used to establish a data bank on French firms in various product sectors. Any significant business opportunities developed are reported directly to Washington.

FCS/Tokyo has established a close working relationship with the local American Chamber of Commerce, thus gaining access to the resources and experiences of the Chamber and its members. For example, five joint Chamber/FCS task forces have been formed around specific target industries to identify market potential and problem areas and to suggest how U.S. firms can be more competitive. The Chamber has also arranged four visits to member firms, which included intensive briefings on the problems of each industry. Another current joint Chamber/FCS project is a study of the customs valuation problems of one company. The project will be videotaped and used to help other companies clear their products through customs more expeditiously.

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

FCS headquarters is implementing a formal system for identifying and disseminating information on innovations such as these to all FCS posts. It was anticipated that this information would become part of a formal monthly reporting requirement to be established in late 1982 for all overseas posts. FCS headquarters will screen the reports and disseminate new and innovative ways of providing service to U.S. exporters to all posts for possible implementation.

RELATIONS BETWEEN THE ECONOMIC AND COMMERCIAL SECTIONS

To elevate the status and importance of commercial work overseas, a Memorandum of Understanding between State and Commerce provided that the senior commercial officer incountry should report directly to the Ambassador or Deputy Chief of Mission and be a member of the country team, which consists of the Embassy's management hierarchy. Shortly after this Memorandum was signed, State and Commerce developed a codicil which modified the original agreement somewhat by recognizing the Ambassador's authority to organize the mission to make the most effective use of available resources. Specifically, the codicil recognized the Ambassador's authority to delegate responsibility for coordinating functions or programs falling broadly within the commercial and economic areas. It was explained to us that the Ambassador or Deputy Chief of Mission, particularly at the larger posts, could not reasonably be expected to have the senior officers of all the numerous agencies assigned to the Embassy report directly to him. It was contended that such an arrangement would result in "span of control" problems. The codicil therefore provided that either the senior commercial officer or senior economic officer or both may coordinate functions or programs falling broadly within the commercial and economic areas. This coordination was not meant to include, however, the general delegation of supervisory functions or authority over commercial activities below the Deputy Chief of Mission level.

Although there are a variety of differences between economic and commercial work, a basic distinction is one of trade and economic policy analysis and reporting versus the active pursuit of trade opportunities and promotion of U.S. exports. Economic functions are more broadly defined and encompass all economic matters which may affect the U.S. relationship with a foreign country. For example, an economic officer may report on economic conditions in a country which can affect its political stability. While such a report may be of interest to a potential U.S. exporter or investor, it remains basically an economic report. Likewise, economic reports on foreign industrial policies which affect bilateral economic and political relationships could also be of interest to the commercial section, since future export opportunities could also be affected. In contrast to the functions of the economic section, the primary focus of commmercial activities as established by the reorganization is the active and aggressive promotion of U.S. exports overseas. As pointed out in a State-Commerce Department notice to all overseas Embassies, the FCS should see itself as the export marketing arm overseas of American business. It should search out opportunities for American business and take the initiative in translating those opportunities into sales of U.S. products.

At the posts we visited, whether or not coordinating authority over commercial matters was delegated below the Deputy Chief of Mission level seemed to depend generally on the size or importance of the post. In France, the United Kingdom, West Germany, and Japan, the economic minister, the senior economic officer incountry and of a higher rank than the senior commercial officer, has coordinating authority over all economic-related activities, including the commercial, financial, and agricultural sections. A similar arrangement existed in Canada, except that coordinating authority was delegated to the economic counselor, whose rank was equal to that of the then incumbent commercial counselor. In these five countries, the senior commercial officers' personnel evaluations were drafted by the coordinating economic officer. In the remaining seven countries, the senior commercial officer incountry reported directly to the Deputy Chief of Mission as provided for in the Memorandum of Understanding.

At some posts, the distinction between coordinating authority and direct control over commercial activities has been blurred. This gives the impression that the FCS has yet to achieve the enhanced status intended by the reorganization and sometimes results in the commercial staffs performing what are essentially economic functions. In one country we visited, the relationship between FCS and the economic section has not changed since the reorganization, even though FCS is now represented on the country team and formally reports to the Deputy Chief of Mission. The economic counselor and his section still exert authority over FCS activities and exercise the right to review FCS efforts by continuing to review and approve FCS memos, proposals, and plans, including the PCAP. Also, representatives of a regional U.S. businessman's group operating in the same area told us that, in all their meetings with staffs of various local Embassies since the reorganization, the lines of authority flowed from the Ambassador to the economic section and finally to the FCS.

In another country, the FCS, under the coordinating control of the Minister Counselor for Economic Affairs, continues to use a particularly high proportion of its time for economic reporting. The commercial counselor thought that the section might even be spending a greater proportion of its time on economic reporting since the reorganization. We were told that this high level of economic reporting was a result of the State Department's priorities prior to the reorganization and the Embassy's attempts in the early 1970s to enhance the status of commercial officers by involving them more in substantive policy-related economic reporting. We reviewed a report on economic trends in the country and their implications for the United States, which was drafted, in part, by the FCS staff. The information in the report was generally of a macroeconomic nature except for one section on major industrial sectors, such as energy, steel, chemicals, automobiles, and aerospace. In our opinion, the information was not detailed enough to be of much use to U.S. suppliers interested in exporting to that market.

The commercial counselor, a State Department official on detail to the FCS, agreed in a post-level memorandum of understanding with the Minister Counselor that the FCS would perform economic reporting functions. In exchange, the FCS received the services of a junior rotational officer. The post-level memorandum was drawn up because the Minister Counselor felt strongly that the Department-level Memorandum was usurping the Ambassador's authority to organize his post as he saw fit. Specifically, the agreement stated that FCS officers, under the supervision of the commercial counselor and policy guidance of the Minister Counselor for Economic Affairs, would continue to be responsible for reporting, representations to the local government, and analyses of key sectors of local industry, including textiles, steel, automobiles, and others as mutually determined. This will also include followup on those Multilateral Trade Negotiations' codes as mutually determined and participation in reporting on industrial policy.

We did not evaluate the adequacy of staffing levels of either the FCS or the economic section, but an inspection by State's Inspector General after the reorganization noted that the economic section's resources were barely adequate, which might explain the desire to draw on the resources of the FCS.

The senior economic officer in another country who was delegated responsibility for coordinating economic, commercial, financial, and agricultural affairs continued to assign economic reporting duties to the commercial counselor. The commercial counselor told us that he has lacked the time to fully pursue business community contacts and to support one consulate's program to promote American wines.

Finally, the commercial counselor in a major country felt that FCS failure to achieve independence from the economic section meant that the senior economic officer rather than the the Deputy Chief of Mission or Ambassador would resolve conflicting priorities. He felt that this constituted a greater degree of control by the economic section than was called for by the State-Commerce Memorandum of Understanding and codicil.

It appears that the FCS itself is responsible for losing control of commercial operations at a number of consulates. Usually, the senior foreign commercial officer and a large portion of his staff are located at the Embassy but a number of foreign commercial officers and/or FSNs are also located at various consulates or constituent posts throughout a country. The commercial staff at one consulate told us that it receives no guidance from the commercial counselor at the Embassy, and therefore commercial activities at the consulate are directed by the Consul General, a State Department employee. We found similar problems of lack of central control over commercial operations at the consulates in three other countries.

Coordination between the sections

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

The need for cooperation and coordination becomes even more evident at smaller posts because of the small size of the staffs. For example, only one American is assigned to the FCS in Malaysia, and when this officer is on travel, the economic section represents FCS. The Ambassador stated that, without close coordination between the two, a managerial problem would exist, but he believes that the coordination between the two sections is excellent. In Hong Kong, State Department and FCS officials also closely coordinate their efforts. For example, according to the economic counselor, the economic section supplements FCS by briefing bankers and others interested in the

Hong Kong market, monitors China developments, and provides other assistance to FCS/Hong Kong. FCS reciprocates by keeping the economic section apprised of Hong Kong commerce.

Some officials overseas believe that the separation of the economic and commercial sections was an artificial split of two mutually reinforcing functions. They also felt that no amount of enhanced communication could fully make up for the absence of overall leadership and oversight over the two related functions. As expressed by an official at a post where the economic and commercial functions were highly integrated, "one cannot be just a salesman." These sentiments contrast with those at another major post where economic and commercial work were never highly integrated even before the transfer. The commercial staff at that post concentrates primarily on export promotion and has never been heavily involved in sector, policy, or macroeconomic reporting.

Conclusions

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

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

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

AGENCY COMMENTS AND OUR EVALUATION

State commented that it supports the authority of the Ambassador to organize the Embassy to achieve the most effective management of resources but agreed that the FCS should not be under the control of the economic minister.

Commerce stated that the problems cited by GAO in this area were reiterated in a recent audit by their Inspector General. To help correct these problems Commerce decided to establish a headquarters team to travel to posts to meet with Ambassadors, DCMs, economic ministers, and senior commercial officers. The purpose of these meetings will be to bring the posts in line with the Memorandum of Understanding so that the generic goal of the FCS, the active pursuit of trade opportunities and promotion of U.S. exports, may be clearly delineated.

