EXPORTS: TIME FOR A NATIONAL POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMICS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FIFTH CONGRESS

SECOND SESSION

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EXPORTS: TIME FOR A NATIONAL POLICY

WEDNESDAY, AUGUST 30, 1978

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in the International Trade Mart Building, New Orleans, La., Hon. Gillis W. Long (cochairman of the subcommittee) presiding.

Present: Representative Long.

Also present: Kent H. Hughes, Katie MacArthur, and William D. Morgan, professional staff members; and Mark Borchelt, administrative assistant.

OPENING STATEMENT OF REPRESENTATIVE LONG, COCHAIRMAN

Representative LONG. This hearing will come to order. I think most of you know that this is a field hearing of the Subcommittee on International Economics of the Joint Economic Committee of the United States Congress. The current chairman of the full committee is Congressman Richard Bolling of Missouri.

This is the first in a series of field hearings to discuss United States export policy and problems of American businesses in attempting to do business overseas. We will begin this hearing with a short opening statement that I think expresses our concern over this entire matter.

The year-long decline of the dollar has focused national attention on America's changing place in the world economy. In the past 12 months, the dollar has declined about 7½ percent relative to the currencies of our principal trading partners. Against other key international currencies, however, the fall has been nothing short of precipitous. For much of the world the declining dollar has meant uncertain foreign exchange markets. For Germany and Japan, the dollar has dropped so sharply in value that they may lose a portion of the Americn market. The Organization of Petroleum Exporting Countries has become increasingly concerned as their dollar earnings and dollar denominated assets fall in value.

What stands behind the unsteady decline of the no longer "good as gold" dollars? There are several factors involved. With the advent of flexible exchange rates, international corporations as well as national governments found it desirable to diversify their holdings of foreign exchange. In practice, that meant moving away from strict reliance on the dollar to the use of a wider range of key currencies.

Domestic inflation and lagging productivity in our industrial sector have also played a part. In the recent past, both Germany and Japan have done a much better job at controlling inflationary pressures than has the United States.

Just as important is the U.S. trade deficit—burgeoning imports and slowly growing, sometimes stagnant exports resulted in a record U.S. trade deficit of $31 billion in 1977. Recent figures had suggested that the deterioration of our trade account must have peaked. The $3 billion deficit for July told a different story. In any case, the record of the first half of 1978 was so bleak that the deficit for the entire year is likely to exceed the 1977 total. The striking feature of the July deficit is that oil imports fell.

Nor is there any indication that the level of imports will recede. A national energy policy and the depreciation of the dollar may reduce the growth in imports but for the foreseeable future the United States is going to become more dependent on imports than at any other time during the post-World War II era.

Although the first U.S. trade deficit was recorded in 1971, the trend toward a deficit had been apparent throughout the 1960's. For years, oversea profits from U.S. investment and the sale abroad of U.S. technology and services brought the United States a substantial surplus on current transactions with the rect of the world. Profit remittances and the sale of technology and services are still strong cards in the international hand of the United States. They offset about half the 1977 trade deficit and kept the U.S. current account deficit at the $15 billion level. Two recent developments, however, suggest that the services side of U.S. current transactions may also begin to weaken. First, foreign governments now control substantial holdings of U.S. Treasury securities. Interest paid on those bonds will be a further drain on the U.S. current account. Second, more and more foreign-based companies are establishing operations in the United States. When dividends from those investments start to flow home, they will offset American earnings on her overseas holdings.

Imports now account for a much higher percentage of U.S. gross national product. By all indications, the United States will be generating smaller surpluses on the services side of the current account. The spotlight is squarely on U.S. export performance.

In recent years that performance has not been good. Part of the problem lies in slow growth rates overseas. About 40 percent of our manufactured exports consist of machine tools and other capital equipment. Slow growth economies do not provide good markets for capital equipment.

There is also considerable evidence that we have simply been priced out of some markets. High rates of domestic inflation, low productivity growth and Japanese intervention keeping the value of the yen down, have all played a part.

In the Congress and the country there is growing suspicion that there is yet another answer. We have simply not been emphasizing exports enough. The President now has on his desk a mix of tax, financing and other proposals that are calculated to boost the U.S. export performance.

For many years, the United States has been a "better mousetrap" country—relying on superior technology to draw the world to her export door. That policy is no longer enough.

Export promotion is not a substitute for controlling inflation or a national energy policy. Nor is it any reason to stop pursuing either superior mousetraps or less expensive ways to make them. But for America, an improved program of export promotion appears to be a necessary fact of economic life.

The question remains—export promotion of what kind? Do we need more Government financing? Is it small business that has been neglected? Do we put our best commercial foot forward in our oversea missions? In today's hearing we are drawing on the expertise of businessmen, bankers, the academic world and the halls of government to detail the export problems and potentials of the Mississippi Valley region.

I would like to welcome you here today for the first in a series of regional hearings being conducted by the Joint Economic Committee's Subcommittee on International Economics.

We have a most interesting panel of witnesses with us this morning, and I think we can expect a most productive session.

We have invited New Orleans' new mayor, the Honorable Ernest Morial, to be our leadoff witness. We are particuarly pleased to have the mayor with us this morning. He has had a distinguished career in Louisiana, having served in all three branches of Government. As a State legislator, as a respected jurist, and now as the chief executive of Louisiana's largest city. Mayor Morial, of course, has testified before our committee in the past, and we look forward to his comments today.

Another of our distinguished witnesses is Richard Arellano, currently deputy assistant secretary of State for Latin American Economic Affairs and formerly Professor of International Business and director of the International Marketing Institute at the University of New Orleans.

Mr. Robert Flammang is professor of economics at Louisiana State University, and the author of several scholarly articles. His area of particular interest is Latin America.

Mr. Modesto Guerra is the president of Commerce International Corp., a relatively small international trading company based in New Orleans. He is also the president of the Latin American Chamber of Commerce, and served for 4 years with the Agency for International Development as Acting Program Director in Washington and Honduras.

Our fifth witness is a distinguished banker from here in New Orleans. He is Quay W. Parrott, Jr. He holds a master's degree in business administration from Georgia State University, and is currently vice president and manager of the International Division of Hibernia National Bank.

Basil J. Rusovich, president of the International Trade Mart, whose facilities we are using this morning, is also president and founder of Transoceanic Shipping Co., Inc. A world traveler who has visited more than 60 nations, he is a graduate of Tulane University and studied at Texas Christian University and the University of San Carlos in Guatamala. Mr. Rusovich is a member of the District Export Council of the U.S. Department of Commerce, and cochairman of the Mayor's Committee on International Economics.

Gentlemen, if you please, we ask that you limit your prepared remarks to 10 minutes.

Mr. Mayor, if you will begin please. I believe your busy schedule will not allow you to participate in the panel, but you are welcome to stay as long as you like.

STATEMENT OF HON. ERNEST MORIAL, MAYOR, NEW ORLEANS, LA.

Mayor MORIAL. Thank you very much, Congresman Long. I will attempt to make my remarks rather brief because of the other experts who are on this panel, I would prefer to defer to them.

At the outset, I would like to say that it is indeed a privilege to have this opportunity to welcome you to the city of New Orleans. It is of vital importance that legislators, city officials, businessmen, and persons in the financial sector have the opportunity to discuss export promotion policies through these regional hearings which are being conducted. A continuous dialog between municipal, State, and Federal entities as well as businessmen involved in international trade is extremely important in coordinating our efforts toward an integrated and cohesive goal.

I began voicing some of my concerns for the international business community long before my election, because I recognized the vital importance of the development of international trade to the city of New Orleans. It is in the spirit of that well-acknowledged need for dialog and action that I welcome you.

I have been asked by Congressman Long to speak on the State and municipal goal in encouraging international trade, particularly export trade. And, I will defer in that particular area to some of the other experts who are here this morning.

With reference to the intent and purpose of this hearing, I would also like those present to become aware of some of the particular obstacles that our businessmen are encountering in their export practices. Many of these obstacles are those which can be removed with Federal help and support. And I am sure that the other panelists will go into detail in some of those areas.

I would like to point out that the city's commitment to international trade and economic development will be fostered by a small representative group of individuals which we will be appointing to form the mayor's advisory council for international trade and economic development. To my knowledge, and to our research, this will be the first attempt to coordinate the efforts of several individual trade oriented associations and organizations in New Orleans.

In addition to that, we have undertaken an effort between municipal government, Federal Government, and Todd Shipyards, a private sector business; the city has submitted, in cooperation with the board of commissioners of the Port of New Orleans (dock board), and Todd Shipyards, an urban development action grant (UDAG) project, to indicate what it takes to produce results for our port and to promote international trade.

As mayor of New Orleans, this type of effort excites me. It gives me confidence to pursue similar projects and makes me realize how complex the issue of economic development is in our country. However, it cannot be achieved across the board by any individual effort, it takes all of us and more Federal programs used in upgrading port facilities are necessary. Improving our facilities, encouraging our banks to participate in lending to export entities, and coordinating our individual efforts, are all areas of concern that the city can participate in.

We also need to improve our attitude, however. The history of New Orleans trade with Latin America illustrates that we have taken a carefree approach. Because of the obvious advantageous location of New Orleans, a similar style of living, climate, and politics, New Orleans has assumed that trade communications would naturally flow. We thought that we were the only game in town when it came to Latin America. However, time has proved us to be wrong in the early 1960's when half a million Cuban exiles landed in Miami. We were faced with new competitors. Houston also became involved in trading with Latin America, but New Orleans did nothing to compensate for this competition. As a result, South America, New Orleans natural trading partner, ranks fourth among the continents doing business with the Port of New Orleans, behind Africa, Europe, and Asia. Only 6 percent of U.S. exports to South America were handled via the New Orleans Port.

We have got to get serious with our trade with South America and realize that 250 million to 300 million people wanting to do business just to the south of us. Not only do we need to recapture our trade position with South America, but we also need to start looking for some new blood. Aggressive pursuit of new business relationships with the oil exporting nations of the Middle East and Africa offers perhaps the greatest opportunity of all for port expansion and industrial development in this area.

Looking at the influx of tourists, we see that some of the best spenders now come from Japan and Europe. Naturally, they get nearly twice as much in dollars for their currency as they did a few years ago. Here is a very important area of growth. These tourists not only spend money on expensive hotel rooms and dinners, but also find investment opportunities. We must convince them to do business here on their next visit. A concentrated effort is needed by all of us. And, in the final analysis, we have got to provide incentives for industrial development in the port vicinity.

At present, New Orleans is basically a port serving the midcontinent rather than the immediate industrial area. The best insurance for growth and stability of the New Orleans area is development of port-related industrial activities in the region.

In terms of industrial incentives, the port has the natural transportation cost-saving advantage in the processing of raw materials, access to relatively cheap energy, abundant water, and so on. Therefore, we need to attract industries which utilize these advantages.

In addition, we need to look to our tools and expertise in industrial complex analysis to learn what kind of synergism may exist between different types of resources that will make the New Orleans location advantageous to the industries.

But, just as the businessman can't do it alone, neither can the city. And, the business community cannot gather strength with international trade capacities without the support of the Federal Government. And, this is what today's hearing is all about. How can U.S. export practices help New Orleans businessmen to expand their export potential?

There are a few specific export obstacles that cripple our New Orleans international trade community and I hope will be discussed at some length during today's hearing.

On these topics, I have a few comments. First, tax policies concerning the taxation of nonsalary income or fringe benefits make it difficult for New Orleans firms to compete with other countries. If one of our firms offers an overseas position to a local employee and provides housing, personal transportation, and a series of other personal fringe benefits in order to secure employment for a hardship post. And, these benefits are taxed and severely taxed.

Our firm must compensate for that taxation via high salary. Due to taxation of fringe benefits, many U.S. and New Orleans employees are finding that working overseas does not provide the financial incentive that it once did. As a result, the United States, and for our concern, New Orleans are losing ground in this respect with other countries that do not burden their workers with fringe benefit taxation.

Second, there is now a trend toward larger ships. These ships necessitate deeper channels and more entryways. The Mississippi River-gulf outlet allows shipping that is 60 miles shorter than traveling through the mouth of the Mississippi. Since the Mississippi water is colder than the gulf waters, fog is experienced on the Mississippi making navigation difficult. The water temperature of the Mississippi River-gulf outlet is the same as that of the gulf; therefore, navigation is much easier. The Mississippi River-gulf outlet needs to be made wider and deeper to accommodate Todd ships. The existing locks from the Industrial Canal to the Mississippi River-gulf outlet need to be enlarged. Furthermore, the passes at the mouth of the river must be maintained at passable depths for the ships that must use them.

Federal funding is a must for these improvements to occur and to promote exports from the Port of New Orleans.

Third, after several years in the red, the Public Belt Railroad may be in the black this year if all goes well. The Public Belt is an integral facet of the port's success, but has both capital and operating funding difficulties. Federal assistance is a major hope for its continued operation and modernization.

And, last, if we are to expect our firms to export, Federal policies, licensing, and boycott regulations are going to have to be written in a format that is comprehensive, comprehendable, and can be satisfied with a minimum effort and expense. Paperwork and confusion concerning what is the law and how to abide by it is probably the No. 1 obstacle to businessmen. These guidelines and restrictions can and must be complied with in a shorter time frame with an administrative cost savings to our exporting firms. Before any incentives to exportation from New Orleans—from the New Orleans Port can be assured, these steps must be taken.

Through the efforts of this hearing, our local trade associations, our business export firms, the city of New Orleans, and the Federal Government, we can effectuate the coordination for better international trade for our city, our country, and particularly for this region.

Representative LONG. Thank you very much, Mr. Mayor. We appreciate your coming.

We know your busy schedule, and we thank you.

Mayor MORIAL. Thank you kindly, sir.

Representative LONG. Mr. Arellano, would you come forward, please? We are glad to see you again.

STATEMENT OF HON. RICHARD ARELLANO, DEPUTY ASSISTANT SECRETARY OF STATE FOR LATIN AMERICAN ECONOMIC AFFAIRS

Mr. ARELLANO. Thank you, Mr. Chairman. Mr. Chairman, I am going to ask, in the interest of time, that you allow me to insert my prepared statement into the record.

To be very honest with you and candid, it is a very bland statement, it had many clearances before it was finally allowed to proceed on its way. I think that it merits insertion into the record, but I would rather just talk extemporaneously, if you would allow me to.

Representative LONG. So ordered, it will be made a part of the record. I appreciate your candor in speaking so openly and frankly of the difficulty in getting something cleared within the bureaucracy. I have had some experience in that regard, myself. Please proceed in your own manner.

Mr. ARELLANO. I would like to speak, not as a U.S. Government official, not as a Deputy Assistant Secretary of State, but as a resident of New Orleans, and a resident of Louisiana.

I was very pleased, indeed, I think overjoyed to hear Mayor Morial and his comments, because I think that some of you in this room will recognize that these are things that have been said before by a group of people that are sitting in this room. It is very pleasing to me to know that the city has able leadership that is willing to admit to some of the problems and face some of the problems that we have all seen for quite some time time in this region.

Concurrent with the problems of this type, of course, are opportunities, and Mayor Morial spoke in particular of Latin America. I would like to add one point to that, because I think that we all need to focus our view a little bit on the country that is just south of us.

I have often phoned my friends in Washington and asked them, "If you had one or two of the richest Middle Eastern oil countries on your border, would you be happy?"

And, the answer, of course, is "We would be delighted. Overjoyed."

We do have that, as a matter of fact. We have on our Southern border a country that is destined to be one of the world's richest as time goes on. We also have a country on our Southern border that, over a long period of time, we have had good relationships with, strained at times, but on the whole. I would say they have been excellent; and, in particular, I think that New Orleans, if you will look at its history, has a very special place in the heart of Mexican history because we have been host here, in different points in time, to exiled Mexican political leaders who were really architects of Mexico's current destiny.

So, Mexico retains, I would say, a very fond place in its heart for this community. I would hope that we in New Orleans, as time goes on, are able to recapture the position that we had prior to the Second World War in relationship to Latin American trade in general. I concur wholeheartedly with the mayor on this, and I think men of vision in this community will be moving very rapidly to fill this void.

I know, also, that people like Mr. Rusovich are very interested in the Middle East. I commend you, Mr. Rusovich, for your farsightedness. I think this is another area that we had been lagging somewhat in, but obviously we are moving toward it in terms of developing and strengthening our trade position.

I think there is one point that could be stressed as a Government person, as somebody who has been in and seen the difficulty of getting things done within the confines of the bureaucracy. This point should be that our export posture doesn't depend on what the U.S. Government does; it depends on what the United States enterprise sector does. We have been characterized as a reluctant exporter.

This is very true. Over the years, we have given ourselves the luxury of believing that export trade was something that we did just as lagniappe, the extra 5 percent, 6 percent, and currently 7 percent of our trade. Recent events, particularly since the oil shock, have shown us very clearly that we no longer have this luxury. The United States must incorporate itself into the world order as a trading Nation and, again, I believe that we are doing this; but, this can only be done by the enterprise sector. It can't be done by the governments, by the State, Federal, or any other. It's done by men of vision and women of vision, I should say, who are willing to work with the greatest strength that this country has, and that is the strength that is given to us by our desire to work within a capitalist system, to work within an enterprise system.

So, to close on that note, I would like to say that as time goes on, I hope that I will have the pleasure of working with my fellow citizens of this area and bringing about some of the changes that, frankly we deserve, and we are going to earn.

[The prepared statement of Mr. Arellano, together with a brochure entitled "Government and Business: A Joint Venture in International Trade," follows:]

Prepared Statement of Hon. Richard Arellano

Mr. Chairman, it is a pleasure for me to appear before this subcommittee to discuss United States export promotion policy, especially in a hearing in New Orleans, where I have lived and worked for twelve years.

You asked me, Mr. Chairman, to address my remarks in particular to the problems of medium-size and small businesses attempting to enter the export field and the efforts of the U.S. Government to encourage and assist them, and to U.S. Government programs and services for minority businessmen engaged in export trade.

In responding to these questions, it is necessary first to describe what the U.S. Government is doing generally in export promotion. Our program for medium and small businesses and minority businessmen are additional features added on to the general program.

Promotion of exports is currently being given even greater importance in the U.S. Government than in the past. Our trade deficit of $27 billion in 1977, was due in part to a slowdown in the rate of growth of our exports, and, this of course has affected our international economic situation.

Additionally exports are of great importance because they are important sources of income and jobs.

On April 12, President Carter announced the creation of a cabinet level task force headed by the Secretary of Commerce to develop additional measures to promote exports. The task force, an inter-agency group, was instructed to report the results of its deliberations to the President within 60 days.

The task force has completed its work and submitted its recommendations to the President. Among the areas considered by the task force are export incentives, reduction of export disincentives, and possible direct government assistance programs.

Pending the President's decisions, which should be announced shortly, we have endeavored to strengthen the existing export trade and to inform firms new and old to the trade of market situations and opportunities. Such a government program is particularly necessary in the United States because most of our commerce is still not directly involved in foreign trade. Our exports of merchandise in 1977, for example, were still only 7 percent of our gross national product, a far lower percentage than in other major developed countries. Although a great many American businesses are experienced and sophisticated competitors in the international market, there are a great many others who could profitably enter foreign trade.

The services provided to US firms by 200 of our embassies and consulates and 43 district offices of the Department of Commerce are numerous, but are focused to the best of our ability on helping to meet the problems of American businessmen. The Department of State has just published a brief brochure early this month listing the services provided: Government and Business: A Joint Venture in International Trade, Department of State publication 8936. Since the brochure has not yet been fully distributed, I ask that it be placed in the record of the subcommittee's hearing.

Of principal interest to businessmen in the United States are the 2nd, 3rd and 4th sections of the brochure: Assistance in the United States, Information Services to U.S. Business, and Marketing Services. The opening section, on Assistance Overseas, describes the inputs of our embassies and consulates to the services provided within the U.S., and assistance given American businessmen abroad.

Services within the U.S. of particular interest include information on trade opportunities, major export projects, trade exhibitions and fairs abroad, catalog exhibitions, trade lists, visits of foreign buyers, and export mailing lists. The recommended point of contact for these services is the nearest Department of Commerce District Office. In Louisana, the District Office is located here in New Orleans at 432 International Trade Mart, 2 Canal Street.

As for small businesses and minority businessmen, every service I have mentioned as part of our export promotion is fully available to them. A large proportion of our exports is by medium-size and small businesses. The need for U.S. Government services depends not so much upon the size of the firm as upon whether the firm has already entered and established itself in the export of particular merchandise and has established representatives or agents abroad.

The focus of attention on medium and small businesses is illustrated by the following statistics for the year 1977: of the Department of Commerce's international marketing services, 61 percent were provided to medium-size businesses ($1–50 million in annual sales), and 19 percent to small businesses (under $1 million in annual sales). Of the inquiries for domestic export stimulation services, 61 percent came from small firms.

The Small Business Administration has published a booklet entitled "Export Marketing for Smaller Firms" written specifically for small or minority business owner-managers, which can be purchased from the Government Printing Office. SBA's financial assistance loans and guarantees can be used to help a firm engage in export activity, although they cannot be used to establish facilities overseas. Members of the Service Corps of Retired Executives and the Active Corps of Executives are aavilable to help small business entrepreneurs assess their export potentials, as are also students in the Small Business Institute program and consultants in the Call Contract Program. Export Workshops are conducted periodically in cities across the country by SBA in collaboration with the Department of Commerce.

The Export-Import Bank, whose activities are designed primarily to facilitate exports not readily coverable by private banks because of length of payment period, large size of loan, or risks, is making particular efforts to make small businesses aware of the facilities available to them. As of September 30, 1977, the Bank was supporting over 4,600 transactions by 1,260 small businesses, with a total authorization of $2.1 billion. The Bank has opened a small business advisory service to advise of the EXIM programs particularly useful to small and minority businesses.

OPIC programs should also be noted, because investment abroad is often tied with export activities. Of benefit to the small businessman is the fact that there is no minimum U.S. equity participation requirement for OPIC insurance protection. In feasibility studies, OPIC is prepared to reimburse 50 percent of the costs, up to $50,000, if no investment is made.

The Department of Commerce, the Small Business Administration, the Export-Import Bank, and the Overseas Private Investment Corporation formed early this year an interagency group to coordinate efforts to improve the services provided small and minority exporters. They have already sponsored a number of conferences: in Atlanta, Boston, Dallas and Los Angeles on March 29; in Cleveland on March 30; in Charleston, West Virginia on May 22; in Chicago on May 23; in Philadelphia; and here in New Orleans on June 22. This last, I understand, was initiated by private banks. A vice president of the Export-Import Bank attended, and the Commerce Office of Minority Business Enterprises took part.

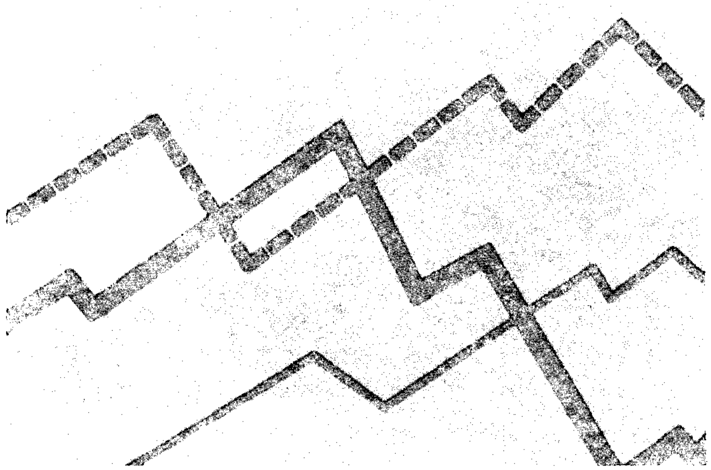
Conferences already scheduled this fall are: Lincoln, Nebraska, September 8; South Bend, Indiana, September 19; Orlando, Florida, September 20; Portland, Oreg., September 21; Newark, N.J., September 27, New Haven, Conn., September 28; Tipton, Ga., September 29; Detroit, Maine, October 4; Houston, Texas, October 11; San Antonio, Texas, October 12; Winston-Salem, N.C., October 17; Milwaukee, Wis., October 17; Cincinnati, Ohio, November 1; Pittsburgh, Pa. and Rochester, N.Y., November 8; Erie, Pa. and Denver, Colorado, November 9; and others are scheduled in the fall.

For minority businessmen, the Department of Commerce's Office of Minority Business Enterprises is a good point of contact, also the District Offices and the Bureau of Export Development will also respond directly to minority groups, as they have for conferences with the (Hispanic) National Economic Development Association in Miami, and the (black) National Business League in Norfolk and, in the future, in Nashville.

In closing, I call attention to the fact that our programs for assistance to small and minority businesses and our export promotion policies are in the process of development and improvement. High officials who are scheduled to testify before this committee in Washington next month will be in a position to speak more fully and definitely about future policies and plans.

Government and Business:

A JOINT VENTURE IN INTERNATIONAL TRADE



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DEPARTMENT OF STATE • UNITED STATES OF AMERICA •

Introduction

The Office of Commercial Affairs, Department of State, has prepared this booklet to introduce the American business community and potential exporters to services offered by the U.S. Government in promoting U.S. exports.

A primary and traditional function of the Department of State has been to enhance international trade by concluding treaties of friendship, commerce, and navigation, as well as bilateral and multilateral agreements on economic and commercial subjects of interest to the U.S. business community. The Department of State also works closely with the Department of Commerce in informing Americans about foreign markets and assisting them abroad in achieving their marketing goals. Foreign Service economic and commercial officers assigned to American Embassies and consulates abroad regularly report on economic developments and market conditions in their countries of assignment. The Department of Commerce makes this information available to the American business community and also uses it in preparing reports on overseas market conditions and economic developments. In addition, Foreign Service officers abroad directly assist Americans in contacting potential agents, distributors, and other purchasers of their products.

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Assistance Overseas

The overseas action arm of the U.S. Government is the Foreign Service. Foreign Service economic and commercial officers, reinforced by other components of Foreign Service posts, provide a continuing flow of economic and commercial information on their countries of assignment and furnish on-the-spot assistance to visiting members of the U.S. business community.

The Department of State currently operates 138 Embassies, 66 consulates general, 48 consulates, 1 liaison office (in Peking), and 10 specialized diplomatic missions throughout the world. U.S. business representatives who visit these foreign posts may obtain information on local economic and commercial conditions as well as guidance from Foreign Service officers on other questions of local significance.

Trade Opportunities. Commercial officers assigned abroad regularly signal business opportunities as they occur. The primary reporting mechanism is the Trade Opportunities Program (TOP), which identifies trade opportunities by Standard Industrial Classification (SIC) product codes. Opportunities are cabled to the Department of Commerce in Washington and quickly disseminated by computer to American subscribers to this service.

Credit and Other Information on Foreign Firms. Embassy commercial officers undertake surveys of foreign firms on request from U.S. companies. Information describing and evaluating the credit-worthiness and commercial reputation of foreign firms is transmitted to the Department of Commerce and is made available to American subscribers under the World Traders Data Report (WTDR) program. (Note: Because of differing foreign trade systems, WTDR's are not prepared on firms in non-market-economy countries.)

Business Agents and Distributors. American firms interested in obtaining the services of overseas agents or business contacts may do so through the Agent Distributor Service (ADS). Upon payment of a fee by the U.S. firm, the Department of Commerce requests appropriate overseas posts to submit the names of at least three qualified potential local agents. When in a foreign country, an American may contact the commercial officer directly for help in finding potential local business agents. While the ADS is not prepared on firms in most Eastern European countries, it can be used to locate overseas agents in such cities as Vienna, Frankfurt, or Geneva who can serve as representatives in those countries.

Market Research. Market research is done primarily in overseas markets offering the greatest potential for increased U.S. sales. Some Foreign Service posts undertake their own research, while others, at the request of the Department of Commerce, contract market research with local firms. In addition, each Embassy and major consulate forecasts annually the leading growth industries in its region in an effort to channel ex-

port expansion efforts in the most promising directions. The results of overseas market research activities appear in the Department of Commerce's *Global Market Survey* publication series, which describes the most promising overseas markets for U.S. exports. Additional studies on the potential and characteristics of selected foreign travel markets are available from the U.S. Travel Service, Department of Commerce.

On-the-Spot Assistance to American Business. For the American visiting or residing in a foreign country, Foreign Service personnel provide briefings and guidance on the economy, political climate, trade opportunities, investment, competitive factors, local trade restrictions, exchange controls, and many other subjects. Foreign Service personnel also may make appointments for Americans with local business representatives and government officials.

Trade Disputes. Commercial officers assigned abroad are ideally situated to learn the facts of a trade dispute from local authorities or firms. Foreign Service personnel are not authorized to act as legal representatives. However, working in close cooperation with the Department of Commerce in Washington, which has domestic jurisdiction over trade disputes, Foreign Service personnel may make appropriate representations on behalf of U.S. firms in trade disputes involving $500 or more.

Commercial Libraries. Designed to assist both visiting and resident business representatives, commercial library facilities in overseas posts contain current and varied source material including American trade and industry journals, lists of American manufacturers, product catalogs, and other pertinent reference and promotional materials. These often are provided to posts by U.S. firms wishing to expand in the local market. Many libraries operated by the International Communication Agency supplement post commercial libraries with a special section of the ICA library which is aimed at stimulating local interest in U.S. goods and services.

Commercial Newsletters. Carrying trade promotional material tailored to the host country, commercial newsletters are prepared by major overseas posts and distributed to local media, industry, commerce, banks, chambers of commerce, government offices, and trade associations. These newsletters feature information on new American products and U.S. commercial exhibitions. Information contained in commercial newsletters is taken from the Commerce Department's monthly magazine *Commercial News for the Foreign Service* as well as from other sources. Commercial officers abroad also reinforce Voice of America "New Products USA" broadcasts in 26 languages by responding to commercial inquiries from local listeners on American products described over the radio.

Overseas Exhibitions. There are 17 permanent U.S. Trade Centers and International Marketing Centers around the world which mount product exhibitions and provide service and assistance to American exporters. The Department of Commerce operates most of these centers, determines the program of events, and recruits most of the exhibitors in the United States. The centers work closely with local Foreign Service posts in providing this important service.

Trade Fairs. This program assists U.S. firms wishing to participate in commercial and industrial product displays not held in U.S. Trade Centers overseas. Foreign Service posts and International Marketing Centers abroad screen the local market to determine trade opportunities, assist in selecting and preparing the trade fair site, and serve U.S. participants. Foreign Service posts also work closely with the Department of Commerce in organizing catalog shows and providing support for technical sales seminars. Catalog shows are exhibits of catalogs and brochures from U.S. manufacturers in a particular industrial or service sector. Technical sales seminars are 2-day sessions in which experts from the American business community travel abroad under the auspices of the Department of Commerce to make technical presentations to a cross section of host country representatives interested in a particular industry or service sector.

Foreign Service posts also negotiate and promote special displays and "sales weeks" which feature U.S. consumer goods in foreign department stores. These in-store promotional activities are sponsored by the Department of Commerce. In-store promotions are not held in non-market-economy countries.

Trade Missions. Select groups of American business representatives sponsored by the U.S. Government, a State or local government in the United States, or a private organization in the United States often travel abroad to promote trade and investment or tourism. Foreign Service officers assist such groups to the extent that post resources permit.

Foreign Business Visits to the United States. Under the Foreign Buyer's Program, the Department of Commerce and Foreign Service posts work closely with local travel agencies and trade associations to encourage the most promising potential foreign buyers to visit specific trade or industry shows in the United States. Foreign Service posts provide information on foreign participants and relay it to the Department of Commerce for dissemination to American exhibitors. Foreign Service posts and Department of Commerce District Offices also assist individual foreign business representatives in developing itineraries and arranging meetings in connection with business trips to the United States. Potential foreign clients are put in touch with appropriate U.S. suppliers by the Department of Commerce in Washington or by Department of Commerce District Offices.

Tourism in the United States. The commercial officer at Foreign Service posts is in charge of the local tourism program operated by the U.S. Travel Service, Department of Commerce, and often draws upon other Foreign Service personnel at post in support of this program. (Note: In Canada, Mexico, Japan, West Germany, France

and the United Kingdom, U.S. Travel Service personnel conduct this program.) For example, the International Communication Agency presents travel films to selected audiences, and the consular staff facilitates the granting of business or visitor visas. Also, U.S. airlines frequently cooperate with overseas posts in jointly sponsoring "Discover America—Visit USA" booths at important trade fairs and major airports.

Export Controls. The Department of Commerce exercises control over certain exports and reexports of U.S. origin commodities and technical data for policy reasons related primarily to national security and supply considerations. While national security and supply controls affect only a relatively small portion of the nation's goods and services, other policy-related controls range from a virtually complete embargo on exports to certain countries to a selective embargo on certain types of commodities to other countries. American business representatives must be aware of export control regulations in their dealings with foreign purchasers. Embassy commercial officers can assist in determining whether prior U.S. Government approval is required for the export or reexport of a particular product or technology and can also tell business representatives what documentation is required in support of an export license application.

Foreign Boycotts. Foreign subsidiaries and affiliates that are controlled by U.S. firms are subject to the antiboycott regulations of the Department of Commerce. Receipt by these subsidiaries and affiliates of certain types of boycott requests must be reported to the Department of Commerce, and compliance with certain types of requests is prohibited. The activities of these firms may also be affected by the Treasury Department's boycott regulations. Embassy commercial officers have copies of both Commerce and Treasury regulations and can assist business representatives in complying with them.

Liaison with Overseas Resident American Community. Foreign Service posts maintain close rapport with the overseas resident American community. One way of doing this is to schedule regular meetings between the Ambassador and other post personnel and local U.S. business representatives. However, services to the resident American community go beyond commercial matters. Posts provide information on local schools which teach in English and maintain lists of competent English-speaking physicians, dentists, and lawyers. Posts also support resident or visiting Americans by providing consular services—notarizing or authenticating documents, looking into the welfare and whereabouts of Americans overseas, notifying next of kin in the United States in case of death or serious illness, protecting property and other overseas interests of Americans, and protecting and repatriating U.S. citizens under exceptional circumstances.

Travel Assistance. A U.S. citizen must have a valid U.S. passport to leave or enter the United States, except for travel to and from certain countries in the Western Hemisphere. You may apply for a passport at the Passport Office, Department of State, Washington, D.C., at most Federal and State courthouses, at some 900 class 1 post offices, or at passport agencies in Boston, Chicago, Detroit, Honolulu, Houston, Los Angeles, Miami, New Orleans, New York, Philadelphia, San Francisco, Seattle, and Stamford, Connecticut. Passports issued within the past 8 years may be replaced by applying by mail to the Passport Office in Washington, D.C., or to one of the passport agencies indicated.

Entering or residing in certain foreign countries requires a visa. Your transportation company can tell you if one is required, and the nearest embassy or consulate of the country in question will issue the visa.

Visa Information. The Visa Office, Department of State, Washington, D.C. can furnish information on the requirements for foreign nationals who wish to visit the United States in connection with training or other business activities.

Document Authentication. Foreign governments occasionally require Americans conducting business abroad to obtain certification from the U.S. Government that they represent business entities operating legally within the United States. Such certification may be required before you can register for visa purposes, obtain a work permit, or license a vehicle. If certification is required, you should first obtain a notarized certificate of incorporation from your State of residence. The Foreign Affairs Document and Reference Center, Department of State, can authenticate such documents for presentation to a foreign government.

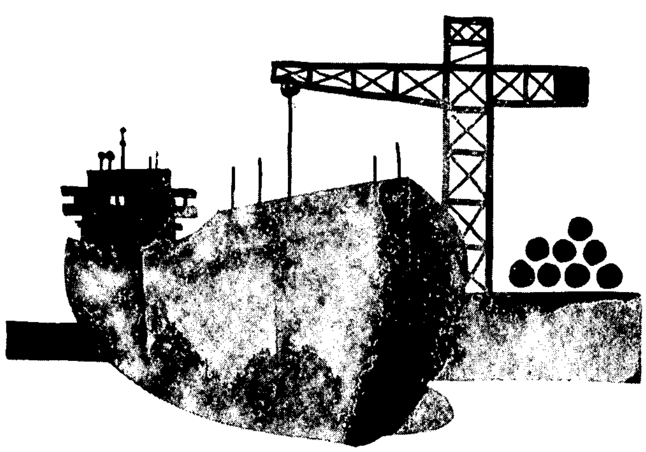
Assistance Within The United States

Americans seeking information on foreign markets should first contact an International Trade Specialist at one of the 43 Department of Commerce District Offices located throughout the United States. (See Table of Contents for a listing of District Offices.) Also, country marketing managers and country specialists in the Department of Commerce in Washington are responsible for trade promotion activities in Europe, Africa, the Far East, and Latin America. In addition, two special offices deal with particular marketing situations:

—The Commerce Action Group on the Near East (CAGNE)—North Africa and the Near East;

—Bureau of East-West Trade—Eastern Europe, the Soviet Union, the People's Republic of China, Cuba, and certain countries in Southeast Asia.

The State Department's Office of Commercial Affairs also responds to commercial inquiries by providing information or by referring specific inquiries to appropriate offices within the Department. The Department has five geographic bureaus with specific country and regional responsibilities for: Europe, Africa, Latin America, East Asia and Pacific, and the Near East and South Asia. In addition, the Bureau of



Economic and Business Affairs can furnish information on subjects of interest to the American business community.

Exchanging Information with the American Business Community. Several times a year the Department of State sponsors 2-day Executive-Diplomat Seminars in Washington for officials of international corporations, business planners, and other corporate executives on a variety of economic and political subjects. In addition, officials of the Department with experience in international economic and commercial matters are available, on a reimbursable basis, to speak before meetings, seminars, or workshops throughout the country. The Department, along with local organizations in major U.S. cities, also cosponsors Regional Foreign Policy Conferences on economic and business issues.

State Department Publications. The following State Department publications are of interest to the American business community. They may be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402:

Background Notes—Summary information on the economy, history, government, etc., of foreign countries and territories.

Key Officers of Foreign Service Posts—A handbook listing the names of ambassadors, economic and commercial officers, and other key personnel at U.S. Embassies and consulates abroad. Local addresses and telephone numbers are also listed.

Diplomatic List and List of Foreign Consular Offices in the United States—Published periodically, these lists contain information on foreign diplomatic missions and consulates in the United States.

Department of State Bulletin—The official monthly record of U.S. foreign policy, containing important statements, speeches, news conferences, and other material.

Treaties in Force—An annual publication listing by name, date, and date of entry into force, all treaties and other international agreements of the United States as of the beginning of each year.

To place your name on the Department of State mailing list to receive publications on specific foreign policy topics—*Special Reports, News Releases, and Other Pamphlets*—contact the Office of Plans and Management, Bureau of Public Affairs, Department of State, Washington, D.C. 20520.

Commerce Department Publications. Foreign Service commercial officers abroad prepare annually or semiannually a *Foreign Economic Trends Report* on the countries to which they are assigned. This report, prepared in cooperation with the Department of Commerce, describes the current economic situation in the country and provides a concise outlook for U.S. exports. *Trends Reports* may be obtained from the National Technical Information Service (NTIS), P.O. Box 1553, Springfield, Virginia 22161; subscriptions are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The *Trends Report* is one of a series of publications prepared and made available by the Department of Commerce in cooperation with the Foreign Service. As part of its marketing information program, the Commerce Department also makes available to American exporters the following publications and reports:

**Global Market Surveys*—Reports covering 20-30 of the best foreign markets for a single U.S. industry or a group of related industries.

Country Market Sectoral Surveys—Reports on the most promising U.S. export opportunities in a single foreign country, covering some 15 leading industrial sectors.

Producer Goods Research—Reports on the best foreign sales opportunities for a single U.S. producer-goods industry or group of industries.

Consumer Goods Research—Reports on the best foreign sales opportunities for a single U.S. consumer-goods industry or group of industries. Special market reports on an industrial sector in one or several countries are prepared by the Bureau of East-West Trade.

International Marketing Newsmemo—Information bulletins received directly from the U.S. Foreign Service; also contains reports prepared by U.S. business representatives or Department of Commerce officers; the reports usually are distributed unedited and cover a variety of industries, products, and countries.

**Overseas Business Reports*—Contain current and detailed business and marketing information on all the leading trading partners of the United States.

International Marketing Events—Brief market summaries in support of trade promotion events organized by the Department of Commerce. Includes calendars of scheduled events.

Special Publications—The Bureau of East-West Trade prepares special reports on subjects such as financing, joint ventures, counter trade, market indicators, and periodic statistical reports on non-market-economy countries.

For specific ordering information on the above Department of Commerce publications, contact the nearest Department of Commerce District Office.

Index to Foreign Market Reports—A monthly index of all economic-commercial reports prepared by Foreign Service posts. Each monthly index includes hundreds of titles listed by subject, country, and Standard Industrial Classification (SIC) product number. Subscriptions to the *Index* may be ordered from the National Technical Information Service, Department of Commerce, P.O. Box 1553, Springfield, Virginia 22161.

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*Available from the Superintendent of Documents, U.S. Government Printing Office. Also from the Superintendent of Documents, the recently published *Consumer Guide to Federal Publications.* Customers outside the continental U.S. should ask for the *International Buying Guide to U.S. Government Publications.* Order the free guides by writing: C. A. LaBarre, Assistant Public Printer, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20401.

Information Services to U.S. Business

The Department of State, Foreign Service posts, and the Department of Commerce cooperate in providing a variety of information services to American business, as follows:

Trade Opportunities Program
Provides computerized mail service to U.S. firms regarding trade opportunity information gathered by Foreign Service posts. U.S. firm specifies product and country. For additional information regarding fees and services, contact the nearest Commerce Department District Office.

Strategic Industrial Products Sales
Provides assistance to firms with high export capability in bidding for strategic commercial export sales of military equipment, defense-related industrial and advanced technological products, and energy-related equipment. For additional information contact the Office of Export Development, Department of Commerce, Washington, D.C. 20230.

East-West Business
Provides assistance to firms in general market development efforts and on specific transactions in non-market-economy countries. Contact the Office of East-West Trade Development, Department of Commerce, Washington, D.C. 20230.

World Traders Data Report (WTDR)
Provides detailed commercial information prepared by Foreign Service posts on individual foreign firms. Information and charges for this service may be obtained from the nearest Commerce Department District Office. Not prepared for non-market-economy countries.

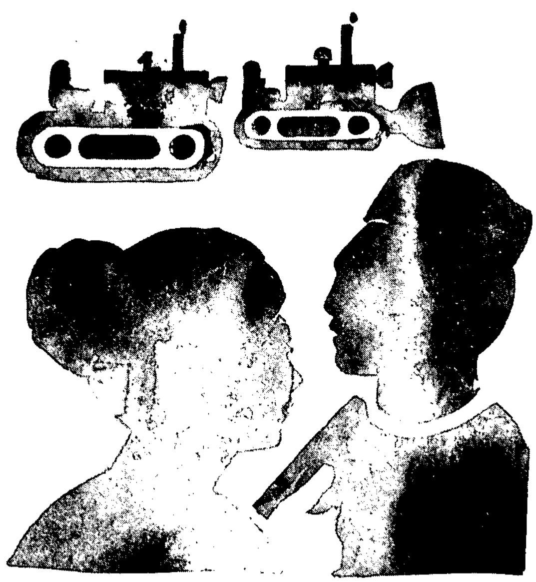
Business Counseling
Offers guidance and schedules appointments with Commerce Department and other government officials. Identifies foreign markets;

suggests possible agents; provides information on credit, financing, insurance, and other special export services. Contact Commerce Department District Office.

Trade Complaints and Inquiries
Helps U.S. and foreign traders settle trade disputes. Assistance is provided at the request of either party to an international business contract and is intended to settle disputes involving over $500. The Commerce Department's role is not binding on either party. Contact Commerce Department District Office.

U.S.-Japan Trade Facilitation
Assists U.S. exporters in overcoming specific market access problems encountered in the Japanese market. U.S. firms experiencing—or anticipating—difficulties in selling to Japan should contact the Office of Country Affairs, Department of Commerce, Washington, D.C. 20230.

Product Marketing Service
Provides U.S. business with an "office away from the office;" the services of U.S. Trade Centers are available upon request. For additional information regarding fees and services contact Commerce Department District Office.



New Product Information
Publicizes new U.S. products abroad. Photos and descriptions of new products appear in the Department of Commerce publication "Commercial News," which is distributed to Foreign Service posts. Posts extract relevant data, translate, and publish the data in post commercial newsletters. Contact Commerce Department District Office for information.

American International Traders Register
Identifies U.S. firms engaged in or interested in exporting for possible participation in U.S. overseas projects. Register contains more than 30,000 firms interested in exporting. Information and charges for this service may be obtained from Department of Commerce District Offices.

Domestic Seminars
Informs U.S. business of exporting "how-to's" in particular market areas. Commerce Department District Offices also sponsor general exporting seminars. Contact Commerce District Office.

Export Information Reference Room
Provides early information on projects funded by the World Bank, Asian Development Bank, Inter-American Development Bank, and the United Nations. Contact Office of Export Development, Department of Commerce, Washington, D.C. 20230.

Marketing Services to U.S. Business

In addition to the information services cited above, the State Department, Foreign Service posts, and the Department of Commerce and its District Offices cooperate in providing a variety of marketing services, as follows:

U.S. Trade Center/International Marketing Center Exhibitions and Trade Fairs Abroad
Provides selected U.S. firms with opportunities to demonstrate their products to qualified key buyers in major markets abroad. Exhibitions feature specific product categories. Contact Commerce Department District Office for further information.

Marketing Information
Offers detailed marketing and economic information on all markets abroad for U.S. goods and services. Contact Commerce Department District Office for further information.

Between-Show Promotions
Assists U.S. firms to display, market, and sell goods or to hold seminars between trade shows scheduled at Trade Centers. Market counseling and target audience identification are also provided. Contact District Office for further information.

Joint Export Establishment Promotion
Helps U.S. firms penetrate new markets. Involves specially tailored promotion. Held in U.S. Trade Centers abroad. Contact District Office for additional information.

Catalog Exhibitions
Displays product catalogs of U.S. firms for the purpose of testing product interest in foreign markets; develops sales leads and locates suitable agents and distributors. Coordinated with Foreign Service posts and held mostly in

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developing markets where opportunities for participation in product exhibitions are limited. Contact District Office for additional information.

Trade Missions
Involves visits to two or three overseas markets in a formal program coordinated with Foreign Service posts for the presentation of technical know-how and state-of-the-art information. A trade mission comprises a selected group (10-12) of business representatives and can take the form of a specialized trade mission or an industry-organized and government-approved (IOGA) mission. Contact local District Office for additional information.

Technical Sales Seminars
For each seminar, from four to six technically qualified U.S. business representatives visit foreign markets. Visits are coordinated with Foreign Service posts. Program features sales and direct business negotiations. Contact local District Office for additional information.

Consumer Goods Market In-Store Promotions
Provides U.S. suppliers with opportunities to display their products through commercial events in select foreign retail stores. Events are coordinated with Foreign Service posts. The

Commerce Department defrays part of the promotional expenses for foreign outlets purchasing U.S. consumer goods for resale in foreign countries. Not available in non-market-economy countries. Contact local District Office for additional information.

Foreign Buyer Program
Assists U.S. business in contacting foreign buyers visiting the United States by scheduling appointments and plant visits. Contact District Office for additional information.

Foreign Market Reports
Indicates the availability of Foreign Service reports, market research reports, and other publications of interest in the U.S. business community. Information is contained in the *Index to Foreign Market Reports*. For information contact the National Technical Information Service, P.O. Box 1553, Springfield, Virginia, 22161.

Trade Lists
Provides trade contact information on certain countries. An index of these lists will be provided upon request. Information and charges for this service may be obtained from a local District Office.

Data Tape Service
Makes available to U.S. business magnetic tapes containing all available trade contact information on one or more countries for use in firm's own computer. Information and charges for this service may be obtained from local District Office.

Market Data Package
An automated service providing tailor-made data on trade of the U.S. and Western industrial countries in specific products with each of the non-market-economy countries, plus names and addresses of country organizations that handle imports and exports of the products in question. Contact the Office of East-West Trade Development, Department of Commerce, Washington, D.C. 20230.

Export Mailing List Service
Provides a list of potential foreign importers of U.S. products selected according to country,

products, and activities. Each list is prepared according to the specifications of the requester. Information and charges for this service may be obtained from local District Office.

Agent/Distributor Service
Assists U.S. firms in finding agents or distributors in most countries. Information and charges for this service may be obtained from local District Office.

Market Research
Disseminates timely, practical marketing information on the most promising overseas markets for U.S. goods and services. Market research is coordinated with Foreign Service posts. Information and charges for this service may be obtained from local District Office.

Procurement Services, Overseas Products and Investment Opportunities
Assists U.S. firms in investigating, evaluating, and acting on overseas investment, licensing, joint venture, and selected product opportunities. Contact District Office for further information.

Major Export Projects
Helps qualified U.S. firms compete for contracts on major projects. Early warning on major contracts is provided by Foreign Service posts. Enables U.S. firms to obtain larger share of major construction, engineering, and development projects around the world. Contact District Office for further information.

The Office of Commercial Affairs, Department of State, has indicated in this publication those services and sources of information which it believes would be of most interest to the members of the American business community. Now in its second edition, this publication has benefited greatly from comments, questions, and suggestions made by American business representatives who have used it.

For further information, call the Department of State, Office of Commercial Affairs, (202) 632-0669, or the Department of Commerce District Office nearest you (see opposite).

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U.S. DEPARTMENT OF COMMERCE DISTRICT OFFICE DIRECTORY

ALABAMA

Birmingham—Director, Suite 200-201, 908 South 20th Street, 35205, Area Code 205 Tel 254-1331.

ALASKA

Anchorage—Director, 412 Hill Building, 632 Sixth Avenue 99501, Area Code 907 Tel 265-5307

ARIZONA

Phoenix—Director, Suite 2950 Valley Bank Center, 201 North Central Avenue 85073, Area Code 602 Tel 261-3285.

ARKANSAS

• **Little Rock (Dallas, Texas District)**—1100 North University, Suite 109, 72207, Area Code 501 Tel 378-5157.

CALIFORNIA

Los Angeles—Director, Room 800, 11777 San Vicente Boulevard 90049, Area Code 213 Tel 824-7591.

• **San Diego**—233 A Street, Suite 310, 92101, Area Code 714 Tel 293-5395.

San Francisco—Director, Federal Building, Box 36013, 450 Golden Gate Avenue 94102, Area Code 415 Tel 556-5860.

COLORADO

Denver—Director, Room 165, New Customhouse, 19th & Stout Street 80202, Area Code 303 Tel 837-3246.

CONNECTICUT

Hartford—Director, Room 610-B, Federal Office Building, 450 Main Street 06103, Area Code 203 Tel 244-3530.

FLORIDA

Miami—Director, Room 821, City National Bank Building, 25 West Flagler Street 33130, Area Code 305 Tel 350-5267.

• **Clearwater**—128 North Osceola Avenue 33515, Area Code 813 Tel 446-4081.

• **Jacksonville**—604 North Hogan Street 32202, Area Code 904 Tel 791-2796.

• **Tallahassee**—Collins Bldg., Rm. G-20 32304, Area Code 904 Tel 488-6469.

GEORGIA

Atlanta—Director, Suite 600, 1365 Peachtree Street, N.E. 30309, Area Code 404 Tel 881-7000.

Savannah—Director, 222 U.S. Courthouse & P.O. Box 9746, 125-29 Bull Street 31402, Area Code 912 Tel 232-4321, Ext. 204.

HAWAII

Honolulu—Director, 4106 Federal Building, P.O. Box 50026, 300 Ala Moana Boulevard 96850, Area Code 808 Tel 546-8694.

ILLINOIS

Chicago—Director, 1406 Mid Continental Plaza Building, 55 East Monroe Street 60603, Area Code 312 Tel 353-4450.

INDIANA

Indianapolis—Director, 357 U.S. Courthouse & Federal Office Building, 46 East Ohio Street 46204, Area Code 317 Tel 269-6214.

IOWA

Des Moines—Director, 817 Federal Building, 210 Walnut Street 50309, Area Code 515 Tel 284-4222.

KENTUCKY

● **Frankfort (Memphis, Tennessee District)**—Capitol Plaza, Office Tower, Room 2425, 40601, Area Code 502 Tel 875-4421.

LOUISIANA

New Orleans—Director, 432 International Trade Mart, No. 2 Canal Street 70130, Area Code 504 Tel 589-6546.

MAINE

● **Portland (Boston, Massachusetts District)**—Maine State Pier, 40 Commercial Street 04111, Area Code 207 Tel 775-3131.

MARYLAND

Baltimore—Director, 415 U.S. Customhouse, Gay and Lombard Streets 21202, Area Code 301 Tel 962-3560.

MASSACHUSETTS

Boston—Director 10th Floor, 441 Stuart Street 02116, Area Code 617 Tel 223-2312.

MICHIGAN

Detroit—Director, 445 Federal Building, 231 West Lafayette 48226, Area Code 313 Tel 226-3650.

● **Grand Rapids**—350 Ottawa Street, N.W. 49503, Area Code 616 Tel 456-2411/33.

MINNESOTA

Minneapolis—Director, 218 Federal Building, 110 South Fourth Street 55401, Area Code 612 Tel 725-2133.

MISSISSIPPI

● **Jackson (Birmingham, Alabama District)**—P.O. Box 849, 1202 Walter Sillers Building 39205, Area Code 601 Tel 969-4388.

MISSOURI

St. Louis—Director, 120 South Central Avenue 63105, Area Code 314 Tel 425-3302-4.

● **Kansas City**—Room 1840, 601 East 12th Street 64106, Area Code 816 Tel 374-3142.

● DENOTES TRADE SPECIALIST

MONTANA

• **Butte (Cheyenne, Wyoming District)**—210 Miners Bank Building, Park Street 59701, Area Code 406 Tel 723-6561, Ext. 2317.

NEBRASKA

Omaha—Director, Capitol Plaza, Suite 703A, 1815 Capitol Avenue 68102, Area Code 402 Tel 221-3665.

NEVADA

Reno—Director, 2028 Federal Building, 300 Booth Street 89509, Area Code 702 Tel 784-5203.

NEW JERSEY

Newark—Director, 4th Floor, Gateway Building, Market Street & Penn Plaza 07102, Area Code 201 Tel 645-6214.

NEW MEXICO

Albuquerque—Director, 505 Marquette Ave., NW., Suite 1015, 87102, Area Code 505 Tel 766-2386.

NEW YORK

Buffalo—Director, 1312 Federal Building, 111 West Huron Street 14202, Area Code 716 Tel 846-4191.

New York—Director, Room 3718, Federal Office Building, 26 Federal Plaza, Foley Square 10007, Area Code 212 Tel 264-0634.

NORTH CAROLINA

Greensboro—Director, 203 Federal Building, West Market Street, P.O. Box 1950, 27402, Area Code 919 Tel 378-5345.

• **Asheville**—151 Haywood Street 28802, Area Code 704 Tel 254-1981.

OHIO

Cincinnati—Director, 10504 Federal Office Building, 550 Main Street 45202, Area Code 513 Tel 684-2944.

Cleveland—Director, Room 600, 666 Euclid Avenue 44114, Area Code 216 Tel 522-4750.

OKLAHOMA

• **Oklahoma City (Dallas, Texas District)**—4020 Lincoln Boulevard 73105, Area Code 405 Tel 231-5302.

OREGON

Portland—Director, Room 618, 1220 S.W. 3rd Avenue 97204, Area Code 503 Tel 221-3001.

PENNSYLVANIA

Philadelphia—Director, 9448 Federal Building, 600 Arch Street 19106, Area Code 215 Tel 597-2850.

Pittsburgh—Trade Specialist-in-Charge, 2002 Federal Building, 1000 Liberty Avenue 15222, Area Code 412 Tel 644-2850.

PUERTO RICO

San Juan (Hato Rey)—Director, Room 659-Federal Building 00918, Area Code 809 Tel 753-4555, ext. 555.

RHODE ISLAND

• **Providence (Boston, Massachusetts District)**—Weybossett Hill 02903, Area Code 401 Tel 277-2605, ext. 22.

SOUTH CAROLINA

Columbia—Director, 2611 Forest Drive, Forest Center 29204, Area Code 803 Tel 765-5345.

- **Charleston**—Suite 631, Federal Building 334 Meeting Street 29403, Area Code 803 Tel 577-4361.

TENNESSEE

Memphis—Director, Room 710, 147 Jefferson Avenue 38103, Area Code 901 Tel 521-3213.

- **Nashville**—Room 1004, Andrew Jackson Office Building 37219, Area Code 615 Tel 251-5161.

TEXAS

Dallas—Director, Room 7A5, 1100 Commerce Street 75242, Area Code 214 Tel 749-1515.

Houston—Director, 2625 Federal Bldg., Courthouse, 515 Rusk Street 77002, Area Code 713 Tel 226-4231.

- **San Antonio**—University of Texas at San Antonio, Div. of Continuing Education 78285, Area Code 512 Tel 229-5875.

UTAH

Salt Lake City—Director, 1203 Federal Building, 125 South State Street 84138, Area Code 801 Tel 524-5116

VIRGINIA

Richmond—Director, 8010 Federal Building, 400 North 8th Street 23240, Area Code 804 Tel 782-2246.

- **Fairfax**—8550 Arlington Blvd., 22031, Area Code 703 Tel 560-6460.

WASHINGTON

Seattle—Director, Room 706, Lake Union Building, 1700 Westlake Avenue North 98109, Area Code 206 Tel 442-5615.

WEST VIRGINIA

Charleston—Trade Specialist-in-Charge, 3000 New Federal Office Building, 500 Quarrier Street 25301, Area Code 304 Tel 434-6181, ext. 375.

WISCONSIN

Milwaukee—Director, Federal Bldg/U.S. Courthouse, 517 East Wisconsin Avenue 53202, Area Code 414 Tel. 291-3473.

WYOMING

Cheyenne—Director 6022 O'Mahoney Federal Center, 2120 Capitol Avenue 82001, Area Code 307 Tel 778-2220, ext. 2151.

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Representative LONG. Mr. Arellano, we have some specific questions we'd like to discuss with you, but I think we will proceed by allowing all participants to make their statements and come back to a general, panel type of discussion.

Mr. Rusovich, again, our thanks to you. Would you proceed as you see fit, sir.

STATEMENT OF BASIL J. RUSOVICH, JR., PRESIDENT, TRANS-OCEANIC SHIPPING CO., AND PRESIDENT, INTERNATIONAL TRADE MART, NEW ORLEANS, LA.

Mr. RUSOVICH. Mr. Chairman, may I ask the authority to deviate just slightly from my prepared statement as submitted with some statistics and some side comments?

Representative LONG. Proceed in your own way, sir.

Mr. RUSOVICH. Thank you. Reading in the beginning, Mr. Chairman, and reiterating, recapping the identity.

It should be noted and noted well that our competitive nations, in free trade, not only subsidize their industrial friends doing work abroad but are given a tax-exempt status and do not charge 1 cent of tax to those employees working abroad. Now, today, more than ever, with the United States faced with a dollar situation, as it is, being faced with heavier and heavier competition in world construction and oil exploration and offshore exploration and every facet of American business you can think of, here we have the U.S. Government fighting our efforts by taxing out of existence, or taxing out of the competitive structure, the American companies who are the frontiersmen of our Nation today trying to secure our country.

Mr. Congressman, I say this is a deplorable situation, and this is something that we definitely must be aware of in every segment of our Government, today. It's impossible for the American firms working abroad to operate competitively.

Today, billions of dollars of business are being given out in the Middle East. There are added billions in African areas. Now, if the American contractor, who has generated so many hundreds of millions of dollars of business for the American economy, is removed from our export statistic today, the dollar would almost collapse. The deficit will be disastrous.

These people need assistance, and this not only helps the American economy, it helps the balance in trade that is, in the sense of the Government and the dollar, it helps all of our ports in this country. It generates business. It builds labor forces. It builds all of the good things we need.

But, if our men, our firms on the world market are noncompetitive, the Koreans will walk off with it as they are doing today, the Japanese, and the Germans, and the French, and the Belgians, so forth and so on. We are on the losing side right now, because Washington is tying our hands. And, this is what they must know.

And, this leads me, Mr. Chairman, to the human rights policy. As a consideration in foreign trade and commerce, I am profoundly disturbed and concerned at the direction apparently being taken by the U.S. Government in utilizing American foreign trade as a lever of U.S. foreign policy.

For example, beginning on September 30 of this year, a substantial restriction on export licensing to Argentina will be imposed because of that nation's alleged violation of human rights. This will result in the loss of millions of U.S. man-hours and approximately $1 billion in export sales. This is repeated over and over again.

Let me cite the SASOL project of South Africa where $1 billion worth of U.S. orders were canceled because of various human rights and various minority pressures brought to play upon U.S. banking institutions. But, I do not want discrimination against rightwing governments in favor of leftwing governments, and I can cite specific cases of Romania, Bulgaria, Hungary, Yugoslavia, Czechoslovakia, Poland, every one of these countries, even more recent congressional recommendation—I forgot the committee, Mr. Chairman—that was just in Vietnam. And, I forget how it was constituted, but there they were recommending that we start trading with Vietnam.