Commerce's planned action can be a positive step in addressing problems concerning the appropriate relationship between FCS and the economic sections overseas.

FCS ACTIVITIES OVERSEAS DOMINATED BY REACTIVE COMMERCE PROGRAMS

To help us evaluate current FCS activities overseas, we attempted to get data on the amount of time spent by the overseas staff on various export promotion activities in fiscal year 1981. Such information, however, is not expected to be available until the end of fiscal year 1982, at which time FCS headquarters will be requesting posts to submit end of year reports containing actual workload statistics. We, therefore, relied upon work-week projections in the PCAPs, which we were assured were reasonably accurate projections. Table 2 shows a breakdown of the work-weeks spent in six major areas of overseas activity.

Although the time spent on various export promotion activities varies from post to post, the preponderance of time is spent on functions over which the post has little or no control. The posts in the 12 countries we visited were able to reserve an average of only 20 percent of their time in fiscal year 1982 for post initiated and managed activities (category 4 of table 2). More importantly, the posts were able to devote less than 3 percent of their time for host-government and business contacts.

We heard numerous complaints about the lack of time and money available for developing and nurturing host-government and business contacts. For example, a senior commercial officer told us that to be effective he should spend about 50 percent of his time seeking trade and investment opportunities for U.S. businesses but that he spent only about 5 to 10 percent on this activity. A chief FSN commented that the number of trade opportunities, given the commercial importance of her area, should ideally approach 200 a year. However, she was able to make only two or three business calls and to report only 17 trade opportunities during fiscal year 1980. In confirmation that little progress had been made in gaining greater integration into the local business community, business community representatives we met in that country, one of whom was the chairman of the local Chamber of

Commerce, had never heard of the FCS. In a third country, all 22 of the fiscal year 1981 trade opportunities resulted from discussions with local businessmen who came to use the commercial library, since little time was available for outreach activities. The importance of such activities is emphasized by the fact that one of the meetings arranged for us with a local businessman may result in increased exports for the United States; before this meeting, the businessman was not aware of the trade opportunity program and now he plans to pursue the import of U.S. handtools and abrasives with the commercial officer who was with us.

Attempts have been made to reduce the burgeoning growth in demand for ADS and WTDR services which have been taking up increasing amounts of overseas staff time. When the ADS program was instituted in fiscal year 1973, it processed 1,450 requests. In fiscal year 1980, 7,812 applications were processed. Demand for WTDRs has also grown, totaling over 30,000 in fiscal year 1980. According to the fiscal year 1982 PCAPS, 299 work-weeks and $34,000 was set aside in the 12 countries for developing local government and business contacts, a major objective of the reorganization. This compares unfavorably with the 1,672 weeks set aside for the ADS and WTDR programs. To dampen demand for these programs, Commerce raised its prices from $25 to $90 for the ADS service and from $15 to $40 for WTDRs in February 1981 and dismantled the quota system whereby a Commerce district office was judged on the basis of how many of these services were sold. Despite the increase in fees, however, it is expected that demand for these programs will continue at a high level.

Another technique used by the posts for dealing with the growth in these requests has been to contract them out to private firms. This trend has been particularly noticeable for WTDRs, since there are often commercial alternatives in many countries, such as Dun and Bradstreet. Estimated contract services for the WTDR program totaled $161,000 for fiscal year 1982. In addition to the high cost of contracting out this service, FCS staff spends 940 work-weeks processing the information received from the contractor, with little or no substantive information added.

The report by the House Subcommittee on Commerce, Consumer and Monetary Affairs (see ch. 1) recommended that Commerce reevaluate the desirability of continuing the WTDR program in markets where private alternatives exist. The report also stated that a survey of users indicated that they did not find WTDRs as valuable a source on creditworthiness as the private reports and sources.

Delivery of these services to the U.S. business community is also a problem. All WTDRs and ADSs must currently be routed through Washington. The process for ADSs usually begins at one of Commerce's 48 district offices, where a firm fills out a request for information. The district office then sends the request to Washington, which forwards it to the posts. After compiling the information, the posts send it to Washington, which

Table 2

Projected Export Promotion Activities
for Fiscal Year 1982
(12 Countries) (note a)

		Number of Work-weeks	Percent of Time Average	Percent of Time Range
1.	International Trade Administration programs serving U.S.-based business (Includes WTDRs, ADSs, trade fair and mission support, Multilateral Trade Negotiations reporting, market research, current economic reporting and other Commerce programs.)	5,130	43.2	30.5 to 52.4
2.	Non-International Trade Administration trade development services (Includes anti-boycott reporting; pre-license checks in support of export control regulations; investment services, including annual reporting on investment climate; assistance in handling service industry problems; economic policy reporting; and ad-hoc requests for information from the Overseas Private Investment Corporation, EXIMBANK, and the U.S. Trade Representative.)	647	5.5	.6 to 11.1
3.	Business demands arising locally (Includes trade counseling requests, visits, phone calls and correspondence, investment counseling requests, facilitative assistance, and complaints, collections, and representations to host governments.)	2,556	21.6	11.4 to 37.9
4.	Post-initiated and managed activities (Includes cooperation with American Chambers of Commerce and other U.S. business organizations, commercial library operation, commercial newsletters, development of host government and business contacts, plant visits, and attendance at non-U.S. commercial events.)	2,375	20.0	12.0 to 38.0
5.	Program planning and evaluation	238	2.0	1.0 to 3.7
6.	Post administrative and training activities (Includes budget planning, personnel management, training, and Embassy-required assistance unrelated to FCS programs.)	916	7.7	1.5 to 22.4
	Total	11,862	100.0	

a/ Canada, Mexico, Japan, Hong Kong, Malaysia, Singapore, Australia, United Kingdom, France, West Germany, Belgium, and Saudi Arabia.

in turn sends it back to the district office. Washington's input to this process is basically clerical, such as making sure applications are filled in properly. The process is somewhat different for WTDRs since the requester can deal directly with Commerce headquarters.

Many posts complained about Washington's long delays in transmitting information to and from the requester. In some cases, information sent through Washington was completely misplaced, requiring additional staff time to resurrect and retransmit the information. In January 1981, for example, FCS headquarters cabled a post that it had not received reports for 40 ADS requests sent to the post prior to July 1980. The post retransmitted the reports and cabled back that it had responded to all the requests in almost all cases within 60 days and that it found it difficult to believe that 40 Embassy telegrams were lost in transmission. Another incident of misplaced information occurred as recently as October 1981 when the post had to retransmit 58 WTDRs. Besides having a negative effect on staff morale, since the staff puts a lot of time and effort into preparing the information, these problems affect the timeliness of service provided to the American business community. For example, the Embassy commercial staff in one country sent a cable to Washington, dated February 6, 1981, which stated that: "All too often we are embarrassed by having U.S. business visitors arrive here, expecting that we will have the results of an ADS service they requested two or three months earlier, only to find that we have not yet received the request from Washington."

Continued emphasis
on reporting function

At the time of our review, the FCS staff continued to spend a substantial amount of time preparing regularly required economic reports. The fiscal year 1982 PCAPs for the 12 countries programed 232 staff-weeks for the Current Economic Reporting Program, close to the amount of time set aside for developing government and business contacts. FCS headquarters, realizing that this reporting program was becoming a burden to overseas operations, has taken steps to reduce the number of reports prepared by the posts and, in fact, has reduced time spent on the Current Economic Reporting Program since the establishment of the FCS. In nine of the countries, the amount of time alloted for current economic reports fell from 460 to 205 work-weeks between fiscal years 1979-82.

Some reports continue to have little relevance to FCS' primary objective of promoting U.S. exports or are not really appropriate for the market. At the time of our review, FCS/Bonn, after ranking all Current Economic Reporting Program reports in order of usefulness and applicability to the FCS, wanted to maintain responsibility for approximately one-third of the 86 reports required. The post pointed out that the Departments of State and Energy are the prime users of some of these reports and it is an anomaly for them to be prepared by the FCS.

FCS/Tokyo recently recommended that three annual industrial outlook reports be discontinued since practically no inquiries (correspondence and visitors) are received on the subjects. FCS/Tokyo estimated that 30 work-weeks could thus be freed for other things, such as support work for the Multilateral Trade Negotiations agreements. Final decisions are pending on both FCS/Tokyo and FCS/Bonn proposals.

Industry representatives also noted the continuing preparation of unnecessary reports by the FCS; one stated that a recent FCS report on the Swedish market for her industry's products was of no use since the U.S. industry was already well informed about the situation in Sweden, its primary competitor. She stated that there is a need for constant review to ensure that the commercial work done by the FCS is relevant and needed by the U.S. business community. The president of the American Chamber of Commerce in a major country overseas also told us that the FCS unfortunately is still stuck with reporting functions which precludes more "hands-on" help to U.S. businesses involved in exporting.

Reorganization increases administrative burden

Many of the posts we visited complained of a high degree of administrative work which reduced the time available for export promotion activities. Additional budgetary responsibilities and a detailed new planning system were often cited as requiring too much time.