We see that we are starting to trade with China, as evidenced by cargoes moving through the U.S. gulf. I don't hear mention of human rights when trading with these countries. Human rights are violated in every country in this world. Perhaps we have the finest record, and our European association might have the same record, but every other area of the world, Africa, Asia, South America, Central America, there is no such thing as total human rights extended to all men. This is a myth. This is a utopia. This is some of the excess idealism that takes place in Washington to say at the expense of the American economy and the American businessman. It is a tragic episode in American history when we allow such utopian dreams to control what our policy is today in world trade. We should take care of the homefront first, certainly, as we take care of our families first. This is what is involved here today.

I have an interesting quotation, here, that was issued in the Washington Star of August 24, reflecting a French position in the matter of human rights relationships. It was quoted by an official of France, and I quote,

> In a general manner, the French practice is not to subordinate the sale of civilian industrial materials to political consideration.

This, then, brings my question forward: What is really—what is really, Mr. Chairman, the U.S. position?

[The prepared statement of Mr. Rusovich follows:]

PREPARED STATEMENT OF BASIL J. RUSOVICH, JR.

I am Basil J. Rusovich, Jr. of New Orleans, President of Transoceanic Shipping Company, international freight forwarders, freight contractors and ship charterers with offices in major port cities of the world. I also serve as President of the International Trade Mart of New Orleans and am in my second year in this capacity, having served on the ITM Board of Directors for many years.

As a non-profit foreign trade organization, the ITM acts as a standard-bearer in the promotion of world trade and commerce, bringing together buyers and sellers of goods and services designed to encourage and promote and further international trade, understanding and commerce. The ITM has always endorsed government policies suporting free trade and commerce as a means of establishing peaceful relations with other trading nations.

Two issues are of major interest and increasing concern to the international business community as they restrict the free flow of trade.

These are the U.S. Taxation Policies and Human Rights Policy.

As president of my company and as president of the ITM, we are active international traders and promoters of foreign trade and commerce. Our record-breaking trade deficit makes it imperative that we develop an atmosphere that will make the U.S. more competitive in the search for new international markets. I am particularly concerned about Section 1011 of the Tax Reform Act of 1976, which retroactively amended Section 911 of the Internal Revenue Code. This section pertaining to Foreign Earned Income Exclusion, has increased the cost of U.S. companies operating in foreign markets and has placed them at an unfair disadvantage with their foreign competitors.

The United States is one of the few countries that taxes its citizens on their worldwide income. A United States citizen working abroad is subject to double taxation by the U.S. and the country where he is residing.

Section 911, I.R.C. was enacted to encourage businessmen to do business abroad and give them advantages similar to their counterparts in other countries. The 1976 Tax Reform Act amendments to Section 911 have gutted its effectiveness and made the section meaningless for all practical purposes. The folly of this change in Section 911 was recognized in the Tax Reduction and Simplification Act of 1977, which contained a provision postponing the effective date of the changes to taxable years commencing after December 31, 1977.

In order to induce U.S. businessmen to live and conduct business in foreign countries, their U.S. employer is generaly required to pay additional compensation and certain foreign cost of living adjustments. These additional amounts are translated into increased tax obligations for the individual. Many U.S. employers have a tax equilization arrangement with their employees where the additional taxes incurred as a result of working abroad are borne by the employer.

The 1976 amendments to Section 911 have drastically reduced its benefits, thereby increasing taxes for U.S. citizens working overseas. The effect will be to increase the cost of U.S. exports, bids on foreign projects and further erode the competitiveness of U.S. companies' foreign operations. For this reason, I strongly urge the re-enactment of Section 911 as it existed prior to the Tax Reform Act of 1976, as a means of strengthening U.S. export position, creating more jobs for Americans and a stronger U.S. economy.

Mr. Chairman, with respect to Human Rights Policy as a consideration in foreign trade and commerce, I am deeply disturbed by the direction apparently being taken by the U.S. Government in utilizing American Foreign Trade as a lever of U.S. foreign policy. For example: Beginning on September 30, a substantial restriction on export licensing to Argentina will be imposed because of that nation's alleged violations of Human Rights. This will result in the loss of millions of U.S. manhours of labor and approximately 1 billion dollars in export sales.

Gentlemen, can we afford to pay this price? And, indeed, is there any reason why we should, especially since we do sell goods and services, which include military hardware to communist bloc countries.

As a practical matter and as a private citizen engaged in the promotion of business abroad, I ask you, what right does the U.S. government have to tell a businessman that he cannot conduct business in those countries with which the U.S. has diplomatic relations? As a citizen, I have the right to sell my goods or services, in accordance with established good business practice procedures, to those nations with whom the U.S. maintains diplomatic relations. If I am wrong, I would like someone to tell me why.

In concluding, gentlemen, as an example of a more enlightened and realistic approach to foreign trade, I would like to quote from the Washington Star of August 24 the French position when U.S. asked them to join in the boycott of a computer sale to the Soviet Union and I quote: "In a general manner, the French practice is not to subordinate the sale of civilian industrial materials to political consideration." What is the U.S. position?

On behalf of the Board of Directors of the International Trade Mart, I wish to thank you for affording me the opportunity to present my views dealing with the problems of an international economy that I face every day.

Thank you.

Representative LONG. Thank you, Mr. Rusovich. You very forcefully set forth your views on the matter, and let me say, I am very appreciative.

Mr. Parrott, I know that you have had 10, 12 years experience in international trade. I know that in the relatively short period that you have been in New Orleans, you have really made some great strides in it. I was in the investment banking business and practiced law here in the city of New Orleans for a number of years, and consequently, I am familiar with the field from a personal point of view as well as a professional point of view as a member of the Joint Economic Committee. I congratulate you upon the international wave that you have begun to start a little bit here in the New Orleans business field. We are pleased to have you with us here today, Pete.

STATEMENT OF QUAY W. PARROTT, JR., VICE PRESIDENT AND MANAGER, INTERNATIONAL DIVISION, HIBERNIA NATIONAL BANK, NEW ORLEANS, LA.

Mr. PARROTT. Thank you, sir. The first part of my discussion deals with the study undertaken by the International Trade Mart to contact approximately 130 companies in Louisiana, principally in New Orleans, Baton Rouge, and Shreveport. The company names were obtained from the "Louisiana Directory of Manufacturers" and the firms contacted were those that stated they dealt in either the national (N) or international (I) markets. The size of the firms varied from five employees to several hundred. Ms. Janice Brewster contacted each firm by telephone.

The summary of findings highlights several pertinent factors which discourage the average U.S. firm from selling abroad. The most significant of these is the U.S. domestic market, which is large enough to absorb the total production of most firms. The reason for exporting—necessity—is, therefore, removed for many firms.

Secondly, emphasis is placed on foreign competition as being a major detriment to exporting. This apparently also includes the freight rates and regulation points, since by implication much of what we contribute to foreign competition is in reality our cover for not understanding how to deal or operate in these markets. Much is made of the importance of exporting; however, no real efforts will be made to consider these markets until the necessity of selling exists.

We also refer to the promotional efforts of the U.S. Department of Commerce and others, noting that generally their efforts and available literature is of assistance. Many firms, however, are looking for export managers who can actually make the sale rather than commerce officers, bankers, or other entities who are available to assist.

In this light, the U.S. Embassies and the commercial officers overseas came under considerable criticism for their inconsistencies. One local exporter called yesterday to state that since he couldn't be here—he was going on a sales trip to Central America—would I please register his complaint on foreign commercial officers. He states that the normal response is a form letter, and he has received no assistance at all.

To generalize, the effort from an embassy is directly dependent on the quality of the individual commercial officer, a few who are excellent; however, the majority are indifferent or feel that they are to assist U.S. trade in general, but can't assist the individual firm in closing a sale as this would be preferential treatment.

I personally strongly disagree with the recommendation that imports be limited. Because of the size of our market and its importance to the world economy, this is not a viable alternative.

A second area that I would like to address is that of export finance, which in itself has two parts. The first pertains to the general attitude of banks in this area toward export finance. Until recently, local banks were not actively interested in export financing; however, this is changing, with more emphasis being placed on this business especially through the Exim and FCIA programs.

These latter references bring us to the second point—Eximbank. This organization has long been a major promoter of U.S. exports by providing financing, which often is the key to whether a U.S. or foreign sale is made. Although some of its activities have been justifiably changed, the import of Exim backing has been a major factor in Hibernia's export financing as well as that of the bank I was previously associated with. The medium term bank guaranty program and FCIA's short-term policy are two programs that have been of substantial assistance to banks and firms in this market.

Like our trade in general, these organizations must be kept as flexible and responsive as possible. Various political issues are being thrown in to complicate both Exim/FCIA's activities, as well as our export activities as a whole, at a time when we desperately need an aggressive selling effort. These include:

(*a*) Environmental impact statements, which would be required to be taken into consideration by Exim. This move would substantially increase the approval time while reducing Exim responsiveness, especially since foreign competition is not so impeded.

(*b*) Human rights, which is a commendable policy; however, the inconsistency in our application is creating havoc. Additionally, we're refusing to allow sales to alleged "violators"—for example, $240 million to Argentina—without consideration to the impact on balance of payments or the "human rights" of the U.S. labor force whose jobs are dependent on these sales.

(*c*) The antiboycott legislation has a tremendous negative impact on the flows of trade into this rich and purchase-oriented area. Again the argument is not with the underlying principle but with implementation. In general, we are fortunate that most of these countries have allowed sufficient modification in their regulations that the current regulations can be complied with when the Middle Eastern country desires.

Other issues also need to be addressed including Exim and agriculture exports; antitrust, including DISC; country eligibility list; specific country exclusions; and many others. In a nutshell, however, the question of export promotion rests on a single question—what is the justification for millions of dollars and man-hours being spent in promotion of exports when one arbitrary human rights decision—one boycott clause—or one environmental impact study—delays or precludes a hundred-million or billion-dollar sale?

I spend a great deal of time helping companies get into the export market; however, even if the efforts were 100-percent effective, they would not offset an Argentina or other sale. Yes; we need to increase our export promotion efforts, but let's not nurture the seedling on one hand simply to chop it down for some noneconomic reason as it starts to grow.

Thank you.

Representative LONG. Thank you, Mr. Parrott.

Mr. Guerra, proceed in your own way, sir.

38-412—79——4

STATEMENT OF MODESTO A. GUERRA, PRESIDENT, COMMERCE INTERNATIONAL CORP.

Mr. GUERRA. Mr. Chairman, I am pleased and honored to testify at this hearing focusing on export promotion and the U.S. trade deficit. I would like to deviate for two comments off of my prepared statement.

No. 1, I would like to congratulate you, Mr. Congressman, on the fine assistance you've had from Mr. Morgan and Mr. Hughes, who have done a very good job in organizing this session. Second, I would also like to comment, for the record, that I am very pleased and honored, and feel very proud as the president of the Latin American Chamber of Commerce; and, here at this table, I have two people from our board: Mr. Arellano, who is the founder of our Latin American Chamber of Commerce; and Mr. Parrott, who joined our board only in the last few months.

The Latin American Chamber of Commerce is acutely aware of the fact that we have lost our trade position with Latin America, and we are trying to do something about it.

The other area of focus is that we are aware of the fact that there are about 150,000 Latin Americans or Spanish in this city, and we are hopeful that through the chamber we will be able to bring them more effectively into the economy of New Orleans. And, I will continue with my prepared statement.

Our firm, Commerce International Corp., established in 1972, can be classified as a general trading company, and our sales are distributed as follows: 50 percent imports, steel from Mexico; 45 percent domestic, treated wood products; and 5 percent exports, U.S.-treated wood products.

Exports are our most expensive sales as they require roughly four times more of promotion and communication expenses than the domestic or import sale.

The observations which I cite below are on the basis of my personal experience as a small, relatively young, import/export house.

The matter pertaining to the U.S. trade deficit and the general export prospects for the United Sates depends entirely on our attitude and our definition of our national priorities.

We in the United States have recently reacted to our trade deficit by looking at the negative side of the equation, or by giving impetus to the notion that import barriers will resolve our trade balances. Our trade deficit will not be resolved by import barriers; they will, however, substantially contribute to increasing our rate of inflation. I give you an example:

Despite what appears to me an enormous lipservice paid to our "war on inflation" we have permitted the U.S. Treasury to become a tool of a select U.S. industry, in this case the steel industry. Since the imposition by the current administration of the trigger price mechanism as a barrier to steel imports last December, the price of steel charged by U.S. steel mills has gone up some 33 percent and not the 13 percent officially sanctioned. The 13 percent is the official increase in the list price, the remaining 20 percent has been accomplished by canceling previously established discounts.

The impact on inflation of this increase has been variously estimated from $1.2 billion by an official of the Council on Wage and Price Stability to $3 billion by Prof. Walter Adams, past president of Michigan State University.[1] We at CIC, for example, have sold more steel at the end of 9 months than in the previous year. This increased tonnage from Mexico is costing our U.S. customers substantially more than necessary.

We are forced to charge prices much above the world market price because of the U.S. Treasury regulations designed to protect an inefficient American industry. Please note gentlemen, Mexican steel has not been dumped in the United States. However, the U.S. import restriction policies aimed at Japan and the European Economic Community are punishing the growth and development of the less developed countries who have achieved their current position partly because of U.S. Aid dollars.

I refer again to the notion that our trade deficit relates to our attitude and our priorities. The question in my mind is do we develop and support an aggressive export attitude or do we protect specific U.S. industries? This question is exemplified by the following:

U.S. export financing as provided by the Eximbank leaves much to be desired, yet what advantages obtained by such financing is often negated by the fact that merchandise purchased by such financing is required to be transported by U.S.-flag carriers. The U.S. bottoms requirement defeats the advantage of U.S. financing because of the 20- to 30-percent freight premium paid to the U.S.-flag carrier over foreign flag carriers. I know this because I struggled with the U.S. Maritime Administration for no less than 4 months on one specific export transaction to the Middle East with a value of half a million dollars.

If we conclude that an aggressive export policy is of higher national priority than protecting certain domestic industries, it might be useful to study the ways and means employed by the successful exporting programs from such countries as Japan, Korea, Brazil, and others. These highly successful export programs have been channeled through their so-called trading companies. Examine, for instance, some of the things provided to a Brazilian or Mexican exporter which will not be provided to me, a U.S. exporter:

1. If I were a Brazilian exporter and I had an important foreign buyer, the Government of Brazil would assist me in offering my buyer a creative and imaginative financing package which would involve low interest long-term financing of 10 to 20 years as compared with Eximbank financing at a high interest rate with a 5-year payback. I personally experienced this situation when trying to sell the Government of Peru some timber railroad crossties.

2. If I were a Brazilian exporter, and I needed to set up a lumber mill to process a long-term contract from one of my clients, the Government of Brazil would not only assist my client by financing his inventory in the United States but would also assist me as a Brazilian exporter to finance at 8 percent, on a long-term basis, the cost of establishing a lumber mill.

3. If I were a Mexican manufacturer, the Mexican trading company promoting the export of my product obtains a tax rebate of 6 perecent to 11 percent for having assisted me in exporting my product.

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[1] (1) Figure cited by Dr. Adams at a hearing of the Small Business Committee of the U.S. House of Representatives in Washington, D.C., on May 18, 1978. (2) This $3 billion estimate does not take into consideration the multiplier effect of the $3 billion as it ripples throughout the economy.

Again the bulk of our U.S. export financing has been focusing strictly on the financing of foreign buyers. It has done nothing to assist us, the U.S. exporter, particularly the small, hustling U.S. exporter, in financing the export transaction itself. Financing the foreign buyer only satisfies half of the trade transaction. The other half has to be withheld by the U.S. shipper which in my case involves the financing of the product to be sold abroad. An aggresive export policy and program must look at the entire trade transaction and not only part of it.

When talking about trading companies, the United States also has trading companies. Regrettably, however, a great portion of these trading companies are import oriented and not export oriented. Some of the U.S. trading companies I am familiar with have a tremendous overseas know-how but are primarily import oriented. Below I cite some of the estimated annual sales of some U.S. Import-Oriented trading companies: Kurt Orban, New Jersey, steel, $200 million; J. Gerdau, New York, wood, $45 million; and U.S. furniture industries, North Carolina furniture, $125 million.

An aggressive export development program should seek to provide specific incentives designed to utilize the know-how and expertise of some of these U.S. trading companies as well as mine to balance out our orientation from nearly exclusive imports to an aggressive emphasis on exports.

An aggressive export orientation should increase the agility of communication between the prospective U.S. exporter and the U.S. commercial attaché. For example, our firm has to wait some 3 months to get a report on a prospective client in Venezuela by channeling our inquiry on a specific would-be client through the bureaucracy of the Department of Commerce. We need the information in 1 week, not 3 months.

The above are some of my random thoughts on some of the specific components an aggressive export policy might look for. Some of these components would indeed be helpful to our company in our export efforts.

But first, we as consumers and we as businessmen, and you as public officials must realize that there are no short-term solutions to our problems, that we are working in a highly interdependent economic system, and we cannot afford to continue subsidizing either inefficient labor or inefficient industry. Lastly, we cannot afford solutions which satisfy isolated political needs at a cost to an integrated, well-balanced national policy. Thank you.

Representative LONG. Thank you, Mr. Guerra. We are very appreciative.

Professor Flammang, we are pleased to have you, as I said before, and you can proceed as you wish, sir, in your own manner.

STATEMENT OF ROBERT A. FLAMMANG, PROFESSOR OF ECONOMICS, LOUISIANA STATE UNIVERSITY

Mr. FLAMMANG. Thank you, Mr. Chairman. I would like to thank you for inviting me to appear here today. And I hope you will not mind if I stick with my prepared statement.

Representative LONG. Fine, sir.

Mr. FLAMMANG. Much of what I have to say here has already been alluded to by earlier testimony, but I believe my message will be clearer and have more continuity if I go ahead and bear the risk of repeating certain points.

I would just like to put the export problems the United States faces in some sort of perspective. As an economist, and not a businessman, I tend to look at the broad picture, and that is what I hope to focus on here today.

It is becoming almost commonplace to point out the growing interdependence of countries in the world today. This is primarily due to growing world population on one hand and rapidly depleting supplies of resources on the other. Even the United States, historically a country which has depended relatively little on the rest of the world for markets or for sources of supply, has seen its dependence upon foreign trade double in the last 20 years. Unfortunately, our awareness of this interdependence has not kept pace with reality. We still tend to think in national, rather than international, terms.

We see evidence of this at every turn. This country has no coherent national export policy. It is reported that many—perhaps most—Americans still do not believe that there is really an energy problem, and therefore show little concern about mushrooming oil imports or the absence of a national energy policy. The decline of the dollar, until about 2 weeks ago, was met with polite yawns in Washington and with shoulder shrugs by the general public. Firms which might be profiting nicely from exports "don't want to get involved" because their managers believe that exporting is complicated business and they are getting along fine without it, thank you. On university campuses, courses in international economics may enroll no more than 0.2 of 1 percent of the student body in a given semester, even in a State like Louisiana which contains the second- and fourth-ranked ports in the country.

But should we be yawning and shrugging our shoulders when our balance of payments moves from an $11 billion surplus in 1975 to a $30 billion deficit 2 years later? When the dollar continues to decline even when informed observers agree that it is already undervalued? When oil imports now constitute 30 percent of our total imports? When a Japanese expert remarks that a cheaper dollar is not likely to expand U.S. exports to his country materially because their demand for our goods is relatively insensitive to price changes? When in some years from one-fourth to one-half of our inflation rate can be attributed to rising import prices? When this country's share of world manufactured exports is showing a steady decline? When our farm exports bob up and down in value, depending upon growing conditions in customer countries?

Economists have argued for years that most problems like these are transient if exchange rates are left free to be determined by supply and demand on an open market. A deficit is supposed to cheapen a country's currency and make its products more competitive in world markets, thus leading to an expansion of its exports, a reduction in its imports, and a reduction or elimination of its deficit. This sounds good, but it actually oversimplifies reality too much. Price is not the only factor purchasers take into account, and sometimes it is not even the major factor. Quality, design, credit terms, delivery times, and service after the sale often outweigh price as a consideration. Or a producer may have tried exporting once—say, when the dollar was overvalued in the late 1960's—and failed to profit from it, and thus be reluctant to try again. Some producers already have producing operations abroad, and even a cheaper dollar may not be enough to make them change their world production plans. Ford Motor Co. is a good example—its European operations are so extensive and successful that it has little interest in pushing exports from the United States.

A cheaper dollar also does not help if customer countries limit U.S. sales by means of import quotas, variable levies, "buy domestic" legislation and the like, and these are major trade restrictions which are becoming relatively more important. They are also very difficult to relax or eliminate, because they normally protect powerful local interest groups in those countries. Furthermore, U.S. exports are hampered by the actions of our own Government; examples include trade embargoes with some countries, controls on certain types of exports, anti-Arab boycott rules, legislation forbidding overseas payoffs or joint bidding by U.S. companies for foreign projects, proposals to end tax deferral on the profits of U.S. subsidiaries abroad, and so forth. Some of these measures may be fully justified for political or military reasons, but they serve to create the impression that the U.S. Government has no special commitment to export promotion and no real interest in balancing its balance of payments.

Contrast this official posture with that of the Japanese Government. Its Ministry for International Trade and Industry not only promotes trade, but even performs quality-control services for its exporters. It supports large trading companies, like Mitsui, with little worry about their "anticompetitive" behavior abroad. The entire country—Government, business, and labor—has a common commitment to exporting, even though its dependence upon foreign trade—14 percent of its GNP in 1976—is really not that much greater than our own—9 to 10 percent in recent years. The populace thinks in terms of international trade, and we, in general, do not. Many of our most successful exporters are large firms which would just as soon invest in plants abroad as export.

Frank Weil, Assistant Secretary of Commerce for Domestic and International Business, thinks that about 20,000 American firms are engaging in export activity and that another 20,000—mainly smaller firms—could do so successfully if they were made aware of the profit potential in it. These firms would probably have a greater long-term commitment to exporting than some of those presently doing so simply because most of them are too small to consider setting up plants abroad. What these firms lack most is information about where markets are and how to go about getting into them. This "information" function is one which governmental units such as the Department of Commerce could certainly perform more extensively than they do at present.

The U.S. Government can also take other steps to promote this country's exports. Some of them are already in process: The push to reduce tariffs and nontariff restrictions at the Tokyo Round of trade negotiations, easing the adjustment assistance procedures, and the proposal to increase the lending capacity of the Export-Import Bank, for example. But more can be done. Eximbank could be mandated to pay more attention to the financial needs of smaller would-be exporters. It would be useful to have legislation permitting U.S. firms to bid jointly on foreign projects, and it would help if the anti-Arab boycott legislation could be repealed. The tax deferral—DISC—legislation should be retained. Legislation encouraging the establishment of Japanese-type trading companies should be on the books. Government policies which stifle innovation must be modified, because high-technology goods have been our most dynamic exports. Better means of countering Government-subsidized foreign goods and services—like Soviet shipping—must be devised. Monetary reform aimed at reducing currency uncertainties could relieve a key business headache and encourage exports. It might even be wise to tax export profits at somewhat reduced rates. Overall, export activity needs to be given a higher profile and dignified with reasonably coherent policy across the board.

The U.S. balance of payments could also be improved by means of a common code regarding foreign investment in this country. After all, the inflow of foreign investment will to some extent produce goods which will substitute for imports, and the funds inflow itself will give direct support to the balance of payments. As things stand, the various States are passing a wide variety of laws, some of them encouraging to foreign investment and some discouraging. A common code could reduce some of the uncertainty involved and allow outside firms to locate on the basis of fundamental economic merits rather than transient tax or site-cost advantages.

American firms can themselves do a great deal to take advantage of the export opportunities which are currently opening up. For instance, most of the people in the world are still poor and cannot afford many of the expensive and elaborate products which are common in the richer countries. American business seems to think that the thing to do is wait until incomes rise in poor countries; I suggest that we would be wiser to begin developing products which they can afford to buy now—simple, relatively inexpensive products which are designed with the poor in mind. Then, when incomes do rise in these areas, American firms will already be well established and in a position to take advantage of this growing purchasing power. If we assume that we can design products for rich country markets (like our own) and still find large numbers of buyers eventually. I predict that we will find these market territories already preempted by producers from Japan, South Korea, Taiwan, Brazil, and Mexico who were humble enough to try to meet the needs of the poor while they were poor.

American firms can also do more to market their services abroad. Management conventionally seems to think that goods are the only things foreigners buy. But there is a world of profit waiting in such areas as tourism, insurance, business services, management consulting, and so on. Moreover, as incomes around the world rise, there will be an increasing shift of purchases away from goods and towards services. Why shouldn't we be in a position to benefit from this easily predictable trend? Another advantage of a renewed focus on services is that they are generally nonpolluting in nature and, on the whole, nonpolitical—and they are thus that much less likely to encounter restrictions.

Some economists predict that U.S. firms may well find themselves increasingly able to compete in labor-intensive products in the future. The reason for this is the relative decline in American labor costs vis-a-vis labor costs in Europe and Japan. Managers in this country need to stop assuming that we cannot compete in many areas because of our wage levels; this may have been true during the 1950's and 1960's, but it is much less true today. Again, our attitudes are tending to lag behind reality.

I would be remiss if I did not reflect on Louisiana's place in the Nation's export picture. In this State's favor are its strategic location on waterways, its ice-free ports, and its trading history. Louisiana is also an important source of food and fuel, both strategic items in trade today. It is, furthermore, a State which perhaps understands more than most what labor-intensive production is like, given the historic importance of sugar, cotton, and textiles, and it may thus be in better position to develop the relatively simple and inexpensive products which are most needed by the majority of the world's people.

Exporters from Louisiana do have some special problems, however. One of these is the relative lack of banking services for would-be exporters. There are only five banks in Louisiana with active international departments, and all of them are in New Orleans. By contrast, Miami has 12 such banks. Some businessmen complain about the lack of air service, while others cite the general lack of awareness of the importance of international trade to the State and the region. As evidence of this last point, it is only this year that the State government decided to fund an overseas office to promote Louisiana trade and encourage outside investment; by contrast, South Carolina and Arkansas have had such representation for years and it has really paid off.

The lack of awareness in Louisiana is especially evident to anyone who has visited areas like Dallas, Houston, Atlanta, or Miami. Earlier this summer I had the opportunity to visit Dallas and listen to business, government, and university people in that area concerned with international trade and investment. I was struck by the notion that here is a city with no waterways, with no particular geographic advantages, and yet it has an international merchandising center which attracts business people from all over the world, it has active trade associations promoting international contacts, and it even has a branch of the University of Texas with a high-powered graduate program in international management studies. The relationship between the business people and the local Department of Commerce representative was superb—in fact, this representative had the attitude that "I work for them," meaning the business community. Even with the locational disadvantage, Dallas has become an important decision-making center for international trade; the only reason I can see for this is the people themselves, the level of their awareness of the importance of international dealings, and their willingness to act on the basis of this awareness. I left Dallas asking myself, "Why can't we in Louisiana do that?" In my opinion, this State has just as much talent and even more natural advantages. But we seem to be asleep in this one very vital and promising area.

Let me close by summarizing my message here today. The world is becoming increasingly interdependent, with U.S. dependence upon others perhaps growing more than most. Our thinking has not progressed with this reality, and we have left trade and balance of payments matters to shift for themselves or, in some cases, have actually discouraged the solution of some such problems with official actions. Both government and business can take steps to encourage exports, and if these steps are reasonably coordinated and coherent the trade picture should brighten considerably and the dollar be strengthened in the process. The State of Louisiana can be a major part of this brighter picture if people here can be made more aware of trade's importance and the very great advantages that nature has given us to profit from it.

Thank you very much.

Representative LONG. Thank you, Professor Flammang.

Let's move on to some of these very controversial questions, both economic and political, that have been so amply presented by you gentlemen; they are, of course, as Professor Flammang pointed out, in most instances interrelated and very complicated.

Let's take, first, this question of human rights.

Mr. Arellano, you have been on the Government scene; and Mr. Rusovich, I think, pointed out very succinctly the real difficulties here. Mr. Parrott also added to that point of view, particularly with respect to the decision with respect to Argentina.

Now, do you have any comment on this? What do you see as a possible way out of this? That is, of maintaining some sort of moral standard, and yet not allowing this standard to dictate in favor of one group of nations over another, or of one political spectrum over another, and at the same time preventing this standard from serving as an undue restriction upon the development of export policy and export markets by the U.S. Government?

Mr. ARELLANO. I would like to point out that most of us tend to reflect the values of the area that we come from. I think I sense fairly well just what the values of this part of the world are, and I would be less than candid if I did not tell you that in the Department of State there are differences of opinions as to how our human rights policy should be implemented. My view inside the Department is a minority view. In fact, I am under instructions to duck this question if I can. But, since you are Members of the U.S. Congress, I could be held in contempt, I suspect, if I did as I was directed to do on this question.

Representative LONG. We are not in any way threatening you, but we would like to have your views on this matter.

Mr. ARELLANO. I am obliged to do so. My feeling, Mr. Congressman, is that the human rights policy of the United States as enunciated in the broadest sense is something that few of us here in this room would quarrel with. What we are talking about is fundamental values of the American people; that is, we are not going to allow for the so-called first basket of the rights of the person to be violated. We don't condone torture; we don't condone arbitrary abuse of our citizens and so on; and, I think that from a moral standpoint, it puts us properly where we should be—back on the world scene.

The second and third baskets of the so-called human rights policy, the economic and political baskets, these are much more troublesome to us. I might point out that the human rights policy, as the executive branch is currently attempting to enforce it, albeit with anomalies, is, in large part, a product of the Congress of the United States. What we are doing is reasonably, faithfully attempting to enforce laws that stand on the books of this country.

I would say to this group, to you, that there are some severe contradictions in the implementation. It is obvious to anyone who has eyes that these exist. I would suggest that what needs to be done by the politicians of the United States is that the businessmen have to make their concerns known, articulate them in a coherent fashion, and ask some very hard and difficult questions and some very fundamental philosophical questions as to who's supposed to be asked about this.

If the French do not subordinate commercial policy to political ends, then how can this country, with active and free enterprise, do so? That's the kind of question I would ask if I were not where I am now.

Representative LONG. I think that's very well put. The problem, as you say, is not only an inconsistency in application, but also—and apart from the actions of the Congress—an inconsistent administrative policy. Insofar as Congress is concerned, almost every time that a measure involving international trade arises, somebody jumps up with a human rights amendment. It is surprising, to me, how many of these measures have been adopted, and the extent to which the Department of State and the Department of Commerce have gone in writing regulations, and in some instances, enforcing them.

It's really been very disturbing to me. I'm not sure that it has caused the lack of interest Professor Flammang spoke of, but it is definitely a hindrance, a very distinct and definite hindrance. I think everybody here agrees with this assessment.

Now, Professor Flammang estimated a few minutes ago, as a guess, that the total percentage of the Japanese gross national product dependent upon the export market would be perhaps somewhere around 40 or 50 percent. I was discussing the same matter yesterday, and I asked Mr. Hughes, as an economist, to determine for me the approximate percentage of the Japanese GNP that relied upon exports.