As a result of the transfer, the FCS is now responsible for administering its own budgets, a function previously performed by the post budget and fiscal sections. Some commercial officers believed that this new responsibility was perhaps the most significant result of the reorganization, since the FCS would now have the independence to allocate budgetary resources free from the influence of the State Department. While this is recognized as a positive development, it requires a great deal of the commercial officers' time. According to the fiscal year 1982 PCAPs, FCS personnel plan to spend anywhere from 1 to 222 weeks on budgetary planning. In one country, the commercial counselor's deputy spent as much as one-third of his time on budget and administrative matters. The commercial attache in another country stated that, even though he is now free from performing economic work, the amount of time he devotes to commercial work has actually decreased since the transfer because of the increased duties in budgetary planning and other administrative areas.

A number of commercial officers we spoke with overseas commented that the PCAP process was too detailed and time-consuming. Some also complained they received no feedback on completed plans. The process, which took from 1 to 13 weeks at the posts we visited is a comprehensive compilation of all post activities anticipated for the following fiscal year, including expected staff time and budgetary resources required. It was generally felt that the plan is useful for telling Washington headquarters what the posts are doing, but it is not used at the post for management purposes. One FCS officer overseas told us that, although setting objectives and targets of interest is fine, plan preparation has become so laborious that it seriously detracts from time that could be better spent making business contacts.

AGENCY COMMENTS

Commerce stated that de-emphasing reactive programs in favor of the more aggressive pursuit of trade opportunities is an important goal. To this end, FCS headquarters is striving to ensure that its officers overseas are getting out of their offices and actively seeking trade and investment opportunities for U.S. businesses. Commerce pointed to efforts to reduce the amount of time involved in planning, a continuing reduction in the Current Economic Reporting Program, and a newly initiated effort to explore alternatives to the WTDR program in some instances.

LOCATION OF SOME FCS OFFICES INHIBITS INTEGRATION INTO LOCAL BUSINESS COMMUNITIES

Having commercial offices located on the Embassy grounds may inhibit FCS attempts to establish closer links with the local business community. The formal diplomatic environment of the Embassies with their strict security precautions is not conducive to commercially oriented business affairs. There is also strong sentiment among members of the overseas business community for the FCS to physically relocate outside the Embassy. For example, a former State Department official who is now with a major firm in Europe told us that the Embassy environment discourages visits by many foreign business people. He felt that the United States should establish separate commercial offices as do France and the United Kingdom to create an atmosphere more conducive to business. In Saudi Arabia, the commercial operations have been separate from the Embassy since the 1950s and, according to the staff, this physical separation has made these operations more accessible to business people.

We believe that moving commercial operations out of many Embassies would be a positive step toward the type of commercial service contemplated by the reorganization, but it may not be feasible at smaller posts where the economic sections and FCS must coordinate their activities closely and sometimes fill in for each other. Another inhibiting factor could be the cost of alternative quarters. It appeared to us that the trade center offices in Mexico, which were separate from the Embassy, were more conducive to business activities than the Embassy. The only practical barrier to such a move was the cost to adapt the existing trade center building, which was then estimated at $1 million. This is a substantial sum compared to the overall level of the FCS budget ($28 million for fiscal year 1981). While we did not evaluate the possibility of moving the commercial sections of other posts to the trade centers, they may be able to move to different quarters with little or no increase in costs. For example, FCS/Brussels, which is located at the Embassy, has been exploring the possibility of exchanging offices with the U.S. Overseas Defense Cooperation office, which is around the corner from the Embassy.

FCS recognizes the importance of location in conducting commercial activities overseas and, in its fiscal year 1983 budget, is asking for money to relocate operations at seven posts. We reviewed activities at only one of these posts and found that cramped office space and heavy security measures made the conduct of commercial activities difficult.

NEW PERFORMANCE EVALUATION SYSTEM NEEDED

The FCS continues to rely on the State Department's employee evaluation report system in appraising the performance of the commercial staff. In our opinion, these evaluation reports, which are used for all State Department officers, do not provide the needed criteria and standards to adequately judge the quality and performance of the commercial staff. Besides including an evaluation of the general qualities listed on the State Department form (e.g., leadership, managerial, and intellectual skills), we believe that an effective performance appraisal system should be more narrowly focused to allow for the evaluation of skills, performance, and abilities expected of commercial officers, given the increased emphasis on export promotion.

We understand that the FCS is currently developing its own personnel evaluation system, and we believe that, at a minimum, any new system should evaluate the performance of commercial officers on the basis of commercial standards; e.g., knowledge of the market and marketing skills. The regularity with which self-initiated contacts are made, ability to integrate into the government and business communities, degree of success in implementing the PCAP, and success in promoting exports should also be considered. Although it is not always possible to attribute a specific export sale to a commercial officer's efforts, there are instances, such as the truck exports to the Middle East cited in chapter 1, which are a direct result of such efforts. In our opinion, by delineating more specifically the standards and criteria by which a commercial officer's performance will be judged, FCS will increase the liklihood of meeting its personnel and program objectives.

During the last quarter of fiscal year 1982, FCS was operating a special incentive program to reward employees for exceptional performance in helping U.S. firms to export for the first time or to export to new markets; $100,000 for the program has been set aside, $45,000 of which will be allocated to the FCS. The awards, to be presented in late 1982, will range from $250 to $2,000 each.

AGENCY COMMENTS

Commerce said that a new performance appraisal system was to be implemented on October 1, 1982, and while GAO has not had the opportunity to review it, it appears, on the basis of their comments, to incorporate GAO's suggestions.

CONCLUSIONS

The FCS has made some progress overseas in attempting to become more aggressive and to improve commercial services for the U.S. business community. A number of posts have implemented new and innovative ways of promoting U.S. exports. Time for post initiatives, however, continues to be limited because of demands from Washington.

FCS continues to devote a large portion of its resources to the WTDR program, a credit analysis service which is, at least in the developed world, readily available from the private sector. Given current budgetary stringencies and the FCS mandate to aggressively promote U.S. exports, we believe that limited FCS resources could be better used to generate increased export opportunities in program areas where private sector alternatives are not readily available.

The ADS program, on the other hand, complements FCS attempts to become more active in the overseas business community. In attempting to search out potential agents and distributors for U.S.-based manufacturing firms, the FCS is fulfilling one of its primary functions of bringing buyer and seller together and at the same time making regular contacts in the local business community. This is not to say, however, that improvements are not possible to streamline this program and make it more effective. FCS/London has provided a good example of how this can be done at the post level.

Commerce headquarters has been a bottleneck to providing quick and efficient service to the U.S. business community. We, therefore, question the need to route ADS requests through Washington rather than having the overseas posts and district offices establish direct communication links. Commerce headquarters currently isn't doing anything with the requests which could not be done at the district level. Copies of the requests could still be sent to Washington for control purposes, if necessary.

Too much stress continues to be placed upon the reporting functions of commercial officers to the detriment of other more aggressive and direct ways of promoting U.S. exports. In some cases, the reports issued are of little or no use to their target audiences.

At the time of our review, the FCS posts overseas were burdened with numerous administrative duties which reduced the amount of time available for export promotion. We believe that to some extent increased duties resulting from taking over their own budgets are unavoidable and perhaps a small price to pay for the increased independence afforded the posts. In any case, the amount of time currently spent on budgetary planning should decrease as post and headquarters management develop a budget management system and as the overseas staff familiarizes itself with budgetary planning procedures.

In our opinion, the current PCAP process requires too much time to prepare and is not being used by the posts as originally intended. It is viewed as just another reporting requirement which is seldom referred to after being completed. It is important to plan a strategy for promoting exports in various markets, but the level of detail required by the process is unrealistic and counterproductive.

RECOMMENDATIONS

We recommend that:

--The Secretaries of State and Commerce direct Ambassadors at FCS posts to (1) fully abide by pertinent provisions of the State-Commerce Memorandum of Understanding and accompanying codicil, so that supervision or authority over commercial activities overseas is not delegated below the Deputy Chief of Mission level and (2) require regular staff meetings, at all levels, between the economic sections and the FCS and joint distribution of economic and commercially related cable traffic. This will assure FCS the necessary level of independence and provide for an adequate interchange of information between the FCS and the economic sections.

--The Secretary of Commerce direct the Under Secretary for International Trade to reduce the level of detail required in the Post Commercial Action Plans in order to improve the post commercial planning process and decrease the administrative burden placed on the officers overseas.

--The Secretary of Commerce direct the Assistant Secretary for Trade Development, in conjunction with the Director General of the Commercial Services to (1) drop the WTDR program in those countries for which there are suitable alternatives and (2) change the ADS routing system to route requests directly between the district offices and overseas posts, with an information copy of all such correspondence being sent to Commerce headquarters.

AGENCY COMMENTS AND OUR EVALUATION

Commerce generally agreed with our conclusions and appears to be taking some steps to correct the deficiencies cited. Specific details on these actions are discussed earlier in the chapter.

The State Department did not take issue with any of the facts as presented in this chapter, but asserted that commercial officers have a role in economic reporting. State said that the Commerce Department itself is the major requester of many of the economic reports currently being made and, therefore, it is perhaps reasonable that FCS prepare them. State also said that commercial officers cannot carry out their roles without broad understanding and experience and a grasp of the economic framework in which they operate.