I had used the same figure that Mr. Flammang guessed. I was frankly very surprised by Mr. Hughes' reply. It is not as high as 40, or even 30 percent. In fact it's around 13 to 14 percent. I was surprised that the percentage was not very much higher than that. But, at the same time, if we look at the percentage in the United States, we discover that, it is something right around 6 percent I think most of you know that the Chairman of the Federal Reserve, Mr. William Miller, has recommended that we set as our goal a figure of 10 percent in the relatively near future.

Mr. Parrott, what do you have to recommend as possible solutions to the various problems that have been raised?

Mr. PARROTT. I think that the basic question really is that there has been a draft, and the human rights issue should basically not be an issue of a trade sale. If there is a country or an area that we do have an embargo on or a boycott on, then that is Government policy. But, I think that the inconsistency, now, of, for example, Chile, where we have taken steps, either announced, agreed, or unagreed, to change the prior government and now have a new government that we are just as unsatisfied with and are trying to, through, let's say, "Using the human rights to preclude financing or trade with that area," that you are applying exactly the same type of political interference with another country's activities as you would be if we were using the CIA or another organization like that or in an underground manner.

Representative LONG. You are suggesting, then, that it might be better to draw a hard line, and either have an embargo if that was to the best interest, or not have an embargo? This would mean, I take it, that once the decision had been made—one way or another on a country-by-country basis—we would not deviate from it in specific instances; is that correct?

Mr. PARROTT. I would say that would be better than the situation we are in.

Representative LONG. I am inclined to agree with you.

Mr. Rusovich, I know you have given a great deal of thought to this, and you're being—your background and the world travel that you have done and the fact that many of the countries—I guess your native country is under Soviet domination——

Mr. RUSOVICH. Mr. Chairman, I am a native of the United States. It's my mother and father who are of Yugoslav birth.

Representative LONG. Are they Yugoslavian?

Mr. RUSOVICH. They were born in Yugoslavia, yes. And, as you recall, my father was the Royal Consul General of Yugoslavia in this city.

Representative LONG. Right.

Mr. RUSOVICH. And, I just wanted to have this fact recorded accordingly.

Representative LONG. Fine. I appreciate you clearing the record. I do know you are very familiar with the problems of that part of the world, which are very real problems. We would appreciate any further comments you have, Mr. Rusovich.

Mr. RUSOVICH. May I say there are human rights violations existing in Yugoslavia today that exists in all the other Iron Curtain countries. It's no different from the others. But, for some unknown reason, we choose to ignore certain conditions that prevail in countries where we have decided that we are going to trade. For one reason or another, the basis of this decision is never made known publicly.

This, as I said earlier in testimony, Mr. Chairman, this human rights violation exists in every country, and I think that to respond to what I interpret your general question to be, the whole policy was ridiculous from the beginning. The concept is wonderful. We should certainly state over and over again categorically and unequivocally that we do support human rights and freedom and liberty all over the world as a nation. Let that be known. But, to use this as a weapon in economics or politics, actually, in my opinion, has no place in these days and times.

Representative LONG. How do you support human rights, then, if you do not support them this way? That's the essence of the problem.

Mr. RUSOVICH. We cannot impose our will and our philosophy and our concepts upon all nations. This has never been our prerogative. Perhaps we have assumed this prerogative incorrectly many times, and certainly the record will show militarily in the past. But, I say categorically that we have no right to attempt to be the world's guardian and to tell others what to do.

And, one important closing point that I want to make here, that as a result of this human rights policy, I can cite for the record about $5 billion lost in recent weeks and months, not only the recent Argentinean situation where there were 18 million man-hours of labor lost to the U.S. labor—I think Mr. Meany should be well aware of these facts, let him know. The AFL-CIO, how much labor they are losing through such human relations or human rights policies. But, this goes on and on. The SASOL project cancellation represented $1 billion lost to America in business. We are canceling orders now in Central America, even though they are our allies. But, the outcome of that is clear right now. We are not meeting here for political reasons, but let me state that with the fall of any present Central American government, the left-wing government will come in. We've cut off arms sales to two Central American governments in the last year. They are going other places to buy it, but the real point is that as we cancel, as we lose all of this business, our friendly economic allies, to wit: Germany, France, Belgium, Japan, they love to see this happening. They support this vigorously, because every time we do this, and an order is canceled, they grab up on that order.

Representative LONG. The difficulty is in finding a way to do anything about it. Saying that we support human rights is one thing, and doing anything about them is another. That is the question that really faces us. I don't think any of us have really come up with any solutions; I know that I have not been able to. We need to find a way to support human rights without being hypocritical about it.

I am not suggesting that we ought to follow the policy that we've been following. I think I am more inclined toward Mr. Arellano's view, that we have been discriminatory in the way the policy has been applied.

Mr. ARELLANO. I didn't say that.

Representative LONG. I meant that——

Mr. RUSOVICH. I said that, Mr. Chairman. I said it more than once.

Representative LONG. I'll say it, too, Mr. Rusovich. If I interpreted Mr. Arellano's remarks in that way, I don't think I am far wrong in my interpretation.

Mr. ARELLANO. I suggested that they were anomalous in the way of implementation.

Representative LONG. Dick, you'd better watch out; you're staying in Washington too long.

Does anyone have any further comment on this question before I move on to another controversial question?

Mr. Guerra, maybe you can give us a different prospective with respect to this policy.

Mr. GUERRA. Not speaking for the Government, but while working for the Government, I saw it every day. The fact that we approach our relations to a great extent with Latin America with a deluded sense of grandeur. We approach our relations on a basis of a paternal relationship. We still have the mythanic notion that we are imposing political beachheads, democracy, and other things. Basically, people will pay lipservice, whatever we want to hear, to get what they want from us. If we don't want to supply it, they will get it elsewhere. We have the notion that somehow we have leverage.

In Honduras, we have a program of assistance of $15 million which is somewhat significant on an annual basis compared to all the other moneys coming in from Inter-American Building Bank and other sources. And, on this $50 million, we were going to reform the political structure of Honduras, and we were never going to succeed, and they were going to say yes to whatever we wanted; and, then, we have the problem that we have a loan that had been authorized, but no disbursements, because they weren't living up to the commitment. So, we extend waiver after waiver after waiver, and they got the loan without our conditions.

But, the point of the matter is that we approach our relations with the attitude as if we were dealing universally with Honduras and Latin America. And, the point is that we bring people into Washington that have that same notion, that somehow we picked it up from Teddy Roosevelt, we can still revolutionize the world, and we can't. We are very, very important to handle all these changes.

Representative LONG. In Vietnam, for example, we tried to do the same thing for a long period of time militarily; Vietnam is a good example of the fact that we cannot do it militarily. Perhaps the failure to develop an adequate export market for the United States is evidence of the fact that we cannot impose our will and our form of government upon other parts of the world economically either. We learned the hard way with respect to Vietnam, and it concerns me that we are perhaps learning the hard way with respect to economic policy as well.

Mr. Arellano.

Mr. ARELLANO. Mr. Congressman, I would like to respectfully suggest that what we need to do in the United States is to clarify our own sense of direction of where we are going and what it is we need to do in the future. Some time ago I had the question asked of me: How did I make decisions in the Department of State? The answer I gave, it seems to me is fairly obvious: If you are not going to be accused of malfeasance or certain misfeasance, the first question that you have to ask is, "Is this good for the United States and for its citizens?" If the answer is equivocal or marginal, then, let's rethink and relook at the policy.

It seems to me that many of the policies that have been criticized here today are policies that indeed need rethinking. This country has to ask itself, "What is America all about?"

We do not have a cohereant national export policy. I will submit to you that the only people that really could implement or give us a coherent national export policy is the Congress of the United States. The executive branch will carry this through. We have good servants of the public will, but it is on the shoulders of yourselves and your peers to design with other people——

Representative LONG. One of the things we are hoping to accomplish by these hearings is to point out to the Congress—to the legislative committees—the necessity of developing a coherent export policy for the United States. And one of the reasons that we are holding hearings in the field, as well as in Washington, is to get points of view that differ from the narrow, limited point of view that tends to develop in one particular area. We also hope to stimulate some action in this regard.

Mr. Parrott, you wanted to make a comment?

Mr. PARROTT. It was referring to something we had said earlier. And, basically, I think as long as we can—there is not a major political or a military reason for saying we are going to write off an area, that as long as you have a flow of trade between two areas, you have an opportunity to resolve the differences and work out the problems between those two areas. When you have to finally go to the boycott or embargo or something of this nature, then you have totally destroyed any lines of communication, be it to Red China or be it Chile or any other area of the world, that once that is done, you have reduced your flow or your exchange of ideas to strictly the diplomats, and at that stage, that's when I get scared.

Representative LONG. I agree. I think that's correct. It needs to be developed on as broad as possible base.

Let me move into another really very, very tough problem. As Mr. Guerra pointed out, we all want to boost exports, which is one of the reasons we are here today; at the same time, we have a somewhat conflicting policy with respect to the maintenance of a domestic shipping industry through policies of cargo preference or equity. Let's drag that one up the hill and back down again. How can both of these policies be accomplished without damage to either? Can we skin both of these cats? Who's got a point of view on this? Mr. Rusovich, you've been in the shipping business for a long time. How do you see our ability to resolve this problem?

Mr. RUSOVICH. Well, I don't think I fully understand the question or the point that was suggested. I'm not too clear in my mind exactly what that point was. If you can restate that, Mr. Chairman, I think I could better respond to it.

Representative LONG. As I understood Mr. Guerra's remarks, the preferential treatment that is given to American carriers under some programs is causing some difficulty to American exporters because of the increase in prices that result from the preference. Is that a correct statement of this, Mr. Guerra?

Mr. RUSOVICH. I understood. I was relating that also to the Russian bottoms today, which is also a very serious problem.

On the support of the U.S.-flag carriers, this relates to the Exim loans, U.S.-funded projects. Now, right now, for example, through the Port of New Orleans—and I can make this by way of specific reference—there will be a very large grain silo project going to Alexandria, Egypt. In this instance, three European shipping companies proposed; on this project of an American company, their rates were so appreciably lower than the American carriers that the American carriers couldn't approach within 30 percent the rates as quoted.

Now, that would be fine were it not U.S. Government funds. But, here is a case where the U.S. Government would be pouring further dollars into foreign coffers, had they dispensed with this requirement of U.S. bottoms.

I think that under free enterprise practice, totally free, without Government financing, relationship or interrelationship, then, as we all know, and it happens every day, the shipping market is highly competitive, you are breaking fractions sometimes to secure cargoes. But, where the U.S. Government is involved, I don't think we have any alternative, and, frankly, this is exactly what the Japanese do and the Germans do and the Belgians do, whichever projects they would finance, they would insist on the utilization of their vessels. But, certainly I oppose any such action when it relates to private capital. The U.S. Government, fortunately, as of this time, has not taken such action.

Representative LONG. Mr. Guerra, how do you see this?

Mr. GUERRA. I think the problem lies in the fact that when we view an export transaction, we have to view the entire transaction. The fact that we are subsidizing the U.S. bottom by requiring that 50 percent of the cargo, 100 percent of the cargo, has to go out if it has been financed by the Eximbank.

Mr. PARROTT. [Unintelligible.]

Mr. GUERRA. I can't speak for the entire gamut of programs by the Eximbank, financially, but the one I encountered, it was specifically—I specifically encountered a situation where we were going to lose the transaction because of the fact that we would have to pay 30 percent higher freight because of the U.S.-flag carrier requirement. My position is that if we want to subsidize the maritime industry, fine. But, don't do it at the expense of the export. Let's find another way of looking at the entire transaction. There has to be a way found not to sacrifice exports in order to reward or to keep our maritime industry alive. It's somehow out of balance, and I don't have a solution. But, somewhere, something doesn't match up.

Representative LONG. Mr. Flammang, give us an academic approach to this problem.

Mr. FLAMMANG. Well, I think one solution would simply be to separate the merchant marine problem from the export promotion problem. If we want an effective merchant marine, let's subsidize it to the extent necessary to meet the competition on shipping rates. Then let the shipper himself decide whether he wants to ship in American bottoms, Liberian bottoms, or whatever. As it now stands, we are really asking U.S. export shippers to directly subsidize another industry—the merchant marine—that couldn't survive without this subsidy. But there are other ways to subsidize, ways which would not place so much burden on just this one group, the U.S. export shippers.

Mr. GUERRA. We have a three-quarters-of-a-million-dollar shipment coming out of Mississippi of wood that would involve some 50 people including truckers and others, and we were up against a situation where these 50 workers involved in the production of that order out of Mississippi were, in effect, going to subsidize this shipment of wood. And, they couldn't make it go.

Representative LONG. As a Member of Congress, I sometimes have a difficult time sorting out the equities involved in some of these cases. It becomes very, very difficult to develop some alternative method. On the one hand, I believe that it's absolutely essential that we maintain a strong maritime industry in the United States; and, yet, no one has come up with an alternative way of subsidizing—if that's the proper word, and maybe it is—or of keeping a maritime industry, unless we have some kind of protective economic mechanism.

Give us some practical knowledge here, Mr. Rusovich.

Mr. RUSOVICH. I don't mean to simply be controversial with my distinguished colleague here, but every instance, every instance where you have forced patronage of U.S.-flag carriers relates directly to U.S. funding, and everyone is in the same competitive position from the

United States. If Mr. Guerra and 10 others of his competitors are bidding a project, let's say in Indonesia, where the funds originate with the Eximbank, each will then pay the same rate.

Now, in the specific instance I was speaking of, going through the Port of New Orleans, every American competitor bids the identical price, and the foreign competitors were not allowed. This was, for one time, I could say something very complimentary about certain rules and procedures in Washington, because the West German Government, through their subsidiaries here, tried to get this same business. It was ruled that these subsidiaries were not American and thus could not qualify for a project financed 100 percent by U.S. dollars. Now, we are talking about freight that could be maybe $20 or $30 million. That's $20 or $30 million of U.S. funds that would be funneled outside of the United States. Whereas, I believe we have to have a selfish motive, if Exim is financing, well, then, we, in America, want the benefits of that funding and that financing.

In the case of just getting the money for the product, yes, it helps us to that extent. We are paying for it. It's our money. We are lending money at a very low interest rate. But, why siphon off? Why allow millions to go the trade route? We are talking about one project here. Maybe the trade was $100,000 or a few hundred thousand, but actually, under the finance programs of Exim, we are talking millions and millions of dollars worth of freight as can be attested to by Lykes Bros. And, this is all Washington money.

So, all I'm saying, it will siphon off further dollars away from our already ailing dollar. And, yet, all our Americans are competitive in the same project when Eximbank finances.

Representative LONG. But it's only among Americans that we are competitive. I mean, because of the fact that others are able to——

Mr. RUSOVICH. No, sir, Mr. Chairman, that is not so. Because, if the Eximbank funds a project——

Representative LONG. I'm speaking of world trade in general. I am not just referring to American competition, but of export projects such as the one Mr. Guerra was talking about.

Mr. RUSOVICH. Mr. Chairman, the only instance where this applies is where you are forced to use a U.S.-flag carrier or 50-percent bottoms is where the U.S. Government is involved.

Representative LONG. I realize that. And, as I said, I supported that legislation. And, I think it's absolutely essential that we maintain a domestic maritime industry. I am a strong supporter of that proposition.

What we are doing here is exploring the possibility of finding some other way of maintaining that industry, of keeping that industry healthy, which is absolutely essential, if for nothing else than for the military security of this country. In my opinion, if you want to bring it down to the bottom line——

Mr. RUSOVICH. Yes; no question.

Representative LONG. It is absolutely essential that we maintain the industry. What I am trying to explore is how we could do that and allow Mr. Guerra and the small companies that are similar to his to move into this market, to be able to meet the competition.

Mr. GUERRA. If we were competing only against other American exporters shipping with U.S. bottoms with the same U.S. bottoms requirement, we don't have a problem, there. But, in this case, I am involved in identical negotiations with the one I previously cited where if we lose the business, we lose it, not to an American, but to a Frenchman. That's the situation we are up against.

Representative LONG. Mr. Flammang, do you have any comments?

Mr. FLAMMANG. I don't see any reason why the subsidizing of the American shipping industry should have to come to the expense of the American shipper. I mean, a subsidy, itself, could be borne by the general public out of——

Mr. GUERRA. Taxes.

Mr. FLAMMANG [continuing]. Taxes. And, Exim could still have the requirement that you have to ship in American bottoms, but the American bottoms could presumably price in competition with foreign shippers. If there were a general subsidy program adequate for it, that is.

Representative LONG. I, for one, am very reluctant to depart to a subsidy program. I assume that Mr. Rusovich would be very reluctant to pursue such a policy. No one has come up with one in the Congress, and I know there has been no exploration of this that has been acceptable to me, and that's consequently the reason I have supported the measures that I have. I appreciate your point of view on it.

Mr. Parrott.

Mr. PARROTT. In all fairness to Exim, let's remember that this requirement only pertains to those portions of the program where they are directly funded. A large substantial portion of our financial guarantee, our institutions, our commercial banks and other entities, do not require funding and do not require compliance.

Representative LONG. Well, of course, I think all of us know we have other cargo preference problems that do relate to other things other than those directly financed by Exim. As I said, I have supported our current bottoms requirements. I am not completely happy in having done so, but I do it because of the fact that it's one against the other. And, I think the importance of it is the maintenance of a domestic shipping industry.

Mr. Flammang, I was very much interested in your proposal that maybe we should take a leaf out of the Japanese book and design some of our products for the foreign market including simple, low-cost, low-technology types of things for the developing world or for the world poor. Have you given any detailed thought to that, as to what might be some specific types of items that might be appropriate?

Mr. FLAMMANG. Well, I can cite a number of cases of simple products that have gone over well, although none that we have designed, to my knowledge, in the United States. There is a hand-powered wheat thresher that is used in some countries. It doesn't require local electricity or internal combustion engines. There are hand-powered washing machines, I understand, that are used in rural areas of Mexico. There is a bullock, or water-buffalo-powered generator in use in India. There's a bamboo irrigation pump in use in the Philippines. Now, these are not necessarily the kinds of things I would expect that we would have great initial success with, because we would literally have to start our production and marketing efforts from scratch by visiting the countries in question and seeing what the local environment looks like and what the really crying needs of the people are.

One of my students got all enthused last spring when I told him about the lack of suitable containers for carrying water in some countries. Some people even use old Jerry cans, gas cans, and stuff like that for hauling water around. He decided he was going to make a fortune by selling buckets in Africa, Asia, and so forth. It is a relatively simple item.

Of course, not all such products have to be low-technology in nature. You will find little hand-held calculators in use throughout the rural areas of almost any poor countries. They are relatively cheap, but they substitute for the need to string an electrical line to run a cash register. So people may use a cigar box and the hand-held calculator together as a cash-register substitute.

It's going to take a combination of inventive skill and innovative skill to find these items, but I am not saying that we don't already produce many of them. In fact, we produce a lot of them. My objection, however, is with the type of thinking we have in this country. We don't really try to simplify things. It seems like our whole thrust in the area of technology is to be bigger and faster and more expensive, and that approach just about squeezes us out of every market except other rich country markets that are much like our own.

I once read a statement that said that the real genius is the one who can simplify things. I think maybe we have some real geniuses in this country, if we can point our thinking in the direction of making things simpler, smaller, and less expensive.

Representative LONG. Certainly that's been true in a number of fields. In the military field—as for airplanes or carriers or whatever—as the technology has advanced and become more complicated and more diversified, the cost of particular items has increased geometrically. I think that is also true of our general economy, and the general industrial development as a whole. And, I certainly agree with you.

The one thing that Professor Flammang mentioned, if I recall correctly, that we are going to be in a position to cast a vote on in the relatively near future is a proposal similar to what the Japanese have with their Ministry of International Trade.

Mr. FLAMMANG. Uh-huh [indicating an affirmative response].

Representative LONG. Currently before the Congress, we have a provision, or at least a proposal, to establish a U.S. Department of Foreign Trade. Who has a view on this from the various perspectives represented here today?

Mr. FLAMMANG. I am all for it. I think that if you are talking about making export policy more coherent and raising the level of awareness of the American people of the importance of international dealings in general, then we shouldn't hesitate to create a Department of Foreign Trade. After all, when energy became of prime importance to us, we didn't hesitate in creating a Department of Energy.

Generally, I am reluctant to speak in favor of adding something to what's already large in the way of bureaucracy, but I wonder if there wouldn't be some merit in this idea. I don't know. The various coordinating committees concerned with international economic policy don't seem to be able to do the job.

Representative LONG. Mr. Arellano.

Mr. ARELLANO. I would have to disagree respectfully with Mr. Flammang. Unfortunately, any time you create a bureaucracy they've got to do things in order to be self-fulfilled and to feel that they are earning a paycheck. And, the "doing of things" is precisely what I think is wrong with an awful lot of what we are trying to accomplish right now. We have too many people doing things in Washington——

Representative LONG. That don't need being done.

Mr. ARELLANO. That don't need being done. I would hope that we would move in a different direction, Mr. Chairman, and that is to loosen the fetters that tie down and make it difficult to do business abroad. I am very skeptical that another bureaucracy wouldn't just add more.

Representative LONG. Well, I think it was perhaps Mr. Parrott who mentioned the problems that companies trading abroad have when they deal with our diplomatic missions and the commercial attachés of those diplomatic missions in foreign countries. I know that I have received numerous complaints about the missions. Some constituents complain that commercial—that they felt officers seem to feel if they are particularly helpful that this might be interpreted as favoring one company over another company. Consequently, according to the complaints, they take the easy, bureaucratic way out and end up handing you a pamphlet and showing you to the door.

In my opinion, I think the other thing that needs to be——

Mr. PARROTT. Well, the point I made the last time, and the question that you just raised on the Department of Foreign Trade, though, I don't think really resolves that issue. You have gone back and forth on whether the commercial attaché is State or Commerce. When he's Commerce, he's an outsider. When he's State, he's back into the situation. And, you really, by putting a third entity in there, I don't think it necessarily simplifies——

Representative LONG. You might be complicating it——

Mr. PARROTT. You might be complicating it even more.

Representative LONG. It's a real danger, and this often happens. If we could be sure that we were going to get a complete new approach and a new attitude toward the problem then I think perhaps all of us might be more favorably inclined toward a new Department.

Mr. GUERRA. I think the priority is to find the same staff, the same organizations that now exist and can handle it, and I give you a case in point. We didn't have a human rights bureaucracy in the State Department the way it is now established, taking over one whole floor of the State Department. Something like that. And, the priority was established on human rights, and look at all the poor people that focused on that. We can do the same thing with export promotion.

Mr. PARROTT. Commerce has had these on numerous occasions in the past, the apparatus and field offices, and in all due respect, at this time——

Representative LONG. I have been in some of the commercial offices. But, again, it's basically an attitude problem, I'm afraid. At least, from my very limited experience in this field of just going into them when I have had an opportunity to go abroad, and from the experience I have had with constituents who have attempted to deal with them.

Mr. RUSOVICH. Mr. Chairman, if that subject is concluded, may I go back into another subject?

Representative LONG. Surely.

Mr. RUSOVICH. I understand the need to talk about these things, and I certainly agree that there are things that should be done, and they are in order. But, I am a realist, and I like to deal with immediate problems. I am a businessman. I see the situation, I see the way the situation is going nationally and internationally with the dollar. I see the U.S. exports falling off. I see the imperative necessity of rebuilding drastically, immediately our export trade, and I really would urge again the reenactment of section 911 and officially state that the facts and statistics that I suggested earlier, that is that the American foreign contractors are so instrumental in giving strength to our dollar today, unbeknownst to many in Washington, but I have discovered that they don't realize that there is $30 billion worth of back orders in the United States today with major American contractors. And, this is as of the moment, $30 billion. We lost about $20 billion to our competitive nations over the last year because of various Washington policies.

So, certainly from the point of the trade mart and the city of New Orleans as a world trader, I would urge the reenactment of section 911, giving the American corporations that are doing work overseas, the necessary tax advantages to be internationally competitive. This includes the major U.S. contractors and oil companies who are generating fantastic business for the United States. I just don't carry those statistics with me at the moment—I do have them in my office—reflecting just how much they do contribute to dollar return, to a recycling of the petrol dollar, and these contractors are beleaguered at this moment.

Right here in Alabama, they are struggling with a $3,500 million contract. They don't know what they can do with it at this moment, because they don't know how to structure the tax situation for their people. And, California-Bechtel Corp., as you know, they have been having a lot of problems, a $7 billion backlog. Flour Corp., a $4 million backlog. These are all of our front people. And, the major oil companies putting up petro-chemical plants all over the world.

Why doesn't Washington understand that? I don't understand. Every Congressman and Senator I meet, for the most part, are charming, intelligent gentlemen, including your good self, Mr. Chairman. And, I know that you are on our side, and you understand what we are saying here, and you are trying to promote world trade. But, what I really don't understand is how these gentlemen can sit up there ignoring all the facts of the dollar.

You take the U.S. Army Corps of Engineers, when the boycott legislation was going on, Washington apparently was not aware that the U.S. Army Corps of Engineers were the consultants for the Saudi Arabian Government to the extent of $15 billion right now. They are placing orders as consultants. They are writing the contracts. And, here was the U.S. Government taking a position against U.S. private enterprise and business when a branch of the U.S. Government was deeply involved in Saudi Arabia. But, that wasn't even mentioned. I'm glad it wasn't, because that would have done even more damage. I just want to reiterate that point, Mr. Chairman.

Representative LONG. What we are attempting to do, as I have stated twice before, is to get more discussion started on the problem of exports, more education on the subject, and more recognition of the problem. I find that many Members of Congress who are educated, intelligent, well-intentioned, and hard-working people simply do not have a full understanding of this problem, primarily because of the press of so much other legislative business.

I happen to be from an area that is faced with a particular problem, and that consequently understands it. We're hoping we can do a little bit of an educational program in this respect, because we have had very little success so far in moving in this direction. We must evaluate export policy in a comprehensive fashion, including a reconsideration, as you point out, of the Internal Revenue Code and its application to the people doing business abroad. And it's got to be done soon. We really can't afford much more time to investigate. I agree with you completely in that regard.

I would like, if I may, to impose upon you gentlemen a bit further by asking if we may submit additional questions to you. We are attempting a comprehensive study, and it's impossible to cover all of the questions today. I think we have had a stimulating discussion. I know that I have profited by it, and I hope that you have. I think our audience has.

On behalf of the Joint Economic Committee, I would like to express our appreciation to you for taking the time to prepare your testimony here today, and for taking the time to be with us. Thank you very much.

[Whereupon, at 12:45 p.m., the subcommittee recessed, to reconvene at 10 a.m., Friday, September 29, 1978.]

[The following written questions and answers were subsequently supplied for the record:]

RESPONSE OF HON. RICHARD ARELLANO TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE LONG

Human Rights and Export Promotion

Question. When and in what manner should we restrict trade in the pursuit of human rights in foreign countries? How much export trade has been foregone in pursuit of the Administration's human rights program?

Answer. When we pursue our human rights policy objectives in a country, the State Department uses the full range of policy instruments at its disposal. At the same time we remain sensitive to our other legitimate foreign policy objectives. In this regard we are guided by the President's objectives of promoting U.S. exports as recently announced in the National Export Policy. We pursue our human rights policies through demarches, public speeches, foreign assistance policies, multilateral initiatives, etc. When considering which combination of the various policy instruments at our disposal to utilize, we consider how effective our actions are likely to be, given the differing nature of our various bilateral relations.

As a general rule we do not interfere with the commercial transactions in pursuit of our human rights objectives, because in most instances we do not believe that it is likely to effect change in a country's human rights situation. This is particularly true if other supplier countries stand prepared to supply goods or financial services that we fail to provide.

During the past year we have complied with the spirit and letter of PL-95-143, which required the "taking into account" of human rights concerns by the Ex-Im Bank. In the cases of only a few countries has the Department advised the Ex-Im Bank not to proceed with a transaction at a particular time because of human rights concerns. These occurred in countries with continued and serious violations and only in conjunction with the use of the full range of political and diplomatic tools available to us.

The President's National Export Policy states that it is important that both the private sector and federal government place a higher priority on exports. It directs the Departments of Commerce, State, Defense and agriculture to take fully into account the consequences for U.S. exports when considering the use of export controls for foreign policy purposes, and to give weight to whether the goods in question are also available from countries other than the United States.

The amended Ex-Im Bank Act (H.R. 14279) contemplates that human rights will still be a factor in Ex-Im Bank activities. It states, "Only in cases where the President determines that such action would be in the national interest where such action would clearly and importantly advance United States policy in such areas as international terrorism, nuclear proliferation, environmental protection and human rights, should the Ex-Im Bank deny applications for credit for non-financial or noncommercial considerations." We believe that our policy actions in this area are consistent with this legislation.

In a very few countries the State Department has advised Ex-Im not to go forward with a particular transaction at a particular time. In some cases the State Department subsequently advised Ex-Im that the situation had changed and that we no longer had any objection to Ex-Im considering a particular request. Ex-Im Bank's ultimate disposal of any of these cases is difficult to attribute to any one factor. Sometimes Ex-Im might not have gone forward with a given proposal for other reasons, primarily financial.

With regard to military sales and commercial sales of Munitions List items, a wide variety of factors is studied before any given sale is approved or denied. Regional considerations such as potential for conflict, impact upon the region, ability of the recipient to absorb the equipment, ability to pay, as well as human rights are given full consideration in each instance.

Concern for human rights has always been a vital factor in our decisions. Beginning in 1976, legislation has further defined this aspect of arms transfers. We have not, as a matter of policy, approved transfers to police forces and similar organizations that have been involved in abuse of human rights. In certain instances transfers to military forces so involved have also been proscribed. As you know, the recently enacted International Security Assistance Act of 1978 amends Section 502B (a) (2) of the Foreign Assistance Act of 1961 by adding that "Security Assistance may not be provided to the police, domestic intelligence or similar law enforcement forces of a country, and licenses may not be issued under the Export Administration Act of 1969 for the export of crime control and detection instruments and equipment to a country, the government of which engages in a consistent pattern of gross violations of internationally recognized human rights unless the President certifies in writing to the Speaker of the House of Representatives and the Chairman of the Committee on Foreign Relations of the Senate that extraordinary circumstances exist warranting provision of such assistance and issuance of such licenses." On the other hand, sale of weaponry for commercial resale in the civilian markets generally has not been so constrained since has little or no impact on human rights.

Exports of agricultural goods under Commodity Credit Corporation loans have been less affected by human rights considerations, since these loans are made on a commercial basis and are primarily to support U.S. farm sales. CCC credits have been denied on human rights grounds in two cases in the hemisphere (on wheat to Chile—$10 million in November 1977, $25 million in June 1978). In two other instances involving Chile and Uruguay credits were approved ($48 million, Chile, wheat, April 1977: $4 million, Uruguay, potatoes, June 1978).

The PL–480 program, in contrast, while also aimed at assisting American agricultural exports, is primarily concessional and accordingly subject to social criteria such as recipient country per capita income and human rights. The human rights criterion was explicity stated by Congress in PL 95–88, an August 3, 1977 amendment to the Agricultural Trade and Assistance Act. There are, however, no export losses under PL–480 attributable to human rights considerations. Since there is only a finite and limited amount of PL–480 funds appropriated, any decision not to loan PL–480 to a country with serious human rights problems would leave the same funds available for later loans to countries with better human rights observance.

We cannot estimate how much trade has actually been foregone in the pursuit of human rights objectives. There may have been potential applications for U.S. government financial assistance which were not filed because of a supplier's knowledge that Ex-Im Bank or other support was not available to a specific country.

We hope that a general improvement in specific human rights cases will allow us to arrive at determinations favoring financing in situations which have been difficult in the past. Our review process is a dynamic one which will consider changing circumstances with regard to individual cases.

The Department of State shares Congress' interest in encouraging U.S. exports. It has been a rarity for exports, other than military or police goods, to be affected by human rights restrictions. This will continue to be the case.

Department of State and Trade Promotion

Question. Should State retain the responsibility for U.S. commercial officers overseas? Has the State Department increased its commercial emphasis in the last few years? Have the promotion prospects for State Department commercial officers improved? Have they begun to rival those of the political officers?

Answer. The Department of State in its overseas support of the commercial program attempts to respond to the needs of all American firms seeking assistance. As a practical matter, however, it has been our experience that small firms—especially those new to a foreign market—are more likely to seek the assistance of our posts abroad than are larger, more experienced firms.

While the Department of Commerce has the primary responsibility in the U.S. for maintaining the grass roots contact with American industry, our industry utilizes the Embassies and Consulates for assistance with their foreign trade promotion efforts. Foreign Service commercial personnel regularly visit Department of Commerce District Offices and, through these offices arrange to meet with American firms, many of which may be small and new to exporting.

Since the 1972 decision by Under Secretary of State Irwin laid down guidelines giving high priority to the export promotion programs of the Department, we have consistently provided a high level of support for U.S. exporters and businessmen abroad. More recently, in response to the National Export Policy Task Force recommendations we have already budgeted for 20 additional commercial positions targeted on high priority markets in the Mid-East. Taken at a itme when the State Department was forced to make severe cuts in many programs, this step illustrates our continued attention to our trade promotion programs.

PERSONNEL POLICY

In the past five years the Department of State has made major efforts to improve its economic and commercial capabilities to serve the American business community more effectively.

A comprehensive program to improve the quality of Economic-Commercial Officers has been initiated.

We have stepped up recruitment in business schools, have set much higher targets for the intake of Economic-Commercial Officers than for other major groups and have examined more carefully for professional competence in these areas. An adequate number of well qualified Economic-Commercial Officers is now being recruited and selected into the service.

We have expanded our exchange program with the Department of Commerce and our interchange with private industry.

Our training programs have been improved and enlarged. Since 1972 more than 300 officers have attended our special six-month intensive economic-commercial course (which was expanded by four weeks to include more commercial material). We now send approximately ten officers each year for advanced university training in economic-commercial specialties. Market research seminars and general economic training for non-economic officers are being held abroad to upgrade economic and commercial capabilities. Foreign Service Institute training for the commercial function adequately prepares FSOs to carry out effectively their commercial responsibilities.

Our staffing and assignment policies have been revised to focus on an integrated approach to economic-commercial work to assure that a broader spectrum of officers gain experience in all related fields and to make these officers more competitive for senior positions in the Foreign Service. The results of this concentrated effort are by now apparent. Real progress has been made in filling a number of senior positions with officers experienced in economic-commercial work.

Promotion data for the years 1972 to 1976 indicate that Economic-Commercial Officers overall had generally faster promotion rates than other Foreign Service functional groups. The average age and average time in class of economic-commercial promotees in 1976 was lower than that of other Foreign Service specializations. Career integration is widespread. Two out of three Economic-Commercial Officers have experience in both economic and commercial work. FSOs with an integrated economic-commercial career pattern have fared better in terms of promotions than either "economic" or "commercial" specialists.

We continue to work closely with the Commerce Department, which plays an integral role in all major aspects of personnel management through membership on the policy level of the Board of the Foreign Service and the Board of Examiners and through active, direct involvement in our entry programs, in our assignments process, in our promotion boards and in the Foreign Service inspection process.

The success of the major efforts made in this area has been recognized by the January 1977 Joint State/Commerce Evaluation Report which documented the Department's recent actions and the many concrete accomplishments achieved since 1972.

EXPORTS: TIME FOR A NATIONAL POLICY

FRIDAY, SEPTEMBER 29, 1978

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room S-207, the Capitol, Hon. Gillis W. Long (cochairman of the subcommittee) presiding.

Present: Representatives Long and Daniel, and Senators Sparkman and Javits.

Also present: Louis C. Krauthoff II, assistant director; Kent H. Hughes, Katie MacArthur, William D. Morgan, and Pella Pompier, professional staff members; and Robert H. Aten, Charles H. Bradford, and Stephen J. Entin, minority professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LONG, COCHAIRMAN

Representative LONG. The hearing will come to order.

Since everyone is operating under a limited time schedule, we will proceed a little bit out of order. I have a short opening statement. I don't think it will take more than 5 or 6 minutes, and then, since Mr. Weil has been head of the task force, we will ask him to give 2 or 3 minutes of an overview. Then since Mr. Bergsten has an appointment that he changed specifically to be able to be here with us today, we will move immediately into his testimony. Finally, we will go into a panel discussion with our other witnesses, if that meets everyone's approval.

First, as I think all of us know, the national attention has begun to focus on the need for a strong U.S. export policy. The very size of our trade deficit has been cause for concern. In part, the weakness of the dollar in international currency markets can be traced to the trade deficit. And in turn, the yearlong decline of the dollar has added to our inflation problems and created the kind of uncertainty that slows world growth. For Germany and Japan, two of our leading trading partners, the dollar has dropped so rapidly in value that they face painful adjustments in their export industries.

The magnitude of our trade deficit has also put pressure on fiscal policy and contributed to the large Federal deficit. A strong export policy could help reduce the trade deficit, and make a substantial contribution toward bringing the budget deficit under control.

Greater emphasis on exports becomes even more vital in light of the apparent increase in the importance of imports in the American economy. A national energy policy and the depreciation of the dollar may reduce the growth of imports, but for the foreseeable future the United States is going to become more dependent on imports than at any other time during the post-World War II era.

Although the first U.S. trade deficit was recorded in 1971, the trend toward a deficit had been apparent since the early 1960's. For years, overseas profits from U.S. investments and the sale abroad of U.S. technology and services brought the United States a substantial surplus on current transactions with the rest of the world. Profit remittances and the sale of technology and services are still strong cards in the international hand of the United States. They offset about half the 1977 trade deficit and kept the U.S. current account deficit at the $15 billion level. Two recent developments, however, suggest that the services side of U.S. current transactions may also begin to weaken. First, foreign governments now control substantial holdings of U.S. Treasury securities. Interest being paid on those bonds will be a further drain on the U.S. current account. Second, more and more foreign-based companies are establishing operations in the United States. When dividends from the investments start to flow home, they will offset American earnings on her oversea holdings.

Imports now account for a much higher percentage of U.S. gross national product. By all indications, the United States will be generating smaller surpluses on the services side of the current account. The spotlight is squarely on U.S. export performance.

I think we all have to conclude that in recent years that performance has not been good. Part of the problem lies in slow growth rates overseas. About 40 percent of our manufactured exports consist of machine tools and other capital equipment. Slow growth economies do not provide good markets for capital equipment.

There is also considerable evidence that we have simply been priced out of some markets. High rates of domestic inflation, low productivity growth and Japanese intervention keeping the value of the yen down, have all played a part.

In the Congress and the country, there is a growing suspicion that there is yet another answer, and that is the one we are addressing here today: We simply have not been emphasizing exports enough.

For many years, the United States has been a "better mousetrap" country, relying on superior technology to draw the world to her export door. That policy is obviously no longer enough.

Export promotion is not a substitute for controlling inflation, or for a national energy policy. Nor is it any reason to stop pushing either better mousetraps or less expensive ways to make them. But for America, an improved program of export promotion appears to be a necessary fact of economic life.

Tuesday, the President announced the first phase of the administration's new export policy. To my mind, the single most important feature of the new policy is the clear commitment to give exports a much higher national priority.

There is also much to be praised in the specifics of the President's plan. With my home State of Louisiana heavily involved in agricultural trade, I was pleased to see that the President had not neglected the potential for boosting our agriculture exports. There are several other attractive aspects of the President's program—a sharp increase in funding for the Export-Import Bank, a targeting of $100 million in

SBA loans for small business exporters, and streamlined export procedures throughout the Government.

However, several potential features of an effective export policy—among them tax incentives, amended antitrust laws and clarified antiboycott provisions—were not included in the first phase of the President's proposal. I am particularly concerned about the lack of specific tax initiatives. The administration did propose some changes in the taxation of the foreign earned income of overseas Americans, but has not been active in seeking an agreement with the Congress. Largely in the absence of administration participation, first the Senate, and more recently the House, have passed their own measures.

This morning we have an opportunity to discuss the details of the President's plan with the principal architects of the new export policy. We are very pleased to have with us this morning Frank Weil, Assistant Secretary of Commerce for Industry and Trade and the head of the Executive Committee of the Task Force on Export Policy; C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs; Julius Katz, Assistant Secretary of State for Economic and Business Affairs; G. Edward Schuh, Deputy Assistant Secretary of Agriculture for International Affairs and Commodity Programs; and John Moore, President and Chairman of the Export-Import Bank of the United States. Mr. Moore has an appointment and is due here shortly.

We have with us Congressman Dan Daniel of Danville, Va. He is chairman of a Special Subcommittee on NATO of the House Armed Services Committee, and is particularly interested in this new export policy and how it is going to affect our NATO allies.

Dan, we are happy to have you with us.

Representative DAN DANIELS. Thank you, Mr. Chairman. I am glad to be here.

Representative LONG. Senator Sparkman, do you have anything you want to add?

Senator SPARKMAN. I don't see how I can add anything to that fine opening statement.

Representative LONG. I want to thank all of you gentlemen for pushing our hearing into your hectic schedules. I know Mr. Weil had another congressional appearance this morning and is off to Japan tomorrow. Mr. Bergsten is in the midst of some international negotiations. John Moore has been caught with another appointment and will be joining us in a few moments. Thank you all again.

Mr. Weil, if you would, give us an overview for 2 or 3 minutes, recognizing Mr. Bergsten's time limitations.

STATEMENT OF HON. FRANK A. WEIL, ASSISTANT SECRETARY OF COMMERCE FOR INDUSTRY AND TRADE

Mr. WEIL. I am happy to be here. I am not sure I can add to your overview.

We welcome the opportunity to be here and discuss the policy the President announced on Tuesday. I would like to keep my remarks brief, because I know Mr. Bergsten has an appointment elsewhere.

To make two or three general comments: As you observed, one of the premises on which this export policy was based is that there has been increasing evidence in recent years that price alone is a less important part of the selling equation in the world at large. Not that it is unimportant, but it is less important.

For that reason, we began with the premise that we could not rely entirely—as we have in recent years—on the price adjustments that take place under the floating exchange rate system.

Putting it another way around, as we used to say on Wall Street, "You don't get the order at any price if you don't ask for it." The United States has been a country not inclined, for a variety of historical reasons, to ask for the order. We were not an importing nation, and did not feel the need to be an exporting nation.

Interestingly enough underneath the cover of the significance of our oil imports, which in fact is a major part of our problem, we have had a serious deterioration in our nonagricultural, nonenergy trade balance in the last 3 years. We have gone from a surplus in that trade balance 3 years ago of $13 billion to a surplus last year of $3 billion. This year, so far, we are running at an annual deficit in that balance of about $9.3 billion. Thus, even during a period when we are getting price advantages, we are losing our share of world markets.

Another way to put it is that if we had had the same share of world markets in 1977 as in 1974, our exports would have been $14 billion higher. In viewing the new program, some of the people that see the problem feel that we haven't addressed adequately their concerns. It is like the three blind men and the elephant—big companies, medium companies, minority companies and the like—all view the problems differently. In the policy we try to address as many of their concerns as we can.

We also try to do this in a way that doesn't cost a lot of money. The historical approach of throwing money at a problem to solve it is simply not going to work today. We have tried to find ways to address the problem, without great cost.

This current effort began on April 11, when the President formed this task force with Secretary Kreps. We were a little late in forwarding our recommendations and the summer holiday slowed us down a little more. But we found that what we had worked on was not that different from what had been worked out four times previous to this effort. Hopefully, this program will have a more sustained push behind it, because, unhappily, the problem is more likely to be a lasting one than it has been in the past. Very quickly, in the program we will increase Government support in the various ways the chairman mentioned.

We will also attempt to get better balance in those governmental activities which have been a drag on exports in terms of our domestic regulatory processes, as well as the application of foreign policy concerns.

This does not mean we will be any less concerned with safety, human rights and the like. But we want the decisionmaking process to reflect the new concerns for our trade balance, the dollar, and inflation.

So the overall program is an effort to bring better balance into the Governmental process. We have been asked a number of times which, of the various measures in the program, are the most important. I have said on numerous occasions that it is a little like asking parents which of their seven children they love the most. It is a question you can't give an answer to. I have never seen a table with four legs stand with stability on less than four legs. Yet, I think the most important part is what the chairman mentioned—raising the priority of exporting. In the Ways and Means Committee, it was reported over the year that trade was priority No. 999. Some of the members thought that was too strong a statement, and it was revised, to 997. [Laughter.]

Representative Long. We would like to put your prepared statement in the record and have a roundtable discussion a little later.

[The prepared statement of Mr. Weil follows:]

PREPARED STATEMENT OF HON. FRANK A. WEIL

The Problem

In 1977, the United States suffered a record $31 billion trade deficit. Recent monthly figures suggest improvement but large deficits may persist. Although it will take some time to correct this situation, the message from the exchange markets is clear: we must act now in a forceful and decisive fashion to reduce these imbalances. We are moving to restore the value of the dollar on several fronts. At the same time, we must address the basic causes of the deficit.

Oil imports are, of course, a major factor contributing to this deficit. A comprehensive energy program is needed to deal with this situation. At the same time, we must remedy another fundamental trade problem—one that is often overlooked when we evaluate our overall trade position—slow export growth and a deteriorating U.S. position in world trade.

Adjusted for inflation, real U.S. exports have shown virtually no growth in more than three years. Our competitors, by contrast, have managed a real export growth rate of nearly 4 percent a year despite slow worldwide economic growth. Consequently, the United States has been losing its share of world markets. Had we maintained the same share of industrialized country exports that we had in 1974, our 1977 export level would have been $13 billion larger.

The problem is particularly severe for manufacturers, which constitute two-thirds of our exports. Last year, the volume of agricultural exports was up 16 percent from 1974. At the same time, the volume of U.S. manufactured goods exports has fallen since 1974. In 1976, we had a $12 billion surplus in manufactures trade. That fell to a $3 billion surplus in 1977. So far in 1978, manufactures trade is in deficit at an annual rate of $9.3 billion, although the deficit may be somewhat lower as a result of the recent improvements.

Of course, the present depreciation of the dollar will increase the competitiveness of our exports and thus, over time, help to increase our export sales. The upturn in the economies of our major trading partners will also increase our opportunities for sales. Nevertheless, export growth is unlikely to be fast enough in the future unless we address the fundamental problem—an indifference in this country toward exporting.

Historically, exports have been accorded a low priority by business and government. This must be changed. We must make exporting a national priority.

On April 11, President Carter directed Secretary Kreps to chair an interagency task force to develop recommendations on measures to increase U.S. exports. The initiatives which President Carter announced on September 26 can lead to greater export growth and, in so doing, enable us to fulfill the international commitment the President made in Bonn to improve our export performance. These initiatives are the first step in a long term process. We do not claim instant solutions. It will take time to change old habits.

Increased Government Support

The first set of measures which the President has initiated provides more and improved government support both for existing exporters and to encourage new exporters, particularly small and medium sized firms. By helping to overcome market impediments—lack of information, specialized financing needs, etc.—we hope to encourage companies to take advantage of our recently enhanced export price competitiveness. Our aim is not to thwart the free market, but to make it work more effectively.

Export Financing.—Financing can be a critical factor in making export sales. The Export-Import Bank will be directed to take steps to become more competitive, consistent with our international obligations, through increased flexibility in a number of areas, including interest rates, length of loans and the amount of a transaction financed. To provide muscle for this move, the President will recommend to the Congress that the Bank's lending level in FY 1980 be raised an additional $500 million to $4.1 billion, up from $3.6 billion in FY 1979, and only $2.9 billion in FY 1978. The FY 1977 lending level was on $700 million. In addition to controlling the problem of excessive competition in export financing terms, the President has directed the Secretary of the Treasury to undertake consultations with our trading partners to expand the scope and tighten the terms of the existing International Arrangement of Export Credits.

Small Business Loans.—To meet the special problem of small exporters, the Administrator of the Small Business Administration will be directed to channel to small business exporters up to $100 million of its current authorization for guaranteed loans. Small exporting firms meeting SBA's qualifications will be eligible for loan guarantees totaling up to $500,000 to meet needs for expanded production capacity and to ease cash flow problems involving overseas sales or initial marketing expenses.

Export Assistance.—Commerce and State export development programs will be allocated an additional $20 million.

These additional resources will permit the development of new and expanded efforts to help and assist exporters, particularly small and medium sized firms lacking in experience in overseas marketing.

New and enhanced efforts will include:

an up-to-date computerized information system linking Foreign Service posts, Washington, and U.S. District Offices to provide American exporters prompt access to market opportunities abroad as well as make the vast range of information currently collected instantly accessible and usable to American firms and potential customers overseas;

programs to help small and medium sized firms individually and associations to overcome initial marketing costs and risks through government sharing of initial marketing costs with repayment tied to export sales;

intensified limited duration campaigns targeted to expand U.S. exports in high potential markets;

targeted assistance to help and facilitate new exporters focusing on high potential firms and industries with emphasis on the utilization of cooperative efforts with state and local export development organizations;

expanded staffing in the field and overseas to provide better service to U.S. firms at home and abroad.

Agricultural Exports.—Agricultural export assistance programs including the opening of trade offices in key importing nations and support of legislation to provide intermediate export credit for specific agricultural exports. These programs supplement multifaceted policies which include funding increases for the successful cooperator program, sharp increases in the level of short-term export credits, and aggressive pursuit of an international wheat agreement.

Reducing the Disincentives

There is a second set of initiatives. Over the past several decades we have, in pursuit of many vital domestic concerns, created laws and institutions which have become, in some respects, a burden to the international competitive position of some American industries. While we do not want to turn our backs on those domestic problems, we can no longer fail to take into account the international competitive consequences of their remedies. We must reassess these regulations in light of our record trade deficit and, if possible, reduce these government-imposed restraints.

The President will direct the heads of all Executive Branch departments and agencies to review their major programs and procedures, as well as their major proposed administrative and regulatory actions, for negative export consequences. The agencies will be expected to report back in three months on their progress. He will make a similar request of all independent regulatory agencies. The Council of Economic Advisors will also consider export consequences as part of the Administration's Regulatory Analysis Program. This measure will inject better balance into government decisions with potentially adverse export consequences.

The government can help U.S. exporters by not restricting exports unnecessarily. The President will direct the Department of Commerce, State, Defense, and Agriculture to take into account export consequences when considering the use of export controls for foreign policy purposes. Weight will be given to whether the U.S. goods in question are available from countries other than the United States.

The Attorney General will be directed to provide guidance to the business community regarding the application of the Foreign Corrupt Practices Act. There are a number of grey areas under that important law which must be clarified if the business community is to conduct legitimate business without having to be so fearful of prosecution that export opportunities are allowed to languish.

The Attorney General will also be directed to expedite the Business Review Procedures already available under our antitrust laws so as to relieve the persistent belief among businessmen that the antitrust laws are a serious impediment to doing business abroad. The Departments of Justice and Commerce will work together to clarify and explain the scope of U.S. antitrust laws in the international area—with special emphasis on the kinds of joint ventures which are unlikely to raise antitrust problems. Effective enforcement of the antitrust law is vital to the interests of the United States. Such enforcement should not be a bar to our competitiveness abroad. Further, the President will appoint a business advisory panel to work with the National Commission for the Review of Antitrust Law, which is studying the desirability of expanding the scope of the Webb-Pomerene Act.

The President will sign shorty an Executive Order clarifying the uncertainties surrounding the application of the National Environmental Protection Act to federal export licenses, permits and approvals. The Order will exempt from environmental reviews all export licenses and permits other than those for nuclear facilities. Abbreviated environmental reviews will be required for exports of hazardous products and facilities and in cases where federal actions significantly and adversely affect the environment of third countries or designated global resources.

Followup Activities

While both sets of initiatives will assist private business in increasing exports, we cannot expect dramatic improvement overnight. Increasing our exports will take time and require a sustained effort.

To ensure that this problem continues to receive high priority attention, the President has asked that Secretary Kreps, to direct, in coordination with other concerned government agencies, the continuation of efforts to improve our export potential and performance. She will be working closely with a revitalized and expanded Presidential export advisory body, the President's Export Council, to insure a continuous flow of fresh ideas into our government policymaking process. The President will sign shortly an Executive Order reconstituting the group as a broader-based organization.

There are a number of hard issues which we must still address, among them, that of export tax incentives. As the President has said, the current DISC is an ineffective and costly instrument to promote exports. The DISC should be phased out or, at a minimum, streamlined to make it simpler, less costly and more effective. Any export tax incentive must be cost-effective and in full accord with our international trade obligations and objectives.

We stand ready to work with the Congress toward that goal. The initiatives I have enumerated complement other on-going efforts. We have moved on several fronts already to increase U.S. exports. Our determined efforts in the Multilateral Trade Negotiations; our efforts to explore the capital formation and technological innovation questions which are fundamental to future productivity growth and export competitiveness; our anti-inflation program and the renewed efforts at the Bonn Summit to obtain faster economic growth abroad: this work will have an additional, substantial positive effect on U.S. exports.

Increasing our exports is a major challenge. Better export performance by the United States would spur growth in the economy and create jobs. Stronger exports would help strengthen the dollar and fight inflation.

Our export problem has been building for many years. These actions are only the beginning—a foundation—for a new national export policy. They reflect our determination to give the U.S. trade deficit the high-level, sustained attention it neededs. They are only a first step in a longer-term effort toward greater U.S. export growth.

Representative LONG. Mr. Bergsten.

STATEMENT OF HON. C. FRED BERGSTEN, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. BERGSTEN. Thank you, Mr. Chairman.

What I would like to do is put this particular program into its overall context, which will explain why the President personally has taken such an interest and announced this policy himself, and why it is of such vast importance to the country in a short run and longer run sense.

There are two fundamental reasons that the President announced this policy on Tuesday of this week. The first, of course, is that improved export performance is an integral component of our comprehensive effort to strengthen and stabilize the dollar in the foreign exchange markets now. The President personally and repeatedly has expressed his concern about the dollar, most recently before the annual meetings of the World Bank and the International Monetary Fund earlier this week.

It is quite clear that a major cause of weakness in the dollar has been a growing deficit in our current account. We have, of course, looked at the whole range of options for dealing with the problem of the dollar. It is clear that each has significant costs, but the most constructive on any count is to expand U.S. exports. That is why we have given it such high priority and the President has addressed himself to it.

In perspective, it is important to note that recent trends in our trade balance and the outlook for our trade balance are encouraging. In each of the last two 3-month periods, the average monthly trade deficit declined by $0.5 billion from the previous 3-month period, which I use to avoid monthly aberrations. The average monthly trade deficit has been declining by $0.5 billion from the previous 3-month period. Back in the 3 months ending in February of this year, the average monthly deficit was at an alltime record high of about $3.1 billion. Then, from March through May, it dropped to about $2.6 billion a month, and in the June–August period, it dropped to $2.1 billion.

So it is important to note that there is substantial and steady progress over the last 9 months to reduce our trade deficit.

For the next year, the current account deficit should continue to decline as a result of faster growth abroad, somewhat slower growth in the United States, and the increased price competitiveness of U.S. goods, reflecting the exchange-rate changes that have already taken place.

We believe, as Secretary Blumenthal said in his statement to the IMF meeting, that the current deficit should decline by 30 to 40 percent in 1979 from the 1978 level.

Other observers, such as the IMF, OECD, and Morgan Guaranty, have all predicted a greater decrease in our deficit, from one-half to two-thirds next year. So there is real progress, and that is important to keep in mind.

However, the United States clearly needs to take new export initiatives, for a variety of reasons, despite the recent progress and the outlook for more progress. We have to be sure that the present trends are continued. We need progress beyond what even the most optimistic numbers are forecasting for 1979. That is not good enough. We need to do better.

We have to realize that whatever the outcome in the short run, U.S. export performance simply must improve over the longer run. That is the second basic underlying reason for this program.

The external economic position of the United States is undergoing an important long-run structural change. The sharp increase in our dependence on imported oil and, to a lesser extent, other products, means that the share of imports in our gross national product has risen sharply. There must therefore be a concomitant rise in the share of exports in our GNP—where each single percentage point now means over $20 billion, more than enough to completely eliminate our current account deficit even at this year's record level.

The trade deficit, Mr. Chairman, was a long time in the making. Correction of the deficit will take a long time on a structural and sustained basis. But the clear message, both in the exchange markets and from our trading partners, is that we must act in a forceful and decisive fashion to do so. The new export policy is an important part of the administration's response.

The new export policy is an important part of the administration's response to that problem. As Frank Weil said quite rightly, the United States has never had to emphasize exports as other countries have. Most U.S. manufacturers have been content with supplying the large U.S. market and have never really focused on exports. Our growing economic dependence on the rest of the world now dictates that we become more attuned to exports, just as we must learn to use energy more efficiently and just as some of our major trading partners, notably Japan, must become more attuned to imports. The measures announced by the President on Tuesday do not offer a quick fix, for the simple reason that they address a long-term structural problem and must try to change attitudes as well as policies for the longer haul.

Over the past two decades, the exports of the United States have grown at about half the rate of other industrial nations. Our share of world exports, at a low point in 1972, bounced back some in the next 3 years, but has again fallen back to the lowest level since mid-1972.

There are several reasons for these developments. One is that our major markets, such as Canada and Latin America, have grown more slowly than the major markets of some of our competitors. Indeed, Mr. Chairman, these differential growth rates between the U.S. and its major foreign markets have cost our trade balance about $10 to $15 billion over the last 3 years. It remains true that only the United States has reduced its unemployment rate very much from the recession of 3 years ago. In Europe, Japan, and many developing countries the unemployment rates are higher than they were 3 years ago.

So our market has been growing more rapidly, whereas our foreign customers have been growing more slowly. That alone is a major factor explaining our trade deficits in recent years.

Therefore, the increased growth we will get from Germany and Japan and other countries in the next 18 months is a major corrective factor. But, of course, it goes beyond that. The dollar exchange rate strengthened in the exchange markets in 1975 and early 1976, even at a

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time when our inflation rate was higher than other countries. That undermined our price competitiveness in the recent past. Given the fact that those kinds of effects come through the trade balance with a 2-year by a loss of competitive position in the past. That has been made up, and a little more, by the depreciation in the recent past.

A third reason we have lost market share is that a number of the advanced developing countries, the ADC's, primarily in East Asia have seized a significant share of exports from all the industrialized countries, including ourselves, and the trade changes in the recent past are distorting short-run trade shares in terms expressed in dollars because of the difference in dollars and value calculation.

Having said all that, however, our deep-seated national indifference to exports, both in the private sector and here in Washington, has clearly, played a big role. Such an indifference is simply now to costly, and we can't permit it to proceed.

Mr. Chairman, my second series of comments concerns what it takes to improve U.S. export performance. We know it requires attention to many factors, including productivity, price competitiveness, industrial innovation and initiative, and Government policies.

A key determinant of U.S. competitiveness abroad is the productivity of our domestic economy. Productivity largely depends on new investment, but in the last 5 years productive capital has been virtually stagnant in this country.

The administration's tax recommendations sent to the Congress this year are designed to stimulate capital formation and national productivity.

Another determinant of U.S. competitiveness abroad is the rate of inflation. Excessive inflation here, particularly by comparison with Germany and Japan, has eroded our international competitiveness. The President's anti-inflation program will consist of a broad set of measures designed to bring down the U.S. inflation rate. As those measures take effect, our trade position will improve.

The United States has traditionally enjoyed a comparative advantage in high technology exports. To assure that this advantage is maintained, we have established a task force to examine both public and private research and development efforts. The task force will concentrate, inter alia, on regulatory policies that stifle U.S. inventiveness. Its proposals will further strengthen our economy at home and our ability to meet competition from abroad.

We are also taking important international initiatives to improve U.S. export performance. Trade restrictions imposed by other countries inhibit our ability to export. Tariff, and especially nontariff, barriers restrict our ability to develop new foreign markets and expand existing ones. We have been aggressively attacking these barriers through the multilateral trade negotiations in Geneva. We are encouraged by the progress to date, and foresee more intense negotiations between now and the December 15 deadline.

Foreign governments have increased the financial credits and subsidies offered to their own exporters, sometimes to the disadvantage of U.S. exporters. We have addressed this problem in three ways. First, we have negotiated an international arrangement governing the use of Government financing of exports. Second, in the multilateral trade negotiations we are negotiating an international code to restrict the use of Government subsidies for exports, to assure that U.S. exporters do not face unfair competition. Third, if foreign government competition in the area of export financing cannot be restrained, we will match it as needed. Secretary Blumenthal met with the foreign ministers of each of the other major industrial countries during Monday of this week, and carried to them specifically the message that the international credit arrangements have to be tightened and improved in an effort to avoid excessive competition in this area. We will be pursuing that vigorously in the context of the program I have mentioned.

Finally, a point that Frank Weil mentioned: U.S. Government regulations have also had a negative impact on U.S. export performance. In order to achieve a varied range of foreign policy objectives, the U.S. Government has restricted the sales of certain items to particular countries. These policies have not only reduced sales directly, they have also had a chilling effect on other potential sales of unrestricted items.

The United States is gaining an image of being an unreliable supplier. Foreign purchasers, even though not currently restricted, may decide to buy elsewhere for fear that they may be cut off in the future. The new export policy seeks to confine the negative export impact of other policies to those few cases where vital national interests are at stake.

In conclusion, Mr. Chairman, let me note that these elements are important in our efforts to increase exports. They are not sufficient in themselves because we are dealing with a structural and to some extent additudinal problem. America's export priorities must be changed.