State believed that certain parts of our report could have achieved more accuracy and balance had more time been spent in interviews at the State Department, particularly with more senior officers.

State may be right that Commerce is mainly responsible for the high level of economic reporting done by the posts. Aside from the fact as to who is responsible, however, we found that far too much time has been spent on non-essential economic reporting to the detriment of more aggressive export promotion, which is the primary mandate for the new FCS. Commercial officers may continue to have a role in economic reporting, but we believe that such a role should be limited to reports which have direct commercial relevance.

We did not intend to imply that commercial officers could be effective if they were ignorant of the broader economic policy framework in which they operate; nevertheless, we believe that economic skills and knowledge, while important, are of secondary importance for commercial officers. As pointed out in our report, a joint State-Commerce message to all overseas Embassies stated that the FCS should see itself as the export marketing arm overseas of American business. Accordingly, we believe that the predominant activities of overseas commercial officers should be to promote exports of U.S. products and services. For the most part, these activities require persons with marketing skills and the ability and personality to aggressively promote U.S. exports.

In our opinion, State's criticism of the small amount of time spent interviewing senior Department officials in Washington is not really valid for this chapter. (Interviews with State personnel are also discussed in ch. 2.) We believe that the proper understanding of the current effectiveness of overseas commercial activities and Embassy/FCS relations, the purpose of this chapter, can only be gained through onsite inspection. At all 12 posts we visited, our workplan provided for interviews with numerous high-level State officials, including the Ambassadors and/or Deputy Chiefs of Mission, economic ministers, economic counselors, administrative counselors, economic officers, etc. We believe that these interviews provided us with a good understanding of the State Department's position and allowed us to effectively weigh the evidence and provide the proper balance.

CHAPTER 5

OBSERVATIONS ON THE RECENT REALIGNMENT OF COMMERCE'S INTERNATIONAL TRADE OPERATIONS

Effective February 15, 1982, the Commerce Department realigned its international trade operations to correct, among other things, a perceived absence of clear lines of authority between headquarters and the overseas commercial staffs. The realignment addresses this problem by creating regional offices at headquarters which will serve as channels for all substantive communications between the posts and headquarters and as a central point of contact for the posts in dealing with the Department. We believe that the general thrust of the realignment is good, but we are concerned that, to some extent, it replicates the organizational split in responsibility between the overseas posts and the export promotion program offices that gave rise to the transfer of responsibility in the first place.

Prior to the realignment, the overseas commercial posts lacked an effective contact point in Washington which could represent their interests. As a result, the overseas posts faced uncoordinated, burdensome, and often conflicting requests for information from Commerce headquarters, since any one of several different headquarters organizations within Commerce could independently task an overseas post. The commercial attache in one country told us that numerous requests are received from Commerce which are not coordinated with FCS headquarters and which place heavy requirements on the commercial resources of the Embassy. Officials in a number of other countries reiterated these concerns and also questioned the value of the requests in terms of the primary mandate of promoting U.S. exports.

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

The Director General of the Commercial Services is now responsible for managing the FCS and the U.S. Commercial Service (USCS), the domestic arm of Commerce's export promotion operations. He is expected to coordinate (1) specific FCS country programs and supervision with the Assistant Secretary for International Economic Policy, (2) USCS program supervision with the Assistant Secretary for Trade Development and (3) USCS personnel management with the Director of Administration. A positive result of this change is the closer link established between the USCS and the FCS by the merger of the two groups under the Director General. We support this move because the need for closer communications and interchange between them was evident during our review.

The realignment also clarifies the relationship between the chief commercial officers incountry and the trade centers in those 10 countries where they are present. The trade centers, which are staffed by FCS officers and FSNs and are usually physically separate from the Embassy, consist of space for U.S. firms to exhibit their products. Under the former organization, the trade centers were operationally as well as physically separate from the Embassy, since the trade center officers reported directly to Washington rather than to the senior commercial officer at the Embassy. We found that the operational separation of the Embassy and trade center staffs was an artificial one which was confusing to the American business community and which resulted in overlapping responsibility and duplication of effort. Commerce has recognized this problem and has authorized the senior commercial officer to supervise all commercial activities incountry, including the trade centers.

We believe that the general thrust of the realignment is good, but we are concerned that the day-to-day program activities of the overseas posts will be supervised by the Assistant Secretary for International Economic Policy and his regional deputy assistant secretaries. Under the Presidential reorganization plan, the Assistant Secretary for Export Development was to have management responsibility for FCS as well as the USCS district offices and relevant trade development offices in Washington. The plan emphasized that this arrangement would provide for unified management and coordination of export promotion services. It would also allow commercial officers to concentrate on promoting U.S. exports as their principal activity.

Under the recent realignment, the Director General does not report to the Assistant Secretary for Trade Development. He has administrative responsibilities only and, like the heads of the other offices, reports to the Under Secretary for International Trade. The Assistant Secretary for International Economic Policy and his regional deputy assistant secretaries are responsible for the day-to-day supervision of overseas program activities. We have two concerns about this arrangement. First, FCS continues to be organizationally separated from the Trade Development staff, thereby lessening the likelihood of the type of coordinated action contemplated by the President's reorganization. Second, and more importantly, the current arrangement in Commerce is similar to the situation which existed when the State Department was responsible for commercial affairs. At the State Department, the Office of Commercial

Affairs was under the authority of the Bureau of Economic and Business Affairs, whose activities were heavily weighted toward economic and trade policy issues. Similarly, the majority of responsibilities of Commerce's Assistant Secretary for International Economic Policy is also primarily of an economic policy and fact-gathering nature. For example, the responsibilities of the four new regional deputy assistant secretaries under the Assistant Secretary, besides providing geographic supervision to the FCS overseas, include:

--Analyzing and developing recommendations for international economic, trade, and investment policy strategies and objectives and serving as the focal point within the Department for dealing with bilateral international economic, investment, and commercial policy issues.

--Formulating Department positions on economic and commercial policies affecting the region, including preparation and representation at interagency and international meetings and negotiations on bilateral and regional economic issues.

--Monitoring information on economic and commercial developments and maintaining indepth commercial and economic expertise on individual countries in the region.

We are concerned that these responsibilities and the International Economic Policy unit's control over FCS' activities may negatively affect FCS' ability to put increased emphasis on export promotion activities as intended by the trade reorganization.

CONCLUSION AND OBSERVATION

A combination of factors discussed in this report have hindered FCS' ability to make major improvements in overseas operations during its first 2 years of existence. The recent realignment indicates, however, that Commerce and the FCS are trying to deal with some longstanding problems. Nevertheless, it appears to us that giving the International Economic Policy Office supervisory responsibility over commercial activities overseas replicates the split in responsibility between the overseas posts and export promotion program offices which gave rise to the transfer of responsibility in the first place. It may, therefore, negatively affect FCS' ability to put increased emphasis on export promotion activities.

AGENCY COMMENTS AND OUR EVALUATION

Commerce did not share our concern that assigning responsibility for the day-to-day supervision of overseas commercial activities to the Assistant Secretary for International Economic Policy may jeopardize one of the objectives of the President's reorganization, which was to place greater emphasis upon export promotion activities. Commerce stated that the:

--International Economic Policy Office's responsibility encompasses the obligation to insure that there is a balanced program for trade promotion at all FCS posts.

--Parallel drawn with State's Bureau of Economic and Business Affairs, "whose activities were heavily weighted towards economic and trade policy issues," did not acknowledge a new Commerce emphasis on helping individual small- and medium-sized companies.

--Clear majority of FCS' post time is devoted to activity which is at the direction of other International Trade Administration elements, such as trade event promotion, and thus totally outside the International Economic Policy Office's policy support function.

As we stated in our report, we found many good elements in the realignment. Our only reservation concerned the placement of authority for the day-to-day supervision of overseas commercial activities under an international economic policy unit, the predominance of whose activities appear to be heavily weighted toward economic and trade policy issues. Therefore, despite the assurances provided, we continue to believe that this may have a negative effect on FCS' ability to increase its emphasis upon promotion activities.

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

AUG 11 1982

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed your draft report, "Commerce's Foreign Commercial Service: Slow Progress Toward Fulfilling Expectations", and find it to be a perceptive analysis of conditions in the Foreign Commercial Service (FCS) at the time of the review.

A detailed response prepared by FCS staff and, keyed to the page numbers of your draft report, is attached.

Sincerely,

Lionel H. Olmer

GAO note: Page references in this appendix refer to our draft report and may not correspond to the pages of this final report.

THE TRANSFER OF RESPONSIBILITY: FCS BEGINS OPERATIONS WITH STAFF AND BUDGET PROBLEMS PAGES i-ii, 17-23, 26-36

The report is accurate in its observation that FCS began its operations with serious problems that have significantly hampered its ability to improve the implementation of overseas commercial work. These include (1) a need to reallocate its overseas staff and (2) the lack of an adequate budgetary information system. These factors limited our ability to perform overseas, and we are only now beginning to recover.