In the course of Government policymaking export consequences are frequently outweighed by other national objectives. Business, as well, too often places insufficient priority on exporting. Too many companies do not believe that exporting is worth the effort. Both U.S. businessmen and the Government need to take a new look at these changed conditions.

First, changes in the value of the dollar in relation to the currencies of some of our major trading partners have dramatically enhanced the price competitiveness of U.S. goods. U.S. manufacturers who may not have been competitive a year ago may now find they can compete quite successfully. We are confident the United States is competitive.

Second, it is also true that the wage gap between U.S. workers and workers in other countries has been closing. No longer is it cheaper to manufacture many products abroad and import them into the United States. In Japan, wage rates have jumped from 53 percent of the United States wage in 1977 to 72 percent in August of 1978. Wages in Germany are now equal to or higher than in the United States for several industries. This is a significant factor that both United States and foreign firms take into account when they consider whether to locate a new plant in the United States or abroad.

Third, we are doing something right. A hundred or so U.S. firms have made major inroads in world markets. The share of exports in our GNP has increased significantly in recent years—rising from 4.1 percent in 1971 to 6.4 percent in 1977. In fact, it was even larger a year or so ago. But this share needs to rise even further. Every percentage point will add over $20 billion of export sales, enough to completely eliminate our current account deficit even at the peak levels of 1977 and early 1978.

It is clear that the U.S. current account deficit is too large. Recent exchange rate adjustments have helped, but additional public and private measures are needed. Those measures should be targeted directly to our trade problems—be they oil imports, excessive inflation in the United States, or inadequate export growth. The new export policy is a critical element in this overall strategy.

Thank you, Mr. Chairman. I appreciate your scheduling matters so that I could appear at this time. I would be delighted to answer a couple of questions.

[The prepared statement of Mr. Bergsten follows:]

PREPARED STATEMENT OF HON. C. FRED BERGSTEN

The Need for a New Export Policy

President Carter announced a new export policy for the United States on September 26 for two basic reasons.

First, improved export performance is an integral component of our overall effort to strengthen and stabilize the dollar in the foreign markets. The President has personally and repeatedly expressed his concern about the dollar, most recently before the Annual Meeting of the International Monetary Fund and World Bank on September 25. A major cause of weakness in the dollar has been the large and growing deficit in our trade balance and current account. The most constructive way to deal with those deficits is to expand U.S. exports.

It is important to note that recent trends in the trade balance, and the outlook, are encouraging. In each of the last two three-month periods, the average monthly trade deficit declined by half a billion dollars from the previous three-month period: from $3.1 billion in December 1977–February 1978 to $2.6 billion in March–May 1978 to $2.1 billion in June–August 1978.

For next year, the current account deficit should continue to decline as a result of faster growth abroad, somewhat slower growth in the United States, and the increased price competitiveness of U.S. goods. We believe the deficit could decline by 30–40 percent in 1979. Other observers—such as the IMF, OECD and Morgan Guaranty—foresee an even greater reduction in the deficit, ranging between 50–67 percent.

Nevertheless, the United States needs to take new export initiatives. We need to assure that recent trends are continued. We need progress beyond even the most optimistic numbers envisiged for 1979. And we must realize that, whatever the outcome in the short run, U.S. export performance must improve significantly for long-run reasons.

This is the second basic reason for our new export policy. The external economic position of the United States is undergoing an important long-run, structural change. The sharp increase in our dependence on imported oil and, to a lesser extent, other products, means that the share of imports in our GNP has risen sharply. There must therefore be a concomitant rise in the share of exports in our GNP—where each single percentage point now means over $20 billion, enough to completely eliminate our current account deficit even at this year's record level.

The trade deficit was a long time in the making. Correction of the deficit will take time. But the clear message, both from the exchange markets and from our trading partners, is that we must act in a forceful and decisive fashion to do so. The new export policy is an important part of the Administration's response.

THE EXPORT PROBLEM

The United States has simply never had to emphasize exports as much as other countries. Most U.S. manufacturers have been content with supplying the large U.S. market and have never really focused on exports. Our growing economic dependence on the rest of the world now dictates that we become more attuned to exports—just as we must learn to use energy more efficiently and just as some of our major trading partners, notably Japan, must become more attuned to imports. The measures announced by the President on Tuesday do not offer a quick fix, for the simple reason that they address a long-term structural problem.

Over the past two decades, U.S. exports have grown at only half the rate of other industrial nations. The U.S. hit a low point of 19.2 percent in 1972, and then rose to 21.1 percent in 1975. Since then, our export share fell again to 18.9 percent the lowest since mid-1972.

Our competitors, by contrast, have managed a real export growth rate (even excluding their exports to the United States) of nearly 4 percent per year since 1974 despite slow worldwide economic growth.

There are several reasons for these developments. Our major markets, such as Canada and Latin America, have grown more slowly than the major markets of some of our competitors, differential growth rates have cost our trade balance about $10–15 billion. The substantial appreciation of the dollar in 1975, at a time when our inflation rate was higher than that of other countries, hampered our price competitiveness in the recent past; it probably cost the trade balance about $5–10 billion. A number of advanced developing countries (ADCs), primarily in East Asia, have seized a significant market share from all industralized countries. And the exchange rate changes of late 1977-early 1978 are distorting short-run trade shares which are calculated in value terms expressed in dollars. But our deep-seated national indifference to exports—both in the private sector and in the U.S. Government—has clearly played a role. Such indifference is now simply too costly.

INCREASING U.S. EXPORTS

A better export performance by the United States would spur growth in our economy and create jobs. Stronger exports would help stem the decline in the value of the dollar and thus fight inflation. But increasing our exports presents a major challenge to business, to labor and to the U.S. Government. It requires attention to many factors—including productivity, price competitiveness, industrial innovation and initiative, and Government policies.

A key determinant of U.S. competiveness abroad is the productivity of our domestic economy. Productivity largely depends on new investment. In the last five years, productive capital per worker has been virtually stagnant—resulting in a sharp reduction in productivity growth. The Administration's tax recommendations sent to the Congress this year are designed to stimulate capital formation and national productivity.

Another determinant of U.S. competitiveness abroad is the rate of inflation. Excessive inflation here, particularly by comparison with Germany and Japan, has eroded our international competitiveness. The President's anti-inflation program will consist of a broad set of measures designed to bring down the U.S. inflation rate. As those measures take effect, our trade position will improve.

The United States has traditionally enjoyed a comparative advantage in high technology exports. To assure that this advantage is maintained, we have established a task force to examine both public and private research and development efforts. The task force will concentrate inter alia on regulatory policies that stifle U.S. inventiveness. Its proposals will further strengthen our economy at home, and our ability to meet competition from abroad.

We are also taking important international initiatives to improve U.S. export performance. Trade restrictions imposed by other countries inhibit our ability to export. Tariff, and especially non-tariff, barriers restrict our ability to develop new foreign markets and expand existing ones. We have been aggressively attacking these barriers through the Multilateral Trade Negotiations in Geneva. We are encouraged by the progress to date; the intensity of the negotiations will increase as we approach the December 15 deadline.

Foreign governments have increased the financial credits and subsidies offered to their own exporters, sometimes to the disadvantage of U.S. exporters. We have addressed this problem in three ways. First, we have negotiated an International Arrangement governing the use of government financing of exports. Second, in the Multilateral Trade Negotiations, we are negotiating an international code to restrict the use of government subsidies for exports—to assure that U.S. exporters do not face unfair competition. Third, if foreign government competition in the area of export financing cannot be restrained, we will match it as needed.

U.S. Government regulations have also had a negative impact on U.S. export performance. In order to achieve a varied range of foreign policy objectives, the U.S. Government has restricted the sales of certain items to particular countries. These policies have not only reduced sales directly. They have also had a chilling effect on other potential sales of unrestricted items.

The United States is gaining an image of being an unreliable supplier. Foreign purchasers, even though not currently restricted, may decide to buy elsewhere for fear that they may be cut off in the future. The new export policy seeks to confine the negative export impact of other policies to those few cases where vital national interests are at stake.

THE OUTLOOK FOR THE FUTURE

All these efforts are important elements in our attempt to increase U.S. exports. But they are not sufficient in themselves. America's export priorities must be changed.

In the course of Government policy-making, export consequences are frequently outweighed by other national objectives. Business, as well, too often places insufficient priority on exporting. Too many companies do not believe that exporting is worth the effort.

International economic changes over the past year have altered the fundamental conditions. U.S. businessmen need to take a new look at these changed conditions.

First, changes in the value of the dollar in relation to the currencies of some of our major trading partners have dramatically enhanced the price competitiveness of U.S. goods. U.S. manufacturers who may not have been competitive a year ago may now find they can compete quite successfully. A U.S. manufactured item selling for $100 in June 1977 cost 235 German marks or 27,200 Japanese yen. That same $100 manufactured item today costs only 196 German marks or 18,800 Japanese yen, declines of 16.6 percent and 30.9 percent respectively. Thus U.S. products are significantly more competitive in Germany and Japan as well as against products of those countries in third markets.

Second, the wage gap between U.S. workers and workers in other countries has been closing. No longer is it cheaper to manufacture many products abroad and import them into the United States. In Japan wage rates have jumped from 53 percent of the U.S. wage in 1977 to 72 percent in August 1978. Wages in Germany are now equal to or higher than in the United States for several industries. This a significant factor that both U.S. and foreign firms take into account when they consider whether to locate a new plant in the United States or abroad.

Third, we are doing something right. A hundred or so U.S. firms have made major inroads in world markets. The share of exports in our GNP has increased significantly in recent years—rising from 4.1 percent in 1971 to 6.4 percent in 1977. But this share needs to rise even further; every percentage point will add over $20 billion of export sales, enough to completely eliminate our current account deficit even at the peak levels of 1977 and early 1978.

It is clear that the U.S. current account deficit is too large. Recent exchange rate adjustments have helped, but additional public and private measures are needed. Those measures should be targeted directly at our trade problems—be they oil imports, excessive inflation in the United States, or inadequate export growth. The new export policy is a critical element in this overall strategy.

Representative LONG. Thank you, Mr. Bergsten. I did have a couple of questions relating to your particular area of expertise, if we may again depart from what we had originally scheduled as a forum.

At the Commerce Department's briefing on Tuesday, the briefing outline indicated that the Administration will undertake to explore appropriate export tax incentives. Frankly, I was a little disappointed that the tax incentives mentioned by the President in this faint phase weren't particularly exciting, nor particularly new.

Can you give us any idea of what your position will be to recommend, or the direction you will be going, or what you might study in that regard?

Mr. BERGSTEN. Mr. Chairman, we do not have firm recommendations at this time, although we did spend a great deal of time during the development of the program trying to devise a more cost-effective tax mechanism to support U.S. exports.

The direction in which we are going is simply that, to see if we can find out whether there are tax measures that would be cost-effective, to provide a significant payoff in terms of U.S. exports, in comparison with the budgetary tax expenditures that would be involved.

We have tried a number of avenues: Changing some of the provisions, thinking about making DISC benefits, or some tax benefits, more directly linked to incremental exports of American firms, perhaps focusing them more directly on small and medium-sized firms to help them enter the export market.

Representative LONG. I have been a sometimes reluctant supporter of DISC myself, because it didn't seem to be cost-effective, in the absence of any other program, however, I have supported it.

I think Members of both the House and the Senate have gone along with DISC with similar reservations.

Mr. BERGSTEN. As the President said, the administration is ready to work with the Congress toward a tax incentive device. We have not yet come up with one. We do want to work with you on it, and under the criteria I have mentioned, we certainly are pledged to do so.

Representative LONG. Relating to tax policy, the President indicated on Tuesday that he is willing to work with Congress to resolve the tax problems that I mentioned in my opening statement relative to IRS Code, section 911.

In view of the fact that both of the Houses of Congress have expanded the Treasury's recommendations with respect to 911, the taxation of overseas income, and have passed specific legislation, have you all determined what you are proposing specifically in that regard now? And, have you analyzed what the House has done and what the Senate has done? And, finally, where do you think this will end up?

Mr. BERGSTEN. Mr. Chairman, I, of course, cannot give you a definitive answer to that. We are studying carefully the outcome in both Houses of Congress, comparing them to our original proposal, and, again, trying to look at the tradeoff between the different factors involved.

We fully agree with you that the oversea presence of Americans, particularly in the corporate sector, is essential in helping support the American economic as well as cultural, et cetera, presence abroad, and, therefore, in many cases is crucial to enable the United States to take advantage of market opportunities in major countries and for major projects.

That, of course, is one side of the issue. We do have to consider on the other side of the question of tax expenditures, the question of tax equity, which, of course, is of great concern to all Members of the Congress as well, and try to reconcile those different considerations to come to an optimum outcome on that issue.

Again, we have indicated, and we are working closely with Congress, the members of both committees here on the Hill and the conference committee that will be meeting on that shortly, in an effort to come to a position that will balance these considerations effectively.

Representative LONG. Last week we were handling the matter on the floor of the House. I handled the rule on the floor for the Foreign-Earned Income Act, and the House passed the measure.

I don't recall the vote, but it passed by an overwhelming vote, and we immediately appointed the conferees. This seems to me to be one of those points where we are going to be down to cases within the next few days, or the next couple of weeks.

I hope there is no possibility that the President is going to veto this measure. This concerns me, because it is a substantial departure from what Treasury had originally recommended.

Do you have any views on this matter?

Mr. BERGSTEN. We are very conscious of the fact that both bills were a bit more generous in their treatment than the administration proposed, or had supported during the hearings and the work on these bills.

We would very much share your hope that the legislation that emerges from the Congress would not run the risk of difficulty later down the line. I certainly cannot predict what the President will do, but I am sure he will consider carefully the three factors that I mentioned, the benefit that it has, but, on the other hand, the tax expenditures involved and the other considerations.

It is our strong hope that as the conference committee puts the package together, it, too, will have those various considerations in mind and, therefore, will come up with a final piece of legislation that would not raise any problems for the President as he confronts it when it comes to his desk.

Representative LONG. When he was speaking of compromise on Tuesday, he was speaking of something that is now at a boiling point. The time is late for compromise, because it is going to be set in concrete here in the next few days.

So, I would throw out for your consideration the suggestion that someone from Treasury carefully monitor the situation so that we do not let this opportunity escape us for working out a compromise that is acceptable to everyone.

I think it is immensely important.

Mr. BERGSTEN. I assure you, Mr. Chairman, that we will do everything toward that end.

Representative LONG. Thank you.

Senator Sparkman.

Senator SPARKMAN. I will pass at this time.

Representative LONG. Senator Javits, Mr. Bergsten has to leave and we have departed somewhat from our format. We are asking Mr. Bergsten questions at this stage.

Senator JAVITS. Thank you, very much.

First, I am told by my staff that the prepared statements were very good, and I will go over them very carefully.

I have this question of you, Mr. Bergsten, about the relationship of U.S. productivity to the fact that we have fallen in our merchandise exports, nonagricultural, and now we have a serious imbalance in nonoil imports, precisely because we are falling down on the things in which we seem to be the strongest.

Nothing that I see in the President's program asks for a national productivity drive, or for a major increase in research and development expenditure, to recapture the technological initiative which made American business great and strong.

Could you tell us about that, what the administration's thinking is on those subjects?

Mr. BERGSTEN. We start from the precise same point that you do, Senator Javits, a deep concern about the lag in productivity growth in this economy.

You are quite right. It does clearly relate very directly along with inflation and a number of other issues in determining our underlying competitive position.

That is one reason why the President in his tax proposal at the outset of this year made a number of suggestions to try to promote capital investment and expand the capital base from which productivity growth would come, cutting the corporate tax rate, liberalize in the investment tax rate, et cetera.

We are continuing to work on those, of course, in the present tax bill and, as we look to the future in the standing Treasury study group on productivity growth, as to what more can be done. The reason it wasn't mentioned and highlighted here, perhaps, is that we had already taken steps in that area. It is under continuing review and we are deeply concerned about additional steps on it.

On the topic of R. & D. expenditures, we have also had in place for many months an interagency working group chaired by Frank Press, science adviser in the White House, with a number of facets, looking at what we can do both in the Government, and helping the private sector to boost the R. & D. expenditures and R. & D. output of U.S. industry and, therefore, contribute from that angle to the productivity situation.

These are topics which I did stress in my prepared statement precisely because they are underpinnings of any successful export policy, and on that we share your view completely.

Senator JAVITS. Don't you think it might have been wiser, Mr. Bergsten, therefore, to attack the root question first and foremost instead of a number of these cosmetic ornaments which now go by the way of an export policy, or an export promotion drive?

The guts of this thing is that American business is not stepping up to the plate and hitting home runs, and don't you think that we ought to lead with that?

Isn't that the reason why so many critics and students say that it is not the oil, because as a traditional example, Germany and Japan import all of their oil. We only import 40 percent, or 40-percent-plus and they are way out in front.

Isn't the real, basic danger and problem the lag in U.S. productivity and the fact that our business concerns are no longer as innovative as they were, and as competitive as they were?

Mr. BERGSTEN. I think the German and Japanese analogies are a bit misleading for two reasons.

One, they have always imported all of their oil, and, therefore, from a structural standpoint were used to having to export enough to pay for the imports. The oil increase hit them badly, but they were in a structural position to respond to it quickly.

The United States has always been a major producer of energy, and still is, so we not only got caught by the rise in price but the decline in domestic products. We had a double gap to fill which put us in a worse situation at the margin than the other countries were to face the increased oil bill.

That, in turn, leads to the structural problem that I stressed in my prepared statement, that we had never been in a position of having to focus on exports, and, therefore, have been slower to respond.

All that being said, I agree with your basic point, that our attack on the export program and the international competitiveness problem, has to encompass every facet of our domestic economy.

What we did in the program we are talking about today was only one aspect of that; namely, the kind of things the Government does to focus directly on the export problem, the Export-Import Bank, the CCC, and a number of things that go directly to exports.

Admittedly, that is a little artificial, because the various elements in the overall framework, meaning our productivity, our ability to check inflation, and maintain the competitive position of the dollar within the exchange market, are crucial to the framework in which any of these things can work.

I don't think it is a valid criticism of this program to say that it didn't address everything, because it aimed at addressing those measures directly influencing export growth.

We are with you on the issue you mentioned. The success of all the overarching efforts will be critical, you are quite right, to what we can come out with with respect to the net bottom line.

Senator JAVITS. You agreeing with me, Mr. Bergsten, doesn't dissuade me from my main point that the President should have led with productivity, research, and development, and lack of initiative in the American business system.

That is the real guts of what is our trouble, rather than the cosmetics of SBA, et cetera, and it makes me worry about whether you really mean business and whether the administration—you understand it.

I know you understand it, and so do I. When you get it all fuzzed up without making it the main thrust, which it is, I am worried that you are not doing what needs to be done to ram it home to America.

We are very complacent about this, you know. This declining dollar can do us in. It is no joke, as every man and woman is going to feel in his pocketbook very soon.

In addition, what about our pride in this country and the fact that the United States was top dog in business and industry, and that is why we won wars, and reformed continents, and now we seem to be losing our marbles.

Now, that is what I hope the President will rouse the country to. It is very serious. We are half the production of the world, and its biggest capital market. If we don't go, nothing will go. Even the Communist countries will have depressions. We are that important.

So I urge you in the public forum, and I urge the President, to give Americans the straight of it. We are falling very short in our country.

Now, that leads me to the next question.

To what extent does the private sector tie into what you and Frank Weil want to do about exports?

Have they really been lined up so that they are going to go to it with a massive export promotion drive with vigor, initiative, and capital?

Have they been lined up so that they are going to be put in a position to render services to the small businessman who doesn't know beans about export, but can be interested, if he is given the facilities?

What about all those questions?

Mr. BERGSTEN. I think Mr. Weil is probably the best person to answer that. We will turn to him with your permission.

Senator JAVITS. We will turn to him.

Mr. WEIL. Before I respond to that question, I would like to make one comment on your prior question on productivity and research and development.

You are dead right. Those are the root problems. But as Mr. Bergsten said, that doesn't mean the other problem of export orientation is not a problem, too. I am a bit disappointed to hear you describe it as cosmetics.

We attempted to deal with some of those problems, and the President's statement recognizes these issues.

Unfortunately, we are living with a reality in this country that our research and development as a share of the world research and development was bound to decline.

We did half of it in 1960. Today we do less than a quarter. The reason for the change is due to the fact that Germany and Japan and other parts of the world were rebuilding their economies and cities and did not at the time have the resources to deploy. Our decline has more to do with their increase.

We have been putting our resources in concerns for the environment, which doesn't necessarily add to productivity.

We had a productivity growth rate of 3 percent in the 1960's, and it is down in the last few years to 2.2. This is a result of a change in the world. I think we have to address those problems.

In addition, as Fred Bergsten said, we have to address the fact that we don't have the export orientation that we spoke of today.

Now, to go to your point; what is the business community going to do?

I think, as many of us have said, this problem has been long in the making and it is not going to be short in the solving. The preliminary response to the program—and by the way we had the private sector very much involved in the formulation of the policy—is that although we have not satisfied all concerns, the response has been positive. The glass is more than half full.

I think we can expect that over time export orientation in the private sector will grow.

Senator JAVITS. Thank you, Mr. Weil. I have one more question to the both of you.

What is the administration now planning to do about DISC specifically, with all the conversation about the fact that it was out the window in the reform; and, also, what do they intend to do about the necessary formation of section 911 respecting individual earnings by Americans abroad?

Do we have a policy, and, if so, can it be stated?

Mr. BERGSTEN. We do continue to oppose the existing DISC because it is not a cost-effective way to encourage exports through the tax system.

We strove mightily during the work of this task force to develop an alternative that we thought would do the job of promoting exports in a more cost-effective way, so that we could propose an alternative.

We have not yet been able to come up with such an idea, but the President said in the message on Tuesday that he wants to work with the Congress, obviously work within the administration, to try to find a device that would achieve that purpose.

I feel badly that we haven't come up with one yet. We will continue to work on it, and we want to work with you toward that end.

On section 911, we had a little discussion before. The bills that are voted out of each House, now, of course, are more generous in this area than the administration has proposed.

Again, we will be working with the conferees in an effort to reach an outcome that balances our very real concerns for maintaining the American presence abroad in order to meet our economic objectives, and also balance equity and tax expenditures that have to be a part of this.

We will be working with the conferees about that.

Senator JAVITS. May I say that I am not quite so mild about it as you gentlemen seem to be. I cannot see your pulling this out unless you have something to substitute in its place that is better.

We need all the exports we can get and we cannot allow them to suffer, even though the cost/benefit is not as well as we would like.

On 911, I can tell you from personal experience that American executives are losing out, and that means directly that American exports are losing out in these countries.

If Americans are not in charge, even American subsidiaries, the nationals in charge who are working for less money are going to buy the products of their countries, and I have seen that in country after country, and I hope that the administration reads those lessons very hard. You cannot beat something with nothing, and you cannot have a vacuum unless you have something better to substitute.

Thank you, very much, Mr. Chairman.

Representative LONG. Thank you.

Thank you, very much, Mr. Bergsten. We understand your time restraints.

Mr. Katz, as I said, we are pleased to have you with us. Gentlemen, if we can try to go back, now, to what we were originally intending to do with the forum, we will go ahead with the prepared statements and then we will have time for questioning.

Mr. Katz.

STATEMENT OF HON. JULIUS L. KATZ, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. KATZ. Mr. Chairman, it is a pleasure for me to be here today. I very much welcome these hearings and the hearings that you are having around the country. I think that that performs a very necessary and valuable effort in focusing attention on this problem.

In the interests of time, and to avoid duplication, I would ask to have my prepared statement placed in the record, and if I could just make a very few comments.

Representative LONG. Without objection, your prepared statement will be made a part of the record.

Mr. KATZ. The Department of State strongly supports the need for a national export policy and the efforts to develop one.

We view a national export policy as a vital element, but only one element of our overall foreign economic policy. A strong U.S. economy and a sound dollar are critical ingredients in a national economy. We cannot have a deteriorating dollar position and expect that the world economy will function smoothly.

At the same time, we have a critical stake in the health of the world economy, and for that reason, we seek to pursue global policies which affect the stability and growth of the world, such as efforts we are making in the current trade negotiations to expand trade and to strengthen trading rules.

We need solutions to the problems related to price stability and the security of supply of food and other important raw materials.

We need programs to conserve energy and develop new energy sources at home and abroad. We need facilities to insure the availability of balance-of-payments financing to those countries in need and increase flows of financial assistance and resources for development.

Now, the success of these global policies we are pursuing will open new export opportunities to us, but the opportunities will not translate themselves into U.S. exports unless U.S. business is prepared to respond to those opportunities, and we have an important role to perform in the Government, primarily by changing the attitude in this country to exports.

You stated very well, Mr. Chairman, in your opening statement what the nature of the problem is and the fact that there are no quick fixes to this problem, and it is for that reason that the national export policy announced by the President approaches the problem primarily from the point of view of changing the attitude in the country.

It is a problem which affects the business community, it affects the Congress, and I might say it has affected the executive branch itself.

In recent years, I think we have done more to legislate against exports than to promote exports, and we are not going to turn that around immediately by providing new Government programs either to finance or to facilitate exports unless we really address the attitudinal problem in the country.

I think we are embarked on this process now. I think we are in the position of turning it around, and what we need to do now is to build momentum. I think these hearings are very important in that regard, and I am glad to be here to participate in them. Thank you.

[The prepared statement of Mr. Katz follows:]

PREPARED STATEMENT OF HON. JULIUS L. KATZ

Mr. Chairman, I am pleased to have the opportunity to discuss with this Subcommittee the role of the Department of State and Foreign Service in the newly announced National Export Policy.

The Department of State participated actively in the work of the interagency task force established by the President to recommend measures to increase U.S. exports. We welcome the comprehensive package of recommendations developed by the Task Force and approved by the President, including incentives for exports and reducing disincentives, which constitute the beginning of a national export policy. We are especially gratified that the Task Force looked to a policy of increased exports as an important element in improving the current trade account. The President's commitment to export growth as an important national objective will provide the direction needed in the Executive Branch and the Congress and should give the business community the confidence to pursue export opportunities more aggressively.

The Department of State views the steps now being taken to develop a national export policy as only one element, but an essential element, of our overall foreign economic policy.

A strong U.S. economy and a sound dollar are critical ingredients of a stable international economy. At the same time, the U.S. has a critical stake in the health of the world economy. It is for this reason that we seek to pursue policies which favorably affect global stability and growth—such as efforts in the current multilateral trade negotiations to expand trade and strengthen trading rules;

solutions to the problems related to price stability and security of supply of food and other commodities; programs to conserve energy and develop new energy sources at home and abroad; facilities to ensure the availability of balance-of-payments financing to those in need; and increased flows of financial assistance and resources for development. The success of these policies will open new export opportunities. These opportunities will not translate into increased U.S. exports unless U.S. business is prepared to respond to those opportunities. Government policy can affect that response—positively or negatively.

Recent events have underscored the need for a clearly articulated national export policy. The U.S. had a $31 billion trade deficit in 1977. Through the first seven months of 1978, the deficit is running at an even higher annual rate. There are a number of explanations: the strength of the U.S. recovery combined with the sluggish growth of domestic demand in Japan, West Germany and many of our other trading partners; the high level of oil imports which now provides 40 percent of domestic consumption and a relatively high inflation rate in the country compared to those of West Germany and Japan.

While all of these developments have played a role in our deficit, they may have masked another fundamental trade problem: slow export growth and a deteriorating U.S. share in world trade, particularly in manufactured goods. Over the past twenty years, U.S. exports have grown at only half the rate of other industrial countries, with the divergence increasing in the last several years. When we take inflation into account, real U.S. exports have virtually stood still for more than three years; in sharp contrast to our competitors who have managed real export growth (even if we exclude their exports to the United States) of nearly 4 percent per year during the same period. While agricultural exports have held up well, and have in fact even grown, the volume of exports of American manufactured goods have fallen since 1974. In 1976, we still enjoyed a $12 billion surplus in trade in manufactured goods. That surplus fell to $3 billion in 1977. So far this year, trade in this category is in deficit at an annual rate of $12 billion.

As a result of the depreciation of the dollar and the appreciation of the currencies of our major trading partners we should expect to see an improvement in our competitive position affecting both exports and imports. Again, the increased competitiveness of our exports which dollar depreciation produces will only expand opportunities. It will not ensure that U.S. exporters take advantage of those opportunities.

The Department of Commerce and the State Department jointly operate programs for export promotion and marketing and it is planned to expand these activities to assist in meeting the goal of maximizing exports. The Department of State performs the following broad categories of functions in carrying out its export promotion activities:

We provide Foreign Service Officers qualified in economic and commercial affairs to conduct export promotion programs. The State Department has roughly 900 Economic-Commercial officers, 300 of whom are fully or principally engaged in commercial work. These officers work in the Department and in our Embassies, Consulates and Trade Centers abroad.

We provide our overseas posts with guidance and assistance in managing their individual export promotion programs. Thirty-seven Embassies in major commercial markets abroad operate under a State-Commerce annual plan called a Country Commercial Program. This management-by-objective document establishes plans and programs for efficiently utilizing our commercial resources to achieve specific goals. Additional Embassies in smaller markets target their activities and manage their resources under a simplified type of annual plan called a Commercial Action Program.

We coordinate with other U.S. Government agencies to ensure effective export promotion assistance for the American business community. For example, information collected at Foreign Service posts is distributed in the U.S. by the Department of Commerce.

At our posts overseas we assist visiting American businessmen to establish appropriate trade contacts and to resolve any commercial problems they encounter.

We assure that all activities undertaken under commercial programs are consistent with overall U.S. foreign policy objectives. This is achieved through frequent interagency meetings among senior officials.

The commercial activities performed by the U.S. Foreign Service are aimed primarily at assisting firms to enter and expand their markets abroad, giving special attention to the needs of small- and medium-sized companies. Foreign Service posts provide these firms, through the department of commerce, with a continuing flow of reports on economic trends and market developments, market research, trade opportunities, major economic development projects, and background financial and commercial information on prospective agents, distributors and purchasers of American products. In addition, the posts actively help organize and promote U.S. trade and industrial exhibitions abroad. They also arrange for foreign buyers to come to the U.S. to visit American trade shows and visit American firms.

Our posts abroad also operate commercial libraries and publish and distribute commercial newsletters to provide the most important business and government buyers, agents and end-users with current information on American products, services and technology. These activities are, of course, in addition to the posts' ongoing assistance to visiting American businessmen and the resident American business community.

With the need to service a larger clientele in mind, the Export Policy Task Force indicated that the expanded domestic staffing necessary to carry out the enhanced level in commercial personnel in our foreign service posts abroad. The President has directed the Office of Management and Budget to allocate an additional $20 million in annual resources for export development programs of the Departments of Commerce and State.

With these new export promotion guidelines, we have begun exploring the following programs in order to be prepared to accommodate this projected expansion:

(1) We have reviewed post commercial activities and business assistance patterns in order to determine in which geographic regions and at which embassies and consulates well might expect the heaviest initial commercial workload increase to develop;

(2) We are identifying those Foreign Service posts which can be expected to cope with the increased work requirements without increasing their resources; then,

(3) We will target selected key posts for additional personnel where this appears necessary; and,

(4) We will explore means of increasing the flexibility of our personnel resource allocation process to speed our response in cases where the need for enhanced commercial services to U.S. export-motivated industries develops rapidly and/or exceeds present projections.

In our preparations to expand the world-wide capabilities within the commercial function, we are seeking to absorb as much as possible of the cost of that expansion from existing resources within the department.

A key determinant of a nation's success in exporting is the existence of a substantial number of highly motivated and competitive domestic industries which are vigorously engaged in seeking out and exploiting sales opportunities in overseas markets. Government export promotion programs can help assure that information on foreign markets and firms is available to present and potential exporters; that opportunities are available to exporters to display their products abroad, and that exports are not discriminated against by foreign governments. But export promotion programs of this or any other country cannot be effective in the absence of a strong commitment by the private sector itself to seek overseas markets.

The positive government policies included in the new export policy are essential to provide the climate and framework for an expanded export effort. The Department of State is committed to giving its fullest support to this effort.

Representative LONG. Thank you, Mr. Katz.

I think all of us have additional questions we would like to pursue regarding momentum, because we have all seen efforts start out affirmatively in the past and not progress. We will pursue that with you if we may.

Mr. Moore is the Chairman and President of the Export-Import Bank. We are pleased to have you with us, Mr. Moore, and you may proceed in your own manner.

STATEMENT OF HON. JOHN L. MOORE, JR., PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. MOORE. Mr. Chairman, thank you.

In the interests of time, I will submit the prepared statement to the committee.

Representative LONG. Without objection, your prepared statement will be made part of the record.

Mr. MOORE. I live in a very practical day-to-day world in cooperation with exporters and financing sources in the United States, and I would just like to make a couple of observations.

First, world conditions have a great deal to do with the export business of the United States. We see after and during the time of recession in the world that we have had in the last 3 years, nations have to pull back from imports of technology and high research, and the technology which we have best in this country.

Brazil has to impose severe restrictions on imports and delay big projects and insist on the maximization of the Brazilian component of each project, even though that may cost more in local currency.

The same condition is repeated all over the world. I do at this point feel some optimism that conditions around the world are improving as compared to a year ago, and I think our companies, while the research and development component has disappointed all of us, especially during times of recession, I think the United States does have a strong technology and has the capability to compete. We must, however, do more.

As a part of the world condition, it is important to emphasize another point, and any time you meet, for example, with representatives of Yugoslavia, they talk at exactly the same moment you are talking about a project you would like to export to Yugoslavia, they always discuss, as they must, "What can we sell to the United States?"

We also discuss joint ventures of our companies with their companies in other markets. Any nation must generate more of its own exports to pay for the imports from other countries. So we are dependent on others.

The other point I would like to make is that in times of world recession, all of the exporting industrialized nations get in an extremely competitive posture because of grave concern about the things that worry us in this country—namely, employment, sales, and exports—and in terms of export credits, the world, as you know, is extremely competitive, and we have sought in the last 1½ years to give competitive support to our exporters.

That is not easy in the framework in which the Export-Import Bank of the United States is established, because we are meant to be a self-sustaining institution. But we are getting as close as we can to the interest rate offers of other exporting nations.

We are increasing the amount of cover we offer in these loans so that we can afford fixed rate financing on a competitive basis.

At the same time, as Mr. Bergsten stated, the U.S. Government is taking as strong a stand as it can diplomatically to try to negotiate uniformity in the offers and really a more reasonable set of conditions in which we should compete.

Finally, I would emphasize the tremendous need for the United States as a private sector and as a public sector working together in exports to present a consistent picture abroad, that we are a reliable supplier, as I think we are, and that we keep our objectives altogether, and emphasize as this export policy does, the importance of exports.

Thank you, Mr. Chairman, and I will be glad to answer questions.

[The prepared statement of Mr. Moore follows:]

PREPARED STATEMENT OF HON. JOHN L. MOORE, JR.

I. RECENT DEVELOPMENTS IN U.S. EXPORT POLICY

President Carter's statement on Tuesday, September 26, setting out the Administration's new initiatives on export policy was a key step forward in solving both our domestic and international economic problems. In the past five years, it has become increasingly obvious to the American public that the U.S. economy is integrally linked with the world economy. These links are, in many cases, of great benefit to us; but there are also areas where fundamental and severe problems have arisen. The basic question is: How can the United States play a constructive, international leadership role and, yet, simultaneously meet the needs of our own citizens?

It is fair to say that international economic policy management in the 1970's has proven much more difficult technically than our economists anticipated. The fluctuating exchange rate system alone has not solved our balance-of-payments difficulties, and we are now finding more and more evidence inside the United States of problems associated with the declining price of the dollar. It was with these vexing trends in mind that the "President's Export Policy Task Force" operated.

Given the complexity and interrelationship of the issues, we and the President concluded that no single action would make an adequate and acceptable change in our trade picture. The President, thus, announced that the Administration would take a three-fold approach toward export policy:

(A) providing increased direct assistance to U.S. exporters;

(B) reducing our own internal barriers to exports; and,

(C) reducing foreign barriers to our exports and designing a fair international trading system in which all countries could participate.

Although Eximbank will be a key actor in the program to increase direct support to U.S. exporters, we will not succeed in our efforts unless the other two parts of this integrated program are carried forward and achieve their objectives as well.

II. PAST ROLE OF EXIMBANK

Before analyzing the present and potential future policy decisions for Eximbank, it is worth mentioning briefly that Eximbank has served a broad variety of functions since its formation. In 1934, the Bank was set up with a prime intent of financing trade with the Soviet Union. In 1945, the Bank's charter and orientation were changed. During the post-war period of the "dollar shortage," Eximbank financed exports predominantly to our war-time allies. During the 1950's and 1960's, the Bank financed to a broader range of countries; but its focus was still predominantly on exports to the wealthier countries. By the early 1970's, exports to the less developed countries had become an increasing part of the Bank's business.

However, there have been very fundamental differences in orientation between the Bank's successive managements. In the euphoria over the initiation of the fluctuating exchange rate system, there was even discussion in some circles that government export finance was no longer essential. In the period between 1975 and 1977, for example, Eximbank reduced its annual financing level for direct credits from over \$3 billion a year to approximately \$700 million in 1977. Along with these fluctuations in expenditure levels, since the late 1950's, there has been a tendency for some to view Eximbank as a partial solution for U.S. short-term balance-of-payments problems.

This historical bankground affects our current policy because: (A) the sharp differences between successive Eximbank managements meant such changes in direction that many U.S. exporters and purchasing countries who wanted to use

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Eximbank finance were not sure of our stance; and (B) the focus on short-term concerns led to unfortunate ups and downs in Eximbank support when the Bank is really more suited for solving long-term project needs where private financing is not adequate.

III. PRESENT EXIMBANK POLICIES

Given the large variation in past Eximbank policy, it has been a central concern to me that we define a clear strategy for Eximbank and provide a predictable package of financial services. Private financing for U.S. exports is often not adequate when:

(1) Foreign government export credit agencies provide very low interest rates;

(2) The repayment terms for the project are longer than five to seven years; or

(3) The project itself is so large that the banks reach their own exposure limits for new commitments in a given country.

It is in these circumstances where Eximbank support could be critical to providing the necessary finance for U.S. exports.

We, thus, devote considerable attention to monitoring the terms being offered by foreign government export credit agencies. Under the new International Agreement on Officially-Supported Export Credits, there is a set of procedures to exchange information on the interest rate, term, and percent of government credit in a given transaction. Given this information, we can tailor our financial support to meet that foreign competition. Similarly, we are in close touch with the banks and know how much new credit they are willing to take on and can, therefore, make sure we are not crowding out private finance.

As the U.S. balance-of-payments problems have worsened, we have become significantly more expansive, but with a focus on financing bigger and longer-term projects that the private sector is not able to cover. I can now say with certainty that we have established an unambiguous and consistent strategy. Eximbank will be aggressive in meeting foreign competition, and we have the President's strong support for our continued expansion through FY 1980. We have already taken steps that will make Eximbank financing both less costly and available in substantially greater volume.

The three best indicators of this are: our overall budget size; the percentage of a project's financing which we are willing to support; and the competitiveness of the interest rates and fees which we charge.

On the budget side, in the past 12 months, we have increased our direct credits from an annual rate of $700 million to $2.9 billion. We anticipate further substantial increases in our lending to a rate of at least $3.6 billion during FY 1979. The President has now gone further and approved an expenditure level of $4.1 billion in 1980.

We have also significantly increased the percentage of a project which we will finance. During the first six months of 1977, Eximbank offered to finance 39 percent of the typical project; whereas this fiscal year, we have financed, on average, over 65 percent of the projects which we were involved with. This increase in "cover" is particularly important because it means we will go into ventures where the private sector is not willing to provide sufficient financing and where U.S. exporters face aggressive competition from other nations' export financing agencies.

Our interest rates have also been trimmed to the barest minimums that we think are financially sound for an institution that must be self-sustaining. Thus, even during a period of rapidly rising interest rates, we have kept the cost of our loans at an average interest rate of 8.26 percent during this fiscal year. To do this, we have had to go below our normal interest rate scale in over 60 percent of our cases; and, in some circumstances, we have even chosen to lend below our marginal cost of funds. We have done this only because we consider it critical to make American goods available to foreign purchasers at competitive rates.

We have also substantially increased the flexibility of our program:

On June 27th, Eximbank's Board announced a major reduction in the fees for our financial guarantee program.

When necessary, we have used our existing resources together to match a mixed credit of another nation where that country was providing a combination of aid and commercial terms for what would otherwise have been a commercial project.

We have established lines of credit for more than $271 million to purchasers in Mexico and Brazil who outlined for us an ongoing set of financing needs which would require our involvement over a period of years.

In addition, we have made a number of administrative changes and reduced the costs of our insurance and guarantee programs to make dealing with Eximbank both less expensive and more expeditious.

Through these actions, we have made commitments to finance over $7 billion in potential projects; and we are now certain of funding about $3 billion of those commitments with actual authorizations.

IV. FUTURE EXIMBANK POLICY

The basic directions of our activity are now firmly established. The President's commitment to raise our direct credit authorization level by $500 million, from $3.6 billion to $4.1 billion, will allow us to fund both a broader range of projects and will have important balance-of-payments and employment effects.

With these additional resources available and the President's decision to reduce various internal barriers to our exports, the key determinants of our success will be in the responses of other nations.

Macro economic factors.—At both the London and Bonn Summit Conferences, our major trading partners made clear commitments to increasing their economic growth rates. This is critical to us not only because it will increase our exports to the wealthy countries, but because the developing countries (which are Eximbank's major markets) grow more slowly when the wealthy countries are not expanding rapidly.

These growth linkages are especially significant because other wealthy countries like Britain and France have their own balance-of-payments problems and often find the need to aggressively support their own exports—usually in direct competition with us. To the extent that the entire developed world grew more quickly, we might, thus, see some easing of the intense export financing competition we now face.

Special factors.—There are, as well, several other factors which will have a key effect on the demand for Eximbank financing and the success of our efforts to play a part in closing the balance-of-payments gap. The Multilateral Trade Negotiations (MTN) could have an extremely positive effect if there are major reductions in barriers to our exports and if other governments agree to substantial reductions in their present subsidies to their export industries.

The future Organization of Petroleum Exporting Countries (OPEC) decision on oil prices will also be of great importance, as a sharp rise in oil prices is likely to further aggravate world inflationary pressures and reduce the willingness of Germany and Japan to expand their growth rates.

In addition, we will need to be extremely careful in monitoring how our major trading competitors proceed with their export financing programs. As we have shown in our recent Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States,[1] both the Japanese and French still have considerably more flexibility in the programs that they offer on export credit, and we will need to be persistent in making sure that they do not further expand the already intense competition in this area.

V. CONCLUSION

The President's recent decision has set the framework for a comprehensive U.S. export policy. By decreasing the domestic regulations which limit exports and by increasing the Eximbank authorization limit by an additional $500 million in FY 1980, the President has demonstrated to the world that we are taking our balance-of-payments problems seriously. In the last year at Eximbank, not only have we increased the size of our programs, but we have established a new set of policies that will make it cheaper and less cumbersome for U.S. exporters to use our services.

The basis has, thus, been laid for dealing with a critical part of the U.S. balance-of-payments problem. The response of our major trading partners and our general success of handling our macro-economic policy will, however, shape the final results.

[1] Eximbank's latest Competitiveness Report of July 1978 was made available to all offices in the Capitol, but additional copies are available here today and on request in the future.

Representative LONG. Thank you, Mr. Moore.
We will get back to questions for you in a minute.
Mr. Schuh, we are pleased to have you with us.
Senator JAVITS. Do you have copies of your prepared statement?
Mr. SCHUH. I will have copies. They were not distributed.
Mr. Chairman, I appreciate the opportunity to be here. I do have a prepared statement which we will submit. I would like to make a few comments orally, now, and one of the things I would like to stress is——
Representative LONG. Mr. Schuh, we will make your prepared statement a part of the record. When will you have copies of it available for us?
Mr. SCHUH. By 1 o'clock this afternoon, I hope.
Representative LONG. We will see that they are distributed, then. Please proceed in your own manner.

STATEMENT OF HON. G. EDWARD SCHUH, DEPUTY ASSISTANT SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Mr. SCHUH. Agriculture is rather unique in this whole picture, because it is a sector where exports are very important. It is a sector where we have not been indifferent to the development of exports, and it is also a sector where we have been unusually successful. It seems to me we might be able to learn some things from the agricultural experience.

Just to cite a few of the data, and I have more of these in my prepared statement, agricultural exports in the fiscal year just now ending will reach about $27 billion. That is $3 billion more than last year, and is a record total for the eighth year in a row. To give you a point of comparison, as recently as 1970, our agricultural exports amounted to only $6.7 billion.

Now, in terms of the importance of agriculture, to our domestic agriculture, it is difficult to underestimate the importance of this. One out of every four dollars of farm income comes from our exports. We export the output of 1 out of every 3 acres.

In the case of wheat, we exported about 60 percent of our wheat production in the last 5 years. In the case of soybeans, it is 50 percent; in cotton, I believe, about 30 percent; and tobacco, about 30 percent.

Rice production is about 50 percent, and I could go on.

A point I would like to emphasize is that, contrary to what has happened in our trade on nonagricultural products, in the case of agricultural products, we shifted from a deficit in the late 1950's to a rather substantial surplus. In each of the last 4 years, we have had a surplus on agriculture trade accounts of approximately $10 billion.

This year, it is expected to be $13 billion. If one looks at individual years such as 1968, 1973 and 1975, the surplus on our agricultural trade was more than enough to offset the deficit in our trade in nonagricultural products.

I believe these results both indicate the importance of agricultural exports to the domestic agricultural sector and their contribution to the total economy.

Now, what I do in my prepared statement, in the second part, is to try to identify some of the factors that are back of this. I will just very briefly call your attention to these.

One, I think I would give a lot of importance to the vitality of the private sector, both in terms of producing agricultural output and in terms of the trade sector of getting it abroad.

Second, I personally put a lot of emphasis on a point that Senator Javits made, and that is the importance of our R. & D. on agriculture. Agriculture has been a case where there has been an important commitment, both on the part of the Government and on the part of the private sector, and I think that commitment has paid off in terms of improved productivity.

A third thing is the appropriate legislation. One of the important pieces of legislation, as I am sure you all know, was the 1954 Agricultural Trade and Development Act which, among other things mandated that some portion of the concessional sales for local currency be used for market development activity.

Finally, I would call attention to the market development activities of the Department of Agriculture that have been evolved out of those resources.

Now, the important element of those activities has been what we refer to as our cooperator programs. The cooperator programs are a unique combination of the private sector getting together with the Government sector to develop our overseas markets. I think that is an important element.

The Department today works with about 60 of these cooperator groups, 40 of them the year round, on products ranging from avocadoes to wheat in more than 70 different countries. Let me leave that now and come back to answer any questions, as you like.

The final part of the prepared statement just gives you some examples of success stories, and I will quickly mention a few cases. In 1956, Japan was a rice-eating country. Last year, Japan imported 350 million tons of wheat. Soybeans in the European Community is another example. In 1961, there were virtually no soybeans consumed in the European Community. This last year, they imported about 10 million tons of soybeans and soybean products.

These cooperative programs which have had educational programs in the countries, and have taken an aggressive view to expanding those markets—I could mention another one, the Korean market, which is importing something like $1 billion a year.

In terms of my final comment, I have only one final point. Although I think the performance of the agricultural sector has been unusually good, I don't view that as any reason to be complacent. The point I would like to emphasize is that our domestic commodity programs are very much dependent upon having strong export performance, and if it weren't for this strong export performance, we would have lower farm incomes and greater Government cost in the farm programs, and a failure to have agriculture contributing to the overall development of the country.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Schuh follows:]

PREPARED STATEMENT OF HON. G. EDWARD SCHUH

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you to discuss agricultural trade. Exports of agricultural products are important both to farm people and to the health of the national economy. Expanding overseas markets are an important pillar of our farm policies, and the exchange earnings from our foreign sales provide the means whereby the U.S. purchases petroleum, critical raw materials, and consumer goods and services from other countries.

In the brief time I have I would like to do three things: (1) provide some background on the importance of agricultural exports; (2) discuss some of the factors that have contributed to the growth in U.S. agricultural exports: and (3) cite some of the unusual success the U.S. has had in penetrating foreign agricultural markets.

BACKGROUND

U.S. agricultural exports in the fiscal year just ending will reach about $27 billion. This is $3 billion more than last year, and is a record total for the eighth straight year. As recently as 1970, our agricultural exports amounted to only $6.7 billion.

These exports are important to U.S. farmers, who receive more than 20 percent of their agricultural income from foreign markets. Exports also account for the output from almost one of every three acres that U.S. farmers harvest.

For some groups of farmers, this dependence on export markets is even greater. Wheat producers, for example, marketed 60 percent of their production overseas during the five years to 1977. One half of our soybeans and rice production, and more than one-third of our production of cotton and tobacco were exported during the same period, along with one-fifth of our corn.

These same exports are also important to the nation as a whole. They now provide more than one million full-time jobs, on and off the farm, related to the production, processing, assembling and distribution of the relevant output. Equally, and perhaps even more important in light of this nation's rising import bill, is the contribution agriculture makes to the U.S. position in total international trade.

Agriculture accounts for just over one-fifth of all U.S. exports. More importantly, agriculture consistently contributes a surplus to the U.S. trade account. In contrast to the trade balance in non-agricultural products, which switched from a surplus of $4.4 billion in 1960 to a deficit last calendar year of more than $40 billion, the trade balance in agriculture products has grown from a surplus of $1 billion in 1960 to a surplus of $10.2 billion last year.

Agriculture has contributed a surplus to the U.S. trade account every single year since 1960. Three times during that period—1968, 1973, and 1975—the surplus on our agricultural trade accounts was more than enough to offset a deficit in non-agricultural trade to give the U.S. a positive balance in its total trade account. The surplus in agricultural trade has been over $10 billion in each of the last four years, when we have needed it most and in the current fiscal year it will be a record $13 billion to be applied against the quite large deficit in non-agricultural trade.

FACTORS CONTRIBUTING TO THE GROWTH OF U.S. AGRICULTURAL TRADE

Many factors have contributed to the growth of U.S. agricultural exports over the years. I would like to single out four factors for brief review today.

The first is a very vital private sector, including the producers and the trade sectors. Our private enterprise system has given us one of the most productive and dynamic agricultural sectors in the world. But efficient production alone will not win foreign markets. The output has to be marketed. And in this case the private sector has been aggressive and creative, and has helped the U.S. to play a predominant role in international commodity markets.

A second factor basic to our growth in agricultural exports has been the strong research and development programs carried out for U.S. agriculture by both the public and private sectors. Strong research and development programs have stimulated rapid technological change in production, processing, and marketing, and these changes in turn have helped to give the U.S. a competitive advantage in international markets. The leveling out in recent years of our strong commitment to agricultural research is cause for concern in light of the unquestioned importance of technological progress as a factor in maintaining strong export markets, and in light of the obvious need for ever-growing exports.

A third factor that has facilitated the growth in agricultural exports is the provision by Congress of legislation that for the most part has facilitated and stimulated agricultural exports. The Agricultural Trade and Development Act of 1954 (P.L. 480) was an important contribution in this regard. The Food and Agriculture Act of 1977 is also important, since it provided domestic commodity programs for crops with export potential that are consistent with a strong trade posture. The Agricultural Trade Act now pending before one of your conference Committees is another example of legislation that can be helpful. And of course, President Carter's initiatives to stimulate U.S. exports, both agricultural and industrial, will also help to provide a setting from which exports can grow.

A fourth and final factor I want to address is the market development activities of the Department of Agriculture. The Department has been involved in export promoting activities for a long time. The real thrust, however, dates to the passage of the 1954 Trade and Development Act which directed, among other things, that a share of the proceeds from concessional sales abroad be used to expand agricultural exports. Building on that foundation, the Department has developed a broad range of market development activities.

The cornerstone of our export expansion work has been what we call the cooperator program. This program is just what its name implies—a program in which private commodity organizations, funded by producers and the trade, work together with the Department's Foreign Agricultural Service (FAS) on market development projects involving their particular commodity, sharing the financing.

Today, the Department works with about 60 of these organizations—40 of them year around—promoting products from avocados to wheat in more than 70 countries. Projects range from educating foreign farmers, consumers, and their governments on the use and value of products exported by the United States, to technical servicing in their use, to outright consumer promotions.

In more recent years, state departments of agriculture have joined this export effort, working with FAS as individual departments and through three regional export promotion organizations representing departments in 37 states.

Within the Department itself, FAS has been reorganized to focus the commodity analysis work more directly on foreign marketing, and the P.L. 480 and Commodity Credit Corporation (CCC) credit functions of the Office of the General Sales Manager have been closely cordinated with FAS, cooperator and state endeavors to expand exports. These combined efforts have solved trade problems, opened new markets and contributed to the dramatic growth in U.S. agricultural exports during this decade—from $6.7 billion fiscal year 1970 to the $27 billion we expect in FY 1978.

SOME EXAMPLES OF SUCCESS

The expreience of the last twenty years provides a number of important success stories. When Western Wheat Associates, for example, began work in Japan in 1956, our exports of wheat to that rice-eating nation were negligible, and they were shipped under concessional terms, paid for in local currency.

A program that included consumer education on wheat foods, technical help in milling and baking, and sales promotion campaigns turned the Japanese toward wheat. Today Japan is a leading market for U.S. wheat, taking 3.4 million tons last fiscal year, valued at $399 million.

Some of you may recall when the United States negotiated a zero duty binding on soybean imports by the European Community during the Dillon Round of trade negotiations in 1961 That zero duty binding caused little concern on the part of the EC, largely because soybeans were not a particularly important element in the livestock operations of European farmers. Our exports of soybeans and products to what are now the nine members of the EC were running less than 2 million tons yearly.

A program of education and technical help on the economic benefits of scientific livestock feeding, using soybeans as a source of high protein meal, was launched by the U.S. soybean industry and its FAS cooperator, the American Soybean Association. Today, we are exporting close to 10 million tons of soybeans and products to the EC–9, and the Community would like nothing better than to do away with the duty-free binding.

There are many other examples—Korea, for one, which the FAS cotton cooperator has helped to turn into our No. 1 cotton export market, and where U.S. farm exports have doubled in four years, thanks in part to the work of our feed grain, soybean and wheat cooperators.

Today, of course, Europe and Japan are well-established as leading markets for U.S. agricultural products. The Department's emphasis is on maintaining our position against the competition while at the same time looking for new opportunities to increase shipments to these markets.

For example, after seven years of negotiations and research involving USDA, the cherry industries in Washington and Oregon, and the Government of

Japan, the Japanese market has been opened to cherries, an important crop in those Northwest states. The Japanese had banned the import of cherries from the United States because of the presence of the codling moth. The joint U.S. effort finally produced a method of fumigation and packaging that was acceptable to the Japanese, and this year the U.S. industry for the first time sold cherries to Japan. Shipments total 136,000 cartons with an estimated value of $2 million. This is comparatively small in light of our total agricultural exports, but the demand is there and this market will grow now that we have access.

There are other projects—for soybean oil, citrus juices and many other products—in the developed countries. However, the greatest opportunity for export expansion today lies in the emerging markets of the centrally-managed economies and the developing countries. We are giving increasing attention to them.

The U.S. Feed Grains Council has established a livestock feeding trial in the Soviet Union, and the Council and the American Soybean Association have programs in Eastern Europe. These include an unusual feeding trial in Poland, in which the U.S. Feed Grains Council has demonstrated that the fish yields from Poland's carp ponds can be almost doubled if the carp are fed high energy and protein pellets containing corn and sorghum instead of whole grain barley.

The same type of work—basic education and demonstration—is being stepped up in the Middle East, Southeast Asia and Latin America, where the underdeveloped state of the markets for agricultural products might be termed somewhat similar to that of Europe and Japan 20 years ago.

As just one example, cooperator work has put the United States into the Malaysian wheat market, which has been a virtual monopoly of the Australians. Under the sponsorship of FAS and Western Wheat Associates, Inc., the first wheat team ever from Malaysia toured the U.S. last October, visiting all facets of the wheat industry, from producer fields to export terminals. Before returning to Malaysia one of the flour mill officials on the team bought the first full shipload of U.S. wheat ever sold to Malaysia. By last month, Malaysia had bought a total of 55,000 tons of U.S. wheat since the team arrived in this country.

The Malaysian market is not large—averaging about 400,000 tons yearly—but it is growing at the rate of about 7 percent a year, and we expect our market share will continue to rise.

We in the Department also look upon the pending Agricultural Trade Act as the most imaginative contribution to the agricultural market development effort since the Trade and Development Act of 1954. With that legislation we will have added tools to do the export job. Three examples will illustrate that potential:

South Korea plans to buy 75,000 head of dairy and beef breeding cattle next year. With the intermediate credit proposed in the Trade Act, we expect the United States to obtain a substantial share of that business, which in the past has gone mostly to Australia and Canada.

In the Middle East today, we have less than 10 percent of a processed food market that is worth over a billion dollars. With a trade office in the Arabian Peninsula, we think we can boost the U.S. share of that total to at least 25 percent.

The U.S. Feed Grains Council is convinced that with expanded resources it can put programs into those emerging markets of which I spoke that will increase total U.S. corn exports by one-third—from under 2 billion bushels per year to 3 billion bushels a year.

CONCLUDING COMMENTS

The U.S. agricultural export record has been good by almost any standards that we might choose. But it can be better. Various proposals included in the President's initiatives can help to make it better. The increase in the level of CCC credit cited by the President is a direct stimulus to export growth. The increased cooperator program funding and the Administration's determination to get something for agriculture from the Geneva negotiations, if successful, will also increase our ability to expand exports.

Mr. Chairman, I have tried in these few minutes to indicate the importance of agricultural trade to this country's total trade and to its economy, and to indicate some of the things we have done and can do to increase U.S. agricultural exports.

I would like to leave the Committee with one final thought. Our domestic commodity programs are predicated on strong export markets. Without these markets the adjustment problem for the agricultural sector would be quite severe. Agricultural incomes would be quite low, we would have a problem of surplus production, and budget costs would soar. It is for these reasons that a healthy export position is so important to U.S. agriculture.

Representative LONG. Thank you, Mr. Schuh, and thank you all for your comments.

I am convinced, as I think Senator Javits so eloquently stated, that all of us have to exercise diligence to insure that this particular export initiative is not allowed to degenerate into another cosmetic program. I know that is not your intention, and I know that it is not the President's, but I do think that it is something that all of us have a great deal of concern about, and I certainly know it is not the intention of the Congress.

I will start off with an individual question that is a little bit of a loaded question to Mr. Katz.

The President on Tuesday directed the Department of State and the Departments of Commerce, Defense, and Agriculture to take export consequences into account in considering export controls for foreign policy purposes.

This gets into your thicket, and it is a thicket, as I well understand and recognize it to be.

Does this mean that the export licenses and approvals are not going to be held up indefinitely by nonexport-related considerations?

Let me be very specific. I read in Wednesday's Wall Street Journal, as I am sure you did, that the decision to block the Allis-Chalmers sale of turbines to Argentina had been reversed by the State Department, and yet, my staff has not, nor have I been able to find any official notification to that effect, and I wonder if the story in the Wall Street Journal is an accurate story or not.

Mr. KATZ. Mr. Chairman, let me say, first, that your question is not a loaded question. It is a very appropriate question. But you are right, it is a thicket, and the reason for that is that we have a number of policies in this country which conflict with one another, and this is one of the serious problems that we have had to address.

Now, the fact of the matter is that export policy and the objective of export performance have been down at the bottom of the priority ladder.

Frank Weil put it at below a thousand. That is probably not very far off, and the intention of the point in the President's program is to raise the priority of export performance on a par with other policies.

We are not going to be able to say in the future, and we hope that the country and the Congress will not say, "Oh, that only affects exports, but there is this higher policy objective."

We are going to have to look at conflicting objectives in terms of the effectiveness of the action.

I hope that we are going to be less concerned and interested with withholding exports for symbolic reasons.

Now, that does not mean that the problem disappears. We are still faced with the problem of looking at other policy interests, whether they be strategic interests, or political problems, human rights, antiboycott legislation, legislation on terrorism, corrupt practices, all of these policies that act as disincentives with respect to exports are not going to disappear.

I don't think the Congress intends to clean the slate and reverse legislative action taken over the last several years.

But what the President's statement is intended to convey is that we are going to give greater weight to export policy and we are going to look at the effectiveness of export actions and not merely symbolic actions.

Now, with respect to Allis-Chalmers, Mr. Moore can comment, but the thrust of that story was correct.

Mr. MOORE. Yes. The reason you haven't seen anything more than was in the Wall Street Journal is that the clearance was received from the State Department early in the week, and the first board meeting when we could take the matter up was yesterday, and at that board meeting, there was an approval of two letters of interest on which clearance had been received from the State Department.

Under our procedure, since the original communication to Allis-Chalmers, the public utility in Argentina and in Paraguay had applied to us directly, and under our procedures, the letter of interest will be issued to them with copies to all companies in the United States who are on the present qualified list.

Representative LONG. This is a tradeoff of priorities, then, insofar as our policy considerations are concerned, and, perhaps, the first concrete example of a shift in those considerations that perhaps resulted from this new concentrated study.

Is that a fair statement, Mr. Moore?

Mr. MOORE. It would be hard to prove that, Mr. Chairman. I think it is more a question in analyzing the situation in Argentina, the State Department was happy to find some slight improvement and believes there will be substantial improvements in the human right conditions in Argentina.