For the first 18 months, FCS operated in a financial vacuum, lacking knowledge of what its financial resources and needs would ultimately be as a new organization. This uncertainty forced management to allocate funds too conservatively during FY 80 and 81. FCS management believes that the resources allocated during this time period reduced the overseas commercial staffs' ability to plan activities, although the exact extent of the handicap is impossible to determine because there was no historical data base available for comparison purposes.

During the last quarter of FY 81, posts received more than $500,000 for leases, furnishings and equipment. These funds were more effective because of a coincidental appreciation of the dollar vis-a-vis foreign currencies; they also included funds which became available after the State Department reimbursed us for overcharges in Foreign Administrative Affairs System (FAAS) short term lease costs. While these additional monies in no way alleviated the earlier shortfall in overseas funding, this funding did help to mitigate an inherited serious furnishings/equipment problem which FCS would otherwise have faced at the start of FY 82.

In FY 82, FCS instituted a budget management system. In late FY 81, posts submitted financial plans for FY 82 at the "going rate" of FY 81 and included enhancement requests for the coming fiscal year. Because of the Continuing Resolution, FCS could not provide posts with their full FY 82 requests early in the fiscal year. However, within 10 days of the start of the fiscal year, we did provide all 66 posts with 50 percent of their FY 82 budget requests in personnel and 50 percent of their FY 81 direct program support levels. This allowed posts to plan for the entire fiscal year, albeit at FY 81 program levels.

The budget impasse continued until late February 1982. FCS used this five month period to evaluate each post's FY 82 financial plan. Over sixty messages were sent to posts querying senior commercial officers on elements of their plan. FCS also developed a statistical ranking of all posts in order to distribute fairly and accurately scarce travel and representation funds. For the first time, FCS had one year historical data which it used to develop a world-wide financial plan for FY 82. This plan, developed through numerous high-level staff meetings, has formed the basis for FCS decision making in FY 82 and has allowed management to monitor the variance between planned and actual performance on a regular basis. As a result of the financial plan, we have also been able to respond promptly to posts' requests for additional funding and senior management can clearly ascertain the resource trade-offs necessary to carry out a particular decision.

Following the five month delay, posts received a full year operating budget at FY 82 funding levels. At that time, each post received a detailed explanation regarding the differences in their FY 82 operating budget from their FY 82 financial plan submitted several months earlier.

At the end of this fiscal year, posts will have operated with what appears to have been a satisfactory level of resources. While the continuing resolution may have created some problems for posts in fully utilizing their FY 82 resources, FCS believes that the FY 82 data base will allow management to evaluate each post's FY 82 financial plan against its FY 82 actual expenditures. FCS can then ask each post to explain proposed increases and decreases in FY 83.

In FY 83, FCS also plans to develop a system for tying post programs to budgetary resources. This will be accomplished by the new Post Commercial Action Plan (PCAP) which ties resources to program plans. As an alternative, FCS may develop in conjunction with ITA Budget, a cost accounting system which will allow a "crosswalk" between object class categories in the budget and actual programs delivered by posts overseas. In either case, the system will permit FCS to ensure that the level of spending at a particular post reflects to some extent the post's projected workload. The system will also provide FCS with world-wide data on how much is spent on the delivery of various ITA programs and post-initiated trade promotion activities.

- 3 -

FCS SLOW IN REALLOCATING OVERSEAS STAFF
PAGES ii, 23-25

FCS plans to realign its staff resources at its overseas posts to achieve a more realistic distribution of its personnel in relation to U.S. business needs. Current staffing levels are based on the configuration inherited from the State Department in the April 1980 transfer of resources to Commerce. A review of this staffing pattern revealed a misallocation of resources. For example, Germany is staffed with 10 percent of total available FCS personnel resources while Japan, a country with twice the bilateral trade and several serious trade problems with the U.S., is staffed with half as many officers. FCS initiated a comprehensive study last March, undertaken in conjuntion with ITA country desk and program units, to develop an analytical, computer-assisted model to guide the reallocation of staffing levels for commercial officers and foreign service nationals.

The study incorporated numerous objective factors for each FCS country such as current levels of GNP import market for manufactured goods, size of U.S. exports, apparent domestic consumption, projections of future growth rates for those factors, and the inclusion of various subjective judgments on country developments that affect trading patterns. The study resulted in a rank ordering of 68 countries (see next page) in terms of their anticipated market potential for U.S. exports of manufactured products, adjusted to reflect the important policy-support role played in such countries as Japan.

The findings of this FCS study bear out the GAO conclusion. A greater proportion of FCS staff resources needs to be deployed in the Asian, African, and Near East regions, and fewer personnel are required in the European region. Using the rank order of countries to compute relative levels of staffing for officers and nationals, a working group of senior ITA officials analyzed each FCS country to arrive at the proposed staffing pattern. The proposed changes would redeploy 23 officer and 25 foreign service national positions.

RANK ORDERING - FCS STAFF RESOURCE REALLOCATION STUDY

RANK	COUNTRY	CURRENT STAFFING US/(EDO)		CURRENT STAFFING FSN	PROPOSED STAFFING US/(EDO)		PROPOSED STAFFING FSN
1.	MEXICO	8	(3)	15	10	(3)	18
2.	JAPAN	9	(2)	32	12	(2)	35
3.	GERMANY	16	(3)	46	12	(4)	40
4.	CANADA	4		6	6		8
5.	SAUDI ARABIA	6		16	7		17
6.	FRANCE	7	(2)	28	5		25
7.	AUSTRALIA	8	(2)	15	6	(1)	17
8.	U.K.	5	(1)	21	4		21
9.	SOUTH AFRICA	0		0	2		3
10.	CHINA	5		0	6		0
11.	VENEZUELA	4		10	5		11
12.	ITALY	8	(3)	25	7	(3)	26
13.	SINGAPORE	3	(2)	7	4	(3)	9
14.	KOREA	5		7	5		9
15.	KUWAIT	1		3	2		4
16.	NIGERIA	4		7	5		8
17.	CHILE	2		3	2		4
18.	HONG KONG	3		8	3		9
19.	THAILAND	2		9	2		9
20.	U.A.E.	1		4	2		5
21.	NETHERLANDS	4		15	2		14
22.	SPAIN	3		9	3		9
23.	MALAYSIA	1		3	2		5
24.	INDONESIA	3		5	4		7
25.	EGYPT	2		10	2		10
26.	INDIA	3		15	3		15
27.	PHILIPPINES	2		5	2		6
28.	PERU	1		4	2		4
29.	ARGENTINA	2		8	2		6
30.	IRAQ	1		2	1		2
31.	ALGERIA	1		2	2		2
32.	BRAZIL	5	(2)	23	5	(2)	23
33.	BELGIUM/LUXEMBOURG	3		8	3		8
34.	COLOMBIA	2		9	2		9
35.	SWITZERLAND	2		5	2		6
36.	ISRAEL	1		6	1		6
37.	SWEDEN	2		6	1		5
38.	NORWAY	1		3	1		3
39.	USSR	3	(1)	2	2	(1)	2
40.	AUSTRIA	1		6	2	(1)	6
41.	YUGOSLAVIA	2		6	1		6
42.	FINLAND	1		3	1		3
43.	PAKISTAN	1		7	1		5
44.	ECUADOR	2		8	2		7

RANK	COUNTRY	CURRENT STAFFING US/(EDO)	CURRENT STAFFING FSN	PROPOSED STAFFING US/(EDO)	PROPOSED STAFFING FSN
45.	TURKEY	2	6	2	6
46.	NEW ZEALAND	1	4	*	2
47.	GREECE	3	10	3	8
48.	DENMARK	1	4	1	4
49.	PORTUGAL	1	5	*	3
50.	MOROCCO	1	3	1	3
51.	URUGUAY	1	3	*	1
52.	IVORY COAST	1	3	1	3
53.	KENYA	1	3	1	3
54.	DOMINICAN REPUBLIC	1	4	1	4
55.	PANAMA	1	3	1	3
56.	ZIMBABWE	1	2	1	2
57.	ZAIRE	1	2	0	0
58.	HONDURAS	1	3	*	1
59.	GHANA	1	1	0	0
60.	CAMEROON	0	0	2	3
61.	HUNGARY	1	1	1	1
62.	ROMANIA	1	2	1	2
63.	BOLIVIA	1	3	*	1
64.	GUATEMALA	1	3	1	3
65.	CZECHOSLOVAKIA	1	2	1	1
66.	POLAND	1	4	1	2
67.	COSTA RICA	1	3	1	3
68.	LIBERIA	1	2	*	1

* STAFF WITH IESC EXECUTIVE

MISMANAGEMENT OF THE FCS EDUCATION PROGRAM
PAGES 43-46

Beginning in the summer of 1981, FCS recognized that the FCS education program had been mismanaged and took steps to remedy the situation. Specifically, the FCS took the following actions:

- severed all relationships with the two private sector education specialists and disbanded the education group;

- worked closely with the Inspector General (IG) investigation of the program, turning over all FCS files on training and education for FY 80 and 81; and

- contracted with the University of Maryland (which has significant experience in the development of training material) to provide 11 core modules in the marketing, commercial and financial areas. The new modules have been reviewed by an independent group of private sector experts and have consistently won high praise.

The FCS is now doing the following:

- making these modules available to all USCS and FCS officers;
- conducting a series of two-day seminars on the module subjects in the U.S.; these seminars will also be used at overseas locations; and
- finishing work on a completely revamped FSN correspondence course (completed for the FCS by the same University of Maryland team that finished the core modules) which constitutes the mainstay of FSN training overseas. The FCS plans to distribute this new material (basically a primer on Commerce programs overseas) to all FCS posts by the end of this fiscal year.

RECRUITMENT, TRAINING, AND PLACEMENT SYSTEM NEEDS IMPROVEMENT PAGES iii, 37-42, 47-52

Recruitment

We acknowledge that the FY 81 FCS recruitment and selection campaign was deficient and did not produce the desired results in terms of the timely selection and placement of career candidates. As noted in the GAO report, the very small FCS headquarters staff was hampered in the conduct of a large-scale recruitment and selection process because of competing start-up priorities, and by their lack of experience. The FY 82 recruitment/selection campaign benefitted from the experience of the first campaign and was conducted in a much more efficient and effective manner. In FY 82, 41 career candidates (of whom 21 have private sector backgrounds) have been made offers of appointment. All of these career candidates have been tentatively assigned and will be sworn in as soon as their security clearances are completed. They will be dispatched to their training and/or duty assignments in the late summer and early fall of 1982.

The FY 83 recruitment/selection campaign began June 1. We expect to select 40 additional new officers in this, the final large scale recruitment. Enhanced headquarters staffing made it possible to begin the FY 83 recruitment/selection cycle three and one-half months earlier than the FY 82 campaign. We also now have a (small) recruitment staff and several mid-level ITA executive personnel (serving on selection panels on temporary assignments) who are familiar with last year's procedures. Therefore, we expect to conclude the FY 83 selection campaign late in calendar year 1982, and train and assign all new recruits before the peak period for FY 83 assignments, virtually eliminating any significant vacancies in overseas FCS positions.

Training

The FCS now has in place an outline of a training program it requires of all its officers. This consists of:

- o basic orientation to overseas life and Embassy operations (FSI courses);
- o area and language studies where appropriate (again, relying largely on FSI courses);
- o an FCS-sponsored "Commercial Workshop" which is usually run twice a year; and
- o an introduction to Commerce programs through an extensive consultation program.

The FCS now requires its officers to complete all four aspects of this training wherever needed.

Language Training

The FCS is acutely aware of the need to fill its posts with language qualified officers. In particular, it has instituted the following policies:

- o an officer must have a minimum of a 2+ overall language proficiency prior to departure for post;
- o officers seeking tenure must have a 3,3 language proficiency prior to being considered by the FCS Commissioning and Tenure Board;
- o Senior Foreign Service Officers wishing to transfer from other agencies must have similar language proficiency; and
- o Senior Foreign Commercial Service career candidates must demonstrate significant language proficiency prior to appointment.

The FCS has also initiated a review of its language needs in the two key Asian markets of Japan and China. The review resulted in the decision to include Japanese, Mandarin, and Cantonese as incentive languages for its officers going to these posts. It is expected that this will involve an incentive payment for proficiency in those languages.

Placement

GAO is correct in stating that in its rush to get officers to posts in the summer of 1981, FCS placed a number of inexperienced officers in key posts or misplaced officers in posts where they could not draw on their background and experience.

The second recruitment campaign produced a much more qualified pool of candidates for placement overseas. The FCS Career Development and Assignments staff reviewed these applicants' resumes very carefully in order to recommend new officers' postings to the FCS Overseas Assignments Panel. These assignment recommendations considered language qualifications, prior experience, and stated area preferences.

EXCESSIVE TIME SPENT DEVELOPING POST COMMERCIAL ACTION PLANS
PAGES vi, 52-54

The Post Commercial Action Plan (PCAP) is a necessary FCS management tool. While the posts may have spent considerable time in the past producing this annual report, steps have been taken to reduce the time consumed in this effort. These include:

- o Development of the revised PCAP to parallel the planning and reporting system already in place in the USCS, making it an integral part of the Management Planning and Performance Appraisal System;
- o Development of only five "Critical Elements" as a basis for structuring the entire process;
- o Inclusion of the Country Marketing Plan (CMP) in the PCAP, a hitherto separate document;
- o Provision of country-specific policy priority objectives to guide the post and IEP in focusing on specific priority areas;
- o Allocation of approximately 60 percent of post time (includes counseling and direct program support) to servicing individual small and medium-sized companies outside of the IEP or ITA Trade Development major program required activities; this is in direct response to individual company initiatives or through specific USCS field office requests to the FCS posts;

- o Emphasis on "outreach" activities, including counseling of U.S. and foreign firms, and a corresponding de-emphasis of traditional reactive programs;

- o Major changes in the evaluation process for commercial officers, including making the development of the CMP/PCAP and its implementation a critical part of the officers' performance appraisal;

- o Development of definitions of each program activity performed by the post, to eliminate to the maximum possible extent any ambiguity and confusions over terminology; and

- o Establishment of the PCAP Coordinating Group, with representation from each of the ITA Assistant Secretaries, to function as a program review mechanism and to resolve disputes that may arise over program priorities.

RELATIONS BETWEEN THE ECONOMIC AND COMMERCIAL SECTIONS
PAGES v-vi, 60-68

GAO has noted that "the commercial staffs at many posts have developed new and innovative programs and activities to improve services to U.S. exporters." However, the GAO report adds that they have "found various factors that have worked against the revitalization of the Federal Commercial role." The report states:

> "The economic sections of some Embassies continue to control commercial staffs, contrary to the intent of the State-Commerce Memorandum of Understanding. In some cases this has inhibited FCS' ability to fulfill its primary mandate of aggressively promoting U.S. Exports.
>
> "We believe that, to perform its primary function of promoting U.S. exports, FCS must be given the enhanced status intended by the reorganization. Ultimately, however, the Ambassador has authority over all facets of Embassy operations in furtherance of the goals and objectives established by the President. If the Ambassador sanctions the economic section's influence and control over the FCS and if this results in a conflict with the primary mandate of FCS, little can be done short of bringing it to the attention of the Commerce and State Departments in Washington.
>
> "We also believe that the job of promoting U.S. exports does not require in depth involvement in the macro economic policies of the host country. For separate commercial and economic sections to be effective, however, both staffs must

> work cooperatively and maximize information sharing. Moreover, for this relationship to work we believe it is important that it be one of equals and that neither group be allowed to predominate."

The comments of the GAO in this area were reiterated in the recent (June 1982) final audit of the DOC Inspector General. In response to a recommendation appearing in that document a cable was sent to each post, requesting an inventory of the duties and responsibilities of the FCS officers, with relationship to the above-mentioned Memorandum of Understanding (MOU). It is the view of the Under Secretary for International Trade, as expressed in his response to the IG draft report that the MOU "... should be viewed as the basic statement on FCS responsibilities." The cable responses from the posts supported the views expressed in the GAO (and IG) reports. These responses indicate a lack of uniformity among the FCS posts in the functions they perform, and there is a lack of clarity as to the division of functions between the FCS and the Department of State operating units at the posts. FCS has decided to form a team consisting of FCS headquarters personnel including the Director General or his Deputy, and representatives of the Assistant Secretaries for International Economic Policy and for Trade Development to meet with the respective Ambassadors, DCMs, Economic Ministers, and Senior Commercial Officers. The purpose of these visits is to bring the posts in line with the MOU so that the generic goal of the FCS, the active pursuit of trade opportunities and promotion of U.S. exports, may be clearly delineated.

In this respect, the desires of the Assistant Secretary for Trade Administration should be noted. The cable response received from the posts indicated a lack of uniformity as to the responsibility for performing pre-license examinations. This function, under the MOU, is a responsibility of the FCS. Thirteen of the FCS posts reported that they did not exercise primary responsibility for pre-licensing checks. This responsibility had been turned over to the post's Economic Section and, in the case of one post, to the Customs Attache. The FCS proposes to take action to correct this situation and others of a similar nature so that, beginning with the major posts, the duties and responsibilities assigned to FCS in the joint agreement with the State Department of April 8, 1980 will be adhered to by all concerned.

FCS ACTIVITIES OVERSEAS DOMINATED BY REACTIVE COMMERCE PROGRAM PAGES ii, 68-75

We consider this section of the GAO report as one of the most important. If we are able to have our FCS officers spend less time on reactive measures and more time "developing and nurturing host-government and business contacts" then we believe that FCS will gain success in its goal to expand U.S. exports. At the moment, FCS headquarters is striving to ensure that its officers overseas are getting out of their offices and actively seeking trade and investment opportunities for U.S. businesses.

In this regard, we are meeting our overall report requirements while examining the need for each and every report submitted to Washington. We are engaged in an all-encompassing inter-agency review of CERP reports, as well as economic, and annual industrial outlook reports. Within the last six months, the inter-agency Committee on Combined Economic Reporting program (CERP) has eliminated 24 CERP report titles. Also, the frequency of submission of a number of reports was changed from semi-annual to annual, and some countries were exempted from preparing certain reports. We agree that to the extent the reporting function detracts from the time spent in the promotion of exports, that function must be diminished. The FCS Weekly Newsletters and other correspondence from headquarters reiterate this point at every opportunity.

The table appearing on page 69 is also deserving of comment. To the extent that items 1 and 2 include economic reporting, we expect that the amount of time spent in this area will be reduced so that a considerable portion of the 48.7 percent of time covered by these two items will become available for more important trade promotion work. We assume that the "Program Planning and Evaluation" function includes the PCAP process. If so, the table indicates that this consumes only 2 percent of the post's time -- a very small amount and not as onerous a burden as the report suggests.

We agree that the WTDR function could, perhaps, be eliminated in developed countries where equivalent private services are available. In those areas not worth pursuing (where private sector services and F.C.I.A. or other financing institutions do not require a WTDR for loan qualification) we are exploring alternatives to the WTDR in which USDOC/business objectives may be fulfilled by offering less detailed reports on foreign companies.

LOCATION OF SOME FCS OFFICES INHIBITS INTEGRATION INTO LOCAL BUSINESS COMMUNITIES PAGES 76-78

FCS recognizes the importance of the physical location of its overseas officers in conducting commercial activities. While the FCS has requested funds in its FY 83 budget to relocate its operations at seven posts, moving commercial sections and their libraries out of all Embassies should not be adopted as an absolute rule. Workload relationships with the rest of the Embassy, access to the economic section and commercial library are also factors to be considered. We agree with GAO that re-siting the entire FCS activity at smaller posts where the economic and commercial sections must, of necessity, have greater cooperation in their activities may not be feasible.

Within these guidelines, we believe that each post should be treated on a case-by-case basis.

NEW PERFORMANCE EVALUATION SYSTEM NEEDED
PAGES 78-79

FCS headquarters, recognizing the need for an effective and versatile employee evaluation report, has developed the Management Planning and Performance Appraisal System (MPPAS). It provides for the first time (1) a uniform format, and (2) a standard in rating guidelines for use in measuring performance throughout the USFCS.

MPPAS, with a simple understandable format corrects the deficiencies in the State Department appraisal report which was in use for all State Department officers when FCS was established in April 1980. The new system:

- o Evaluates the skills, performance and abilities expected of commercial officers;
- o Recognizes the increased emphasis upon export promotion;
- o Implements the concept of better service to small and medium-sized companies;
- o Is responsive to the needs of FCS management;
- o Provides for on-the-spot input from the Ambassadors and Deputy Chiefs of Mission who are the U.S. administrative hosts of FCS officers overseas; and
- o Considers input from the U.S. business community.

The implementation of the MPPAS envisages consultations before a final rating is entered, with inputs from cognizant IEP desk officers, Trade Development and other elements within ITA as well. The MPPAS will go into effect October 1, 1982.

OBSERVATIONS ON THE RECENT REALIGNMENT
OF COMMERCE'S INTERNATIONAL TRADE OPERATIONS
PAGES 84-88

The GAO report indicates a concern that the Department of Commerce realignment of February 15, 1982 "replicates the original split in responsibility between the overseas posts and the export promotion program offices that gave rise to the transfer of responsibility in the first place." Unless some responsibility is given to the IEP country desks to clear program related cables and perform other coordination tasks related to both the commercial policies and major trade development events of the respective FCS countries, the overseas posts will continue to face uncoordinated, burdensome and often conflicting requests. It should be recognized that the realignment provides the needed overall communications control in that IEP now has the responsibility to insure that all substantive (policy) and major program related communications with the posts go through the regional Deputy Assistant Secretaries.

We do not concur in the GAO argument that the realignment will lessen the likelihood of the type of coordinated action contemplated by Reorganization Plan No. 3 because FCS is "organizationally separated from the Trade Development staff." Contrary to the GAO report's implication, IEP is an organization that is concerned with more than "economic policy" and "fact-gathering". IEP's responsibility encompasses the obligation to insure that a balanced program for the promotion of trade exists at all FCS posts. The duties and responsibilities of the Assistant Secretary for Trade Development, vis-a-vis FCS posts, include determination of our marketing program overseas and to recruit and manage our overseas trade events programs. The FCS' general responsibility for the administration of the FCS posts is not inconsistent with IEP's overall responsibility for advancing our country's commercial interests at these posts. The function order (USDOC Organization and Function Order 41-3) outlining the duties and responsibilities of IEP is germane. It states, in part, that IEP:

> "carries out programs to promote world trade and to strengthen the international trade and investment position of the U.S.; examines and develops trade and investment policy recommendations, and promotes U.S. international economic objectives... through ... the activities of the FCS posts overseas."

We also do not concur that "the current arrangement in Commerce is similar to the situation which existed when the State Department was responsible for commercial affairs." The parallel drawn between the Bureau of Economic and Business Affairs of the State Department, "whose activities were heavily weighted towards economic and trade policy issues", fails to acknowledge a new DOC emphasis on helping individual small and medium-sized companies. A clear majority of FCS post time is devoted to activity totally outside the IEP policy support function and the direction of other ITA elements, e.g., trade event promotion.

Almost 60 percent of the US/FCS total field time is now spent in individual counseling, outreach activities as well as other support to small and medium-sized businesses and is consistent with the goals of both IEP and the Assistant Secretary for Trade Administration, both of which have the capability of monitoring this function through the PCAP process.

The new management system in the US/FCS provides for a completely new and absolute commitment to the kind of trade promotion that only the domestic and foreign field activities of the US/FCS can provide - a professional and personal one-on-one form of assistance now being provided to the 5,000 small and medium-sized companies that rely on our field personnel each year.

DEPARTMENT OF STATE
Comptroller
Washington, D.C. 20520

AUG 20 1982

Dear Mr. Conahan:

Enclosed are the State Department's comments on the GAO draft report, "Commerce's Foreign Commercial Service: Slow Progress Toward Fulfilling Expectations."

We appreciate the opportunity to comment on the draft prior to final publication. An exceptional amount of talent and time must have gone into it and the draft is well written indeed. We hope our comments will be of help in writing the final report.

Again, my appreciation for this opportunity.

Sincerely,

Lorin Jurvis

Lorin A. Jurvis,
Acting

Enclosure:
As Stated.

Mr. Frank C. Conahan,
Director,
International Division,
United States General Accounting Office,
Washington, D.C.

"COMMERCE'S FOREIGN COMMERCIAL SERVICE: SLOW PROGRESS TOWARD FULFILLING EXPECTATIONS"

The Department of State has examined this draft report on the Foreign Commercial Service and would like to make the following comments and recommendations.

Staffing Patterns

The GAO report implies that the State Department historically misallocated staff within and among countries and that to some extent it continues to hinder a reallocation.

The staffing patterns Commerce inherited, based on worldwide work load and business demands, were optimal for their time considering the limited resources available to the Department of State. Given a major change in some markets and the increased FCS budget, we support Commerce's efforts to make the most effective use of manpower resources. In this we would stress the primacy of the Ambassador in determining the overall impact of any transfer affecting the country of his or her assignment.

Commerce's specific personnel shifts must also take into account broad U.S. policy goals and the specific support capability in any given country. With this in mind, the current proposed Commerce redeployment plan is being assessed by the two Departments at this time.

Transfer of Resources

According to the draft report, the State Department initially transferred insufficient funds, and Commerce was hampered subsequently in its planning process by the dearth of accurate figures on which to base projections.

The resource determination in any transfer of function is complex and often splits across organizational and cost center lines in ways that make precise determination difficult. There had never been a separate budget for the commercial function in the State Department. Economic/commercial sections overseas shared common resources as cost efficiently as possible and were sufficiently integrated to make precise cost allocations difficult.

In our opinion, however, the resources identified and transferred to Commerce accurately reflected the level of investment available and being used by the Department for those functions prior to the transfer. Program managers tend to view the resources allocated to them as inadequate. Without a doubt, in the absence of any budgetary constraints, more resources would have been invested by the Department of State in commercial functions and would have been transferred to Commerce. In consequence of a continuous, long-term winnowing of resources beginning with the BALPA exercise of the mid-60's, that was not an option available to the Department.

Coordination of Economic/Commercial Activities

The draft report notes that at some large posts the senior commercial officer remains under the control of the Economic Minister.

We support the authority of the Ambassador to organize the Embassy to achieve the most effective management of resources. In the larger Embassies the Economic Minister plays a coordinating role. Senior commercial officers have access to the Ambassador and DCM on any issue they would choose to bring up at that level. They remain in charge of their own export promotion programs and, we agree with GAO, should not be under the "control" of the Economic Minister.

Concomitantly, the issue of levying economic reporting on certain commercial branches is raised by the General Accounting Office.

Although the principal activity of commercial officers is the promotion of U.S. export sales, FCS must remain engaged in trade and investment protection activities as well. Some economic reporting was explicitly left with FCS in the transfer agreements. MTN (Multilateral Trade Negotiations) follow-up is an example. In addition, many CERP (Comprehensive Economic Reporting Program) reports were traditionally prepared by economic/commercial section Foreign Service Nationals, nearly all of whom have been transferred to FCS. A recent interagency review to eliminate non-essential economic (CERP) reporting chaired by State-FAIM indicated that Commerce led other agencies in the number of reports levied on posts. It might be worthwhile for GAO to examine to what extent economic reporting levied on Commercial Branches is not only generated by Commerce but also primarily, and often solely, used by Commerce. Since the reports are targeted at a business audience, it is perhaps reasonable that FCS prepare them. If the reporting is considered excessive, it should be reviewed for possible elimination.

It remains the Department of State's position that commercial officers cannot carry out their role without broad understanding and experience. They must have a grasp of the economic framework in which they operate. Economic and commercial efforts should be mutually reinforcing. Excessive independence, as the GAO draft notes, may result in poor coordination between the economic and commercial sections, leading to duplication of effort on the one hand and the lack of effective response on the other hand. Although some commercial staff members continue to perform certain economic functions, our economic staffs, in turn, contribute extensively to commercial activities. This includes total support in the over 73 State Department Commercial posts. It would be inefficient to try to separate the two functions entirely. This becomes even clearer at smaller posts with limited manpower.

Other Issues

There are several matters on which the Department would like to comment.

The statement (Page 10) suggesting that in the past there was a tendency by posts to divert manpower and budgetary resources from commercial to political, economic and other areas is inaccurate. While commercial resources were reduced at the discretion of some posts, they were substantially increased at others. This was particularly true in communist and developing countries, where U.S. firms frequently need to rely more heavily on Embassy resources. This shifting was part of an overall policy of seeking the most effective allocation of available State Department resources.

The businessman's criticism (Page 9) that his firm considered commercial officers to be "losers" who have failed in political work and whose "primary interest was to rehabilitate themselves so they would again be assigned to the more fascinating work of political activities" is an obvious error of fact. The political and economic/commercial functions have long been separate. Political officers would rarely have been assigned to commercial work, and even then only with the explicit agreement of the Commerce Department. Many of the Department's most successful economic officers have traditionally served one or more tours in commercial positions. Officers with extensive commercial experience, as well as economic experience, have become ambassadors.

The "...policy change (which) went into effect on June 2, 1982..." (Page 25) did not assign responsibility for "...adjudicating overseas staffing disputes to the National Security Council." The Presidential Directive on Overseas Staffing (NSDD 38) specifically provides that disputes between agency heads and Chiefs of Mission over staffing will be referred to the Secretary of State or his designee for resolution. Assuming no resolution by the Secretary of State, the dispute is presented by the Secretary of State and the other Agency head concerned to the President, through his Assistant for National Security Affairs.

GAO recommends that regular meetings between commercial and economic staffs and joint distribution of cables would assist in enhancing the combined production of economic and commercial sections. We also endorse this recommendation, although we are of the opinion that there are very few posts at which this is not already the case.

Conclusion

An unusually small amount of time was spent interviewing officers in the Department of State in Washington. Greater accuracy and balance in certain parts of the report could have been achieved if more time had been spent in interviews at the State Department, particularly with more senior officers.

State Department officers have worked closely and constructively with the new service since its inception, and continue to do so. Upon taking office, former Secretary of State Alexander M. Haig, Jr. sent a personal message to all Ambassadors emphasizing the commercial dimension of their responsibilities and the Department's commitment to close, effective working relations with the Commerce Department. One of Secretary Shultz' first messages to Ambassadors underscored the importance of the Ambassador's role in export promotion and support for American businesses abroad, as well as his expectation of a positive and productive working relationship between the two Departments. A copy of that message is attached.

The Department believes the GAO report is a very useful document in identifying areas for improved performance in the Executive Branch and hopes that our comments will assist in drafting the final report. In addressing the primary recommendation made to the Department of State, we acknowledge the terms of the Memorandum of Understanding calling for supervision or authority over commercial activities at the Ambassador or DCM level, as well as the jointly agreed codicil cabled to posts which states that "at the same time, consistent with the MOU, the Ambassador retains full authority to delegate responsibility for coordination..." of commercial activities. This is the case with the operations of the Agriculture attache, Treasury attache, and other similar agency Chiefs serving in embassies. Almost invariably the coordinating responsibility for Agriculture and Treasury activities has been and remains vested in the Economic Minister at those posts which have representatives from these agencies.

It is our view that an integrated approach is essential to giving American businessmen the greatest possible assistance. Economic, commercial, and often political, consular and administrative sections must work closely as a team to exchange information and to reinforce each other's ability to support the activities of American businessmen operating abroad.

Robert H. Miller
Director,
Management Operations

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Department of State

OUTGOING TELEGRAM

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FOR THE AMBASSADOR OR PRINCIPAL OFFICER FROM THE SECRETARY

E.O. 12356: N.A.
TAGS: ETRD; BEXP; PERP
SUBJECT: YOUR ROLE IN EXPORT PROMOTION AND SUPPORT OF AMERICAN BUSINESS

I BELIEVE THAT ONE OF THE MOST IMPORTANT CONTRIBUTIONS YOU CAN MAKE TO THE NATION'S ECONOMIC WELL-BEING IS TO PROVIDE STRONG, PERSONAL LEADERSHIP TO YOUR MISSION'S TRADE PROMOTION EFFORTS AND SUPPORT FOR AMERICAN FIRMS DOING BUSINESS IN YOUR COUNTRY.

ULTIMATELY, THE STRENGTH OF THE UNITED STATES IN WORLD AFFAIRS, INCLUDING THE ACHIEVEMENT OF OUR POLITICAL AND SECURITY AIMS, RESTS DIRECTLY AND HEAVILY ON THE FOUNDATION OF A HEALTHY DOMESTIC ECONOMY. DURING MY RECENT CONFIRMATION HEARINGS I MADE A POINT OF NOTING THAT A PRODUCTIVE AMERICA MAKES US A STRONG TRADING PARTNER AND A RESOURCEFUL ALLY, BUILDING THE WILL AND CONFIDENCE OF OUR FRIENDS TO RESIST THOSE WHO WOULD DEPRIVE US OF OUR FREEDOMS.

YOUR DIRECT LEADERSHIP AND EFFORT AS AMBASSADOR SET THE EXAMPLE AND THE STANDARD FOR YOUR MISSION. AND, BECAUSE OF THIS I ASK THAT YOU INVOLVE YOURSELF PERSONALLY IN LEADING THE U.S. GOVERNMENT COMMERCIAL EFFORT IN YOUR COUNTRY. COMMERCIAL AND ECONOMIC OFFICERS ARE, OF COURSE, YOUR

PRIMARY RESOURCES BUT THERE WILL BE TIMES WHEN ALMOST ALL ELEMENTS OF YOUR MISSION MIGHT SHOULDER PART OF THIS IMPORTANT CAUSE.

WE SHARE THESE TASKS WI,H OTHER AGENCIES, MOST IMPORTANTLY THE COMMERCE AND AGRICULTURE DEPARTMENTS. THE OFFICERS OF THE COMMERCE DEPARTMENT'S FOREIGN COMMERCIAL SERVICE HAVE LEAD RESPONSIBILITY IN 67 COUNTRIES WHILE WE RETAIN RESPONSIBILITY FOR THE REMAINING 73 COUNTRIES. SECRETARY BALDRIGE AND I ARE COMMITTED TO A POSITIVE AND PRODUCTIVE WORKING RELATIONSHIP BETWEEN OUR TWO DEPARTMENTS, PARTICULARLY IN OUR COMMON EFFORTS OVERSEAS TO EXPAND U.S. TRADE.

I CONSIDER IT IMPERATIVE THAT WE ALSO WORK CLOSELY WITH THE FOREIGN AGRICULTURAL SERVICE TO STRENGTHEN THE POSITION OF THE U.S. AS THE WORLD'S LEADING AGRICULTURAL EXPORTER. THIS COUNTRY DEPENDS ON AGRICULTURAL TRADE. LAST YEAR IT GENERATED A TRADE SURPLUS OF OVER 25 BILLION DOLLARS.

IT IS OBVIOUS TO ME THAT CONSIDERABLE PROGRESS HAS BEEN MADE BY OUR DEPARTMENT AS A WHOLE DURING THE PAST YEAR OR SO TO STRENGTHEN ITS DIRECT SUPPORT FOR AMERICAN FIRMS DOING BUSINESS ABROAD. SENIOR BUSINESS EXECUTIVES HAVE MADE THIS POINT VERY CLEARLY. ALL MISSIONS WHICH HAVE CONTRIBUTED TO THIS SUBSTANTIAL IMPROVEMENT IN OUR PERFORMANCE ARE TO BE COMMENDED.

I SIMPLY WOULD LIKE YOU TO KNOW AS ONE OF MY FIRST COMMUNICATIONS TO YOU THAT IMPROVEMENT IN OUR EXPORT PERFORMANCE IS A TOP PRIORITY OF THIS ADMINISTRATION, A GOAL WHICH CAN ASSIST IN RESTORING VITALITY TO OUR NATIONAL ECONOMY AND INCREASED CREDIBILITY TO OUR FOREIGN POLICY.

PRESIDENT REAGAN AND I COUNT ON YOUR HELP.

GEORGE SHULTZ. SHULTZ

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