It happened to come at the same time, and I don't know if Mr. Katz could comment. I think it is more of what I just said than the other, but, certainly, in all of these determinations in the future under the President's directive, the desirability and need for exports is going to be put higher in priorities, and I hope Congress will do the same thing.

Representative LONG. What improvement has there been in the human rights situation in Argentina which justifies a radical departure from preestablished policies, Mr. Katz?

Mr. KATZ. Mr. Chairman, there have been continuing discussions at a diplomatic level, and there are discussions also with the Human Rights Commission, and Argentina, and we are confident that there will be some development very soon which we think are steps in the right direction.

Representative LONG. Let's talk for a minute about the cosmetics, Mr. Weil.

Mr. WEIL. Mr. Chairman, I was a businessman and an investment banker in private life. I am not sure I am qualified to speak on the subject of cosmetics. [Laughter.]

Representative LONG. I was in the investment banking business for a while myself, and cosmetics is not a foreign field to the investment banker. [Laughter.]

Mr. WEIL. I figure your firm represented Avon Products then.

Representative LONG. I don't mean in the literal sense of the term.

Mr. WEIL. I guess you are right.

To some extent maybe cosmetics is a part of the real world that we cannot ignore, because, as almost everybody has said this morning, we are dealing in part with an attitudinal problem. Cosmetics obviously relate to that.

I think the key element in this program, if there is one, is the priority issue. I suppose that is to a large extent cosmetics. Maybe the very expression that something is greater in its whole than in the sum of its parts is cosmetic. But if you consider the whole of the President's export policy, it does represent for this administration a significant change of direction, and if that is cosmetics, God bless it, and maybe we should have more of it.

You made a comment a while ago, Mr. Chairman, that this is the fifth such effort in 5 years, I believe, and that we have to be careful this doesn't falter, because an effort of this sort that isn't sustained is probably not worth starting.

Representative LONG. And perhaps does more harm than good.

Mr. WEIL. It might in the sense that more people get turned off in time. That is correct.

An observation that I have made on a number of occasions that may be worth repeating is that the prior four efforts foundered. But I think we have to see how they foundered in order to protect this one from the same end.

Some of those efforts were conceived at the time the Nation had a balance-of-payments problem. Each of those prior four efforts was conceived at a time when we did not yet have a balance-of-trade deficit. So we were trying to find a trade solution to a financial problem, even though during that time our trade surpluses were dwindling.

Each year, within a year or so from the commencement of the program, the financial winds changed and the balance-of-payments problem abated. Thus, each time the winds left the sails.

This time, unhappily, as I observed before, the best projections, even with the improvement that we foresee in the next year, indicate that our balance-of-trade problem will remain with us for some time and perhaps in a serious degree. Serious enough—to mix a few metaphors—so that the wind will stay in the sails long enough to have this program sink some roots.

The Germans and the Japanese have been building their export economies for decades, because they have had to. There is a risk that if our current account deficit shrinks, as we all hope, that some of the will behind this whole effort, and some of the will behind what Senator Javits proposes for productivity and product will be sapped away.

Our country pursues multiple goals all the time, and we have difficulty in bringing those goals together.

If the export problem diminishes, some of the other priorities on other issues, all of which have been mentioned, will seem greater. I think there is only one way to do it, and that is to stay with it.

With respect to the last item in the President's program, I think it is more important than cosmetics. There was created in the year 1973, I think, the President's Export Council, which was itself not a badly conceived notion. It had, in my opinion, one fatal flaw. It was comprised entirely of business people. Being one, I think I can say without fear of being assassinated when I walk out of the room that every time you get 25 businessmen to address policy issues, even though everybody is right, they won't have much of an impact. So we are going to reconstitute the Council, and recomprise it. As I testified yesterday before the Senate Commerce Committee, our intention is for this body to have 30 people, of whom 6 are from the Hill, 9 are from the business community, 3 are from the labor community, 6 from the public at large and 6 representatives from the executive branch of the U.S. Government, including the Eximbank. We will have all the different points of view and political concerns represented, and we intend to include people who are not necessarily in the export area, but will be educated in the process.

This body, under the chairmanship, hopefully, of an important person in this country, will monitor the export program, will direct sectoral studies, and address such items as research and development. It will report to the President at least once a year through the Secretary of Commerce.

Thus, this more broadly based group might carry some weight.

Representative LONG. Thank you.

My time has expired.

Senator Sparkman.

Senator SPARKMAN. Thank you, Mr. Chairman.

I want to ask some questions of Mr. Moore. You are head of the Export-Import Bank, is that not correct?

Mr. MOORE. Yes, sir.

Senator SPARKMAN. To what extent does the Bank assist in exporting agricultural products?

Mr. MOORE. Senator, we have always had a part in the support of the export of agricultural products through, principally, our guarantees and insurance programs. According to international arrangements, most agricultural commodities are supported by short- to medium-term credits. The CCC credits of 3 years have sort of set a standard as the longest credit. But where CCC is involved in particular countries and with particular commodities selected by the Department of Agriculture, they handle it, but in other countries with other commodities where banks need backing in financing, then we will guarantee and insure. The volume has run about $400 million over the years, down a little from earlier years.

One additional thing I should mention is that for 30 years there was a special credit, a direct loan from the bank on 1-year repayment terms, to the Japanese cotton spinners to support the export of about $100 million a year of cotton from the United States. That has been a controversial credit.

Senator SPARKMAN. When was that set up?

Mr. MOORE. In the late 1940's. I think 1948.

Senator SPARKMAN. Who was the chairman of the Board then, Mr. Kerns?

Mr. MOORE. I think it was Mr. McChesney Martin.

Senator SPARKMAN. Oh, yes. The reason I ask that is that I remember when Mr. Kerns—you recall him?

Mr. MOORE. Yes.

Senator SPARKMAN. When he was up for confirmation, it was the Banking Committee that considered his confirmation and he came to see me. I was chairman of the Banking Committee at that time, and I had quite a chat with him. But I remember telling him this, that my impression had been that very little attention, if any, was being given to agricultural products, and I hope if he should be confirmed that he would pay some very close attention to that.

He assured me he would, and I told him that we had lots of cotton that we could sell Japan, we had a lot of soybeans that we could sell Japan, and I hoped that he would give some attention to it.

Well, one of his first acts was to arrange a sale of 2 million bales of cotton. That meant a lot to my section of the country, and also soybeans. I felt that we had had a very satisfactory handling of agricultural products, even though there was that little conflict or lack of complete cooperation one time between the Commodity Credit Corporation and the Bank.

But all that has been smoothed out, as I understand it, and things are running smoothly.

Mr. MOORE. Yes, Senator. In fact, we have met regularly with the Agriculture Department. They have increased their insurance program after studying ours, and have instituted an insurance program to assist in the export of agricultural commodities.

In addition, in working with them and with the private banks, we have designed a new policy to provide for quicker service in giving insurance transactions in the transport of bulk commodities abroad by a system where we will preapprove the credit of banks abroad so that a bank in the United States without contacting us can bind us and have insurance, because these transactions move quickly and you must be able to respond promptly.

We think this program will be attractive and will help.

Senator SPARKMAN. I wanted to get that on the record, because I am very thankful that we have had the bank to lend assistance that it has, and it has meant a great deal to the exporters of this country.

Mr. MOORE. Thank you, Senator.

Senator SPARKMAN. That is all, Mr. Chairman.

Representative LONG. Senator Javits.

Senator JAVITS. I shall not detain you long, gentlemen. I have a question for each of you.

Mr. Schuh, what difference would it make to American exports if the European Community did not subsidize its soybean producers, and what percentage would American exports of soybeans to Western Europe improve?

Mr. SCHUH. Well, in the case of soybeans, there is not that much production within the European Community right now. So in that sense it wouldn't have that large an effect.

Senator JAVITS. What about the Japanese? They seem to be renting land in Brazil to raise soybeans.

Mr. SCHUH. Well, the Japanese did diversify, or attempt to diversify their import sources as a result of the embargo of 1973. There has been quite a bit of Japanese capital go into the Brazil program. But that is not the only factor.

Soybean production in Brazil was an idea whose time had come. Japanese capital, I think, has helped make them more competitive. I am not able to quantify that.

Senator JAVITS. As long as agriculture is such a big part of our exports, I am trying to get what is blocking its full potential. You have the common agricultural policy of the Common Market, right?

Mr. SCHUH. Right.

Senator JAVITS. How many billions of dollars of exports does that cost us? Have you ever figured that out in the Agriculture Department?

Mr. SCHUH. I suspect that we might be able to give you some estimates of that.

Senator JAVITS. Would you do that, and also with respect to the Japanese, what the effect of their internal subsidization policy is on U.S. exports. Does it go into the billions, these two items?

Mr. SCHUH. Off the top of my head, I would say it might, yes. The Japanese protection is quite high for some products.

Senator JAVITS. I would say it is important to us. Here we are with Japan running a $8 to $9 billion surplus. How about all the agricultural products they could import?

Mr. SCHUH. I think it is important to recognize that the Japanese are now importing slightly over 50 percent of their caloric intake?

Senator JAVITS. From the world.

Mr. SCHUH. From the United States.

Mr. KATZ. We are far and away the largest supplier to Japan. We have very large exports to the European Community as well, agricultural exports.

I think it is very hard, Senator, to quantify the effect on our export interests of the common agricultural policy. There are years when we meet competition with the Community in third markets, because of export subsidies. Clearly, if they didn't subsidize agriculture so heavily, we would have additional opportunities to sell into the Community.

I would say that one of the major impacts, however, of the common agricultural policy on us is the variability of the trade. We are required to take a very large share of the burden of adjustment to change in world demand. So that when world demand falls because there are good crops all around the world, we have to take our land out of production or build up stocks. When that situation changes, when there is a drought in India or in the Soviet Union, it is our stocks that make up the difference.

I think it is very difficult to put a precise number of what the cost of that is overall, but it is substantial.

Senator JAVITS. Now, I would like to ask you a question, Mr. Weil, about antitrust law. I notice in your prepared statement before us, you say, "Further, the President will appoint a business advisory panel to work with the National Commission for the review of antitrust law which is studying the desirability of expanding the scope of the Webb-Pomeran Act."

Now, I am a member of that Commission and its report is due on December 31, and I had written a long letter to the chairman, Mr. Shenefield, asking him to do exactly that long before you fellows got into it.

He wrote me a long letter in return telling me he can't do it.

Now, can you take charge so that the left hand knows what the right hand is doing?

Mr. WEIL. I don't know, in fact, Senator Javits, whether Mr. Shenefield has been in town this week, but we will make sure he gets a copy of the President's statement.

Senator JAVITS. Let's have more than a copy. If the President means business, tell him whether he wants the international aspects of the antitrust laws followed, and whether he wants U.S. business to be more competitive. That is what I said about the export drive.

Do you mean it or are you kidding?

Mr. WEIL. I can only say, Senator Javits, that the President made a decision. The fact that the Justice Department was not necessarily in favor of that particular decision is not a secret; but he made the decision, and I assume the Attorney General and his Assistant Attorney General, Mr. Shenefield, will follow the President's policy.

In our Department, we already have taken steps to see that the advisory panel is appointed.

Senator JAVITS. All we can do—the President doesn't testify here and neither do his assistants. We have to deal with the President's Cabinet officials. So we have to address matter like this to you, in view of the fact that the Commerce Department is given the responsibility for riding herd on this export expansion.

I am not finding fault with you personally, but it is the only way we can reach the administration. When I talk with the President, I will point it up.

Now, I have one last question for Mr. Moore. This interests us, Mr. Moore. There is a real problem in better terms, even amounting to subsidization, which other Ex-Im Bank types of operations give to their people in their own countries, whether it is the Germans or the Japanese or the British, or everybody—the French—they all have these kinds of schemes.

So we give consideration to the competitive factor which raises so that, for example, another country is subsidizing interest rates for its exports, and how do we equip U.S. exports to meet that competitive situation?

Mr. MOORE. We certainly do take into consideration competitive features. We try to make a package over to the foreign buyer that meets the foreign competition fully.

Having said that, I have to say that it is a complicated question, because if the French offer a loan repayable in French francs at the rate of 7.5 percent and we offer a loan repayable in U.S. dollars at 7.75 percent, who wins? That one is close to the actual circumstances under the arrangement of the Germans, if they offer only insurance for their exports, they are free to offer at any going rate in their market, which is below the rate we generally agree we will charge, and if the country abroad has a country to repay a loan at 7 percent in German Deutsche marks, I would think in present circumstances they ought to have as an alternative a loan repayable in U.S. dollars at 8.5 percent.

But if you look over the next 5 years, we don't often get that credit. I am sorry to say.

Yesterday, I heard something that shocked me deeply, and that is that in a major project in Iran, the Iranians are saying they will repay in any major currency, but if the offer is in dollars, then to be in the game the offer on price must be no more than 85 percent of any of the others.

They are predicting that the dollar will strengthen against the other currencies, so the economic theorists that say that the floating exchange rate automatically takes care of these problems need to come and live with us a bit and see what the real world is like.

It is a complicated thing. What I would like to see all of us do, the 30 industrialized nations which export, is to agree on a common method of paying for export credits. It could be handled like the Bank for International Settlements.

Hopefully, we could all agree on a sensible kind of interest rate which would not reflect any massive subsidization. I am happy to report that over the last 2 or 3 years there is better cooperation among the exporting nations and the export credit agencies in at least telling each other what we are doing.

Now, that is not perfect, and there are major omissions, because the additional incentives used or the additional subsidies are not mentioned, and we do not meet many of those, and many of those are critical. We don't meet them by conscious choice so far, because they are too expensive.

The Swiss paid SwF1 billion, $½ billion, last year simply to support their exchange risk insurance, because they find nobody wants to pay the Swiss franc back even at 5.5 percent.

The British put £220 million last year into payments to their banks to get interest rates that are competitive. I could go on a long time, but you touch a very interesting subject to me.

Senator JAVITS. We have to vote, but may I say this to you, Mr. Moore? I hope you will keep us alert to the problem, and if it does begin to pinch, that you will not hesitate to recommend to the President the necessary legislative assistance, because I think it is something that we will be very sensitive to hear.

The Eximbank legislation is on the floor today. I will speak of that later on.

Thank you.

Representative LONG. Gentlemen, we have a few more questions, and if possible, I would like to get responses and I don't want to limit your answers. They are rather pointed, but we need them to fill out the record.

Mr. Weil, I should perhaps have asked this also of Mr. Bergsten. Somewhere in the press statements, relative to the conversations and discussions that were going on while your task force was trying to put all this together, I read of a mechanism that was going to be referred to as a world trade credit. I gather that you replaced that with a loan guarantee up to about $500,000 or up to $500,000 per firm, and that the loan guarantee, to some extent, is a replacement for the credit.

Is that correct, and do you think that really will replace a tax credit? Is a loan guarantee really any motivation to a firm trying to go into the export business?

Mr. WEIL. Well, it depends on the terms. If one of the terms is that if the exporter fails in his effort, his obligation to repay is limited, then I think it would be a help in getting smaller firms over the water for the first time.

The program that we have in mind is not so much loan guarantees as it is participation with appropriated funds with new exporters——

Representative LONG. The two working together?

Mr. WEIL. If the exporter were successful, he would be able to repay the U.S. Government out of the profits.

It is true that we explored last spring the possibility of more cost-effective incentives than the DISC. But our efforts have not progressed as yet. As was said, we stand ready to work with the Congress to find some middle ground with the administration's position, which is apparently shared by the Congress, that the DISC is not a cost-effective instrument. I think, given the fact that last year DISC cost this country $1.1 billion of tax expenditures, it should be possible to find, for less money, a more effective incentive.

Representative LONG. You are calling that an incremental developmental expense that might be incurred by some country, and you had in mind some sort of a tax credit for those? Is that the avenue that you were exploring?

Mr. WEIL. That is correct. The French, Canadians, and the Belgians have similar programs, and what we were exploring was the possibility of a tax credit. At one point it was being referred to as a world trade credit, and at another time, an international marketing credit. It might have been a tax credit against all taxes paid by the taxpayer, no more than $150,000 over a 5-year period, and no more than $50,000 in any one year for incremental international marketing expenses. That is to say, sales trips, opening of sales offices, and whatever.

The intention is not to subsidize——

Representative LONG. But share the risk?

Mr. WEIL. Well, to encourage the company to take a flier to Toledo, Spain, say, rather than Toledo, Ohio. The notion is to stimulate the process by making it so attractive financially within limits that a businessman can't afford not to try it.

Representative LONG. Mr. Moore, the President spoke in terms of making the Export-Import Bank programs more accessible to the small exporters.

Has any thought been given to working out a sort of set-aside program on a percentage of Export-Import Bank Funds?

Mr. MOORE. You mean earmarking a portion of our funds for small business specifically?

Representative LONG. Yes.

Mr. MOORE. No; we have not. I think anything of that nature could be very difficult for us at a time when we need exports to a maximum degree from all sectors.

We do have affirmative programs going on. We design a new insurance policy for small businesses which lets them go in with less risk than larger companies do, with a lesser premium.

Representative LONG. What you do is expand the coverage for the same companies?

Mr. MOORE. That is right. If somebody is classified as a small, new exporter and they have 98-percent coverage, rather than the typical 85 percent, meaning he takes 2 percent of the risk of the loss abroad, rather than 15 percent, which can be crushing to a small company, but we charge the same premium as to the people who get only 85-percent coverage.

In cooperation with the Small Business Administration, the Department of Commerce and the Overseas Private Investment Corporation, we are holding seminars all over the country. We have held about 10 so far and have another 20 scheduled by the end of this year.

We have had surprisingly good response. In every instance, we had run from 150 to 350 people, and in some instances we have had to turn people away because we can't find a room big enough. That is when Frank Weil is the speaker, usually.

Mr. WEIL. Not at all. We had one in Newark this week, and we do turn people away. I was told they turned 100 people away, so there is an awakening in the private sector.

Representative LONG. What the subcommittee has been attempting to do, with our hearings in New Orleans and elsewhere in the country, is as much an educational program as anything else.

I think the attitudinal problem you spoke of is something that has grown up over the past 200 years, and is very difficult to overcome. The 85-percent requirement demanded by the Iranians shocked me as much as it did you.

Do you think this was politically, or financially motivated?

Mr. MOORE. Financially.

Representative LONG. Do you think they feel there is that much distinction?

Mr. MOORE. They have seen the shifts that have taken place in the last 2 years.

If you pay back these debts in foreign currencies, and you pay back and the currencies harden, you can get stuck. They have trade with us, and they may be relating it to the dollar.

Representative LONG. In New Orleans, the Bank of Iran is financing a large building complex, and I have stayed recently at a hotel right across the street from where they are building this structure. I have noticed that they work on the building all day on Saturday, and I noticed work at 6 o'clock in the morning, going until 9 and 10 o'clock at night.

This just seemed to me to be economicaly unjustified, considering the extra time and labor costs they have to pay.

Do you think that that perhaps reflects, again, their attitude toward this?

Mr. MOORE. I couldn't say.

Representative LONG. It is an interesting sidelight to it, though.

Mr. MOORE. Yes, it certainly is.

Representative LONG. In the past 2 months, I have been there about four times, and the question kept recurring in my mind: Why in the world are they paying this extra money?

Mr. MOORE. They must have some awfully good leases.

Representative LONG. That could be the other side of it.

Mr. MOORE. I am sorry to say that wasn't the case in Atlanta in the past few years.

Representative LONG. Mr. Schuh, our outspoken and articulate friend, Mr. Strauss, in his discussion on this subject earlier in the week, talked about taking a more firm stance with respect to discussing agricultural exports and imports at the same time we discussed manufactured products.

What effect do you feel—or, perhaps Mr. Katz would be in a better position to answer this question—this firmer stance is going to have upon the attitude of our trading partners?

Do you have any comments on that, Mr. Schuh?

Mr. SCHUH. We have felt all along that forcing that kind of a tradeoff is very important because we feel that that is where we have the léverage, not with one agricultural product against another, but the industrial sector against agricultural products.

If we go back to the Kennedy round, that was the intent up until the very end, when it was abandoned, and agriculture came out very short.

We have taken a strong position that if we stay with that strategy this time, and I hope we don't abandon it at the last minute, it is better.

Can you add to that, Mr. Katz?

Mr. KATZ. Well, I don't know yet how we are going to come out on this.

I don't know whether we are going to succeed or fail, but if we don't succeed with respect to the agricultural part of this negotiation, the negotiation will not conclude successfully.

We have made it very clear that agriculture is an essential ingredient of this negotiation, and if we had any other notions, if we were so inclined to slough agriculture at the end of the day, there is one item that keeps it in our mind, and that is we have to bring the whole trade package back to the Congress.

I think Congress has an interest in there.

Representative LONG. I agree, and if you couple that with the international wheat agreement that the President has called for, we are merely talking about an agricultural OPEC.

If we are not, we are coming awfully close to it.

Mr. KATZ. No, sir, I wouldn't agree with that. In terms of the wheat agreement, what we really want is what I had referred to earlier in response to Senator Javits' question. We want a system that will assure that there is some better balance of adjustment to changes in demand in the world, so that we are not required to hold all of the stocks, or to vary our production policy with other countries taking no action.

Representative LONG. Let's remove the international wheat agreement from my question, then, and go back to the stiffened stance on the necessity of discussing at great length agricultural commodities.

Are we approaching the attitude of the OPEC countries?

Mr. KATZ. No, sir. What essentially we are talking about is four very different kinds of agreements in the trade negotiations.

One is on wheat, which will be the most highly developed kind of agreement, which is designed to stabilize the general prices of wheat in the world—no price commitments but an effort to bring greater stability to the general level of prices if we trade in the world through the use of nationally held stocks.

That is, each country would be responsible for holding some share of excess stocks, and putting those on the market when the world needs them.

That is roughly the structure.

In other agreements, we have indicated we are prepared to have a consultative agreement on coarse grains or feed grains.

The feed grain market is a fairly stable market, however, and we are so large in the total world market that we don't see the need for an agreement.

Our domestic policy brings stability to the world.

Now, we think it would be useful to have a forum where we could talk about developments in this area, and we are prepared to agree on that.

With respect to the international trade in meat, there will be a consultative arrangement. Finally we expect a dairy agreement, which involves primarily nonfat dry milk, and that would be a minimum price agreement—we are not importantly involved in that trade, but we have agreed not to undercut that minimum price.

Basically, what the structure of agricultural agreements is designed to do is to provide some greater stability, not to fix prices; but to provide some greater stability in that area. But more than that, we seek to have some kind of an international understanding that when a country takes measures in the field of agricultural policy, as most countries are wont to do, they will be required to take into account the effects of their domestic actions on the world trading system.

Now, that is not the limit of our objectives, however, in the agricultural negotiations. We have some very specific objectives with respect to particular products.

Grains, of course, are the major item of international trade, but we are suppliers of other items such as citrus. We have aspirations to export beef, and we do produce high-quality beef, which we think has a market in the world.

It is highly restricted in most countries. We want to break down some of those barriers.

We have fruits and vegetables that are important, and we think there are markets for those products, and we are going to try to expand those.

Representative LONG. I don't necessarily mean that I am unsympathetic to taking a hard stance in this regard. I think that it might very well be something that we need.

Let me discuss one more question with you. Mr. Weil, you and Mr. Katz are particularly involved in this. I have had an opportunity to travel and talk with commercial officers in the State Department overseas and other people in the Department of Commerce, and I have talked about American businessmen who have tried to do business there.

It seems to me that the arrangement has not been satisfactory. Those in the commercial sections of the State Department think they are destined to a career of oblivion; they seem to believe they are never going to be able to get out of their limited sphere of activity, and will never become the ambassador to Jamaica or somewhere similar.

On the other hand, as the American businessman walks in and starts talking to a commercial officer, he is generally handed some material. Sometimes the employee of the United States, and often rightly so, gets a little bit concerned about giving him specific information, because he is afraid that he is going to be favoring one company over another company. The businessman there might get a general hodgepodge of information, rather than specific information that he needs to attack a particular problem.

Can this problem be resolved, or does the situation call for consideration of a new layer of bureaucracy, as much as I think all of us fear such a thing.

Mr. KATZ. Well, Mr. Chairman, if I may, let me say that I think there is a problem there.

Representative LONG. A very real problem——

Mr. KATZ. I think we have tried to address it by, again, changing attitudes and stressing that the chief commercial officer in an Embassy abroad is the Ambassador.

We have tried to break down the notion that there is an Embassy and there is a commercial section. In fact, everybody has a role to play, and frequently the Ambassador has the most important role to play in terms of commercial promotion.

There is a feeling I think, among commercial officers, that they are second class. It is not a problem which is limited to commercial officers.

I think it is just a fact, that people who are engaged in a specialized activity, whether it be commercial officers, agricultural attachés, customs or transportation officers, they are not in the main part of the business.

They are not normally considered to be the striped-pants boys.

Mr. WEIL. No; Mr. Katz's suit.

Mr. KATZ. I am sorry about that.

There are occasions when the political officer in the Embassy has a role to play in this regard.

The second part of your question is perhaps more appropriate for Mr. Weil, but let me just say it is a problem. What we try to do is to tell our officers abroad that they do have an obligation to assure that American firms have an opportunity to participate on an equal basis. If there is one American firm in there, that makes it easier. If there are competitive American firms, they are inhibited. We are inhibited abroad, as we are here in Washington, in taking sides.

It is sometimes the impression that other countries don't have this problem.

I think it is more a matter that other countries don't tend to have this kind of competition. The countries are smaller, they have leading firms who are out in front, but where there are cases of European countries, for example, that have two or more firms, their embassies are similarly inhibited.

Mr. WEIL. I think you have to distinguish between having two American firms in an Embassy at one time seeking a trade opportunity with the help of the Embassy, and telling one American firm that happens to be there of the opportunity, which they would tell any American firm if asked.

I have one or two observations. Things have changed since I have been in Government. One of the reasons, I think, is that it is clearer and clearer that the essence of the relationship between the United States and other countries is in the economic and commercial area as opposed to the diplomatic and military spheres.

I think more officers in the State Department see that as a means of advancing their careers.

At the same time, we have a problem. I come from a service business, as I gather you do, Mr. Chairman.

We have a problem making civil servants or foreign service officers think like you do in a service business, where you don't get paid if you don't do the service.

It is not easy, I have found in the last year and a half. So, we have an attitudinal problem here.

We have around the world more or less 1,000 people who are aiding American business; some 350 in this country, and some 650 around the embassies in the world.

That is a rough number. For the reasons touched on, they are not in many instances more the mediocre. There are some exceptional people, too, I should add.

If we start on the premise that we can't replace the 1,000 people, and we weren't going to increase them by 1,000, then our only alternative is to make those 1,000 people better.

We have most of the information you need to help anybody do what they need. But we deliver it very badly. One of the items in the export policy program that the President announced is additional funding for the building in Government of an information exchange system comparable to what the private sector has done in the last 15 years.

It is perfectly amazing to me to have found that the U.S. Government, with all of its computers in the Defense Department and other places in Government, is still in the Pony Express stage when it comes to exchanging information of this sort.

In a nutshell, the problem is to get the information into the computer so that it can be assessed around the world and in the Commerce Department so that businessmen can get specific information on what they can and want to do.

One other thing we plan to do. I find wherever I go that people say to me, "It is the most frustrating thing to deal with the Department of Commerce," and the State Department is as bad or worse.

They have to make nine calls to find somebody to help them. They get bucked along the way and don't quite get the right person.

We will install one phone number that businessmen can call from anywhere in the world. And we will promise a response within 4 hours by the right person.

This isn't the final answer. But we will put the businessman in touch. We are going to try to build into the system something of the service mentality. We can set up the telephone number. What effect that will have on the ultimate exports of the country, however, I can't say.

Representative LONG. Your views on constituent service lead me to the conclusion that it is not going to be long before you will be a candidate for public office.

Mr. WEIL. No, sir. [Laughter.]

Representative LONG. Gentlemen, I am very appreciative.

I may make one or two requests of you. I greatly appreciate the quality of your answers. There are one or two other questions I would like to submit to you in writing, if I may, and perhaps you could help us complete our record rather than taking your time today.

[The following written questions and answers were subsequently supplied for the record:]

RESPONSE OF HON. FRANK A. WEIL TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE LONG

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., October 18, 1978.

Hon. FRANK A. WEIL,
Assistant Secretary for Industry and Trade,
Department of Commerce, Washington, D.C.

DEAR MR. WEIL: I want to thank you very much for testifying before the Subcommittee on International Economics of the Joint Economic Committee. Your opening statement and the broad experience you brought to bear on our questions have added a great deal to the hearing record. I am also well aware of your many contributions to the new U.S. export policy.

Unfortunately, time prevented me from asking you all the questions we had prepared. Would you please answer the following questions at your earliest convenience so that the questions and your answers to them can be included as part of the Committee's assessment of U.S. export trade.

1. Just after our September hearing, you left for Japan with a large delegation of American businessmen. Could you please give us an early evaluation of the success of the mission?

2. One of the problems facing our exports is the difficulty of overcoming the trade practices of many of our trading partners. In part, your recent trip is a measure of how important government-to-government dealing has become in facilitating the smooth workings of the world market place. For where a tariff, quota, or other restrictive practice is involved, no degree of dollar depreciation or well-crafted export incentive is going to add to U.S. export sales. How tough are we prepared to be to open up markets for U.S. exports?

3. In the course of your oral testimony, you noted that Mr. John H. Shenefield, the Assistant Attorney General for Anti-Trust Division, would be sure to receive a copy of the President's new export policy. What specific changes in anti-trust policy should be considered in the national drive to boost exports?

Thank you again for your fine testimony and for adjusting your extremely busy schedule so that you could join our consideration of U.S. export policy.

With kindest personal regards, I remain

Sincerely,

GILLIS W. LONG,
Cochairman, Subcommitee on International Economics.

U.S. DEPARTMENT OF COMMERCE,
THE ASSISTANT SECRETARY FOR INDUSTRY AND TRADE,
Washington, D.C., November 16, 1978.

Hon. GILLIS W. LONG,
House of Representatives,
Washington, D.C.

DEAR MR. LONG: I appreciated the opportunity to testify on the President's national export policy before the International Economic Subcommittee on September 29. As you requested on October 18, I am supplying for the record answers to several additional questions.

1. The October U.S. Export Development Missions went to Japan with two primary goals: (1) to demonstrate to American business that the Japanese market is opening; and (2) to emphasize to Japanese Government and business leaders that the historic market access impediments to trade with Japan must be fully eliminated. We met our objectives. The business executive on the Missions had over 3,000 business appointments. Approximately 70 percent of the companies achieved their objectives, including developing business prospects, making immediate sales, finding sales representatives or distributors, or exploring product sales potential. Another 15 to 20 percent accomplished some of their goals. The approximately 50 new-to-market firms on the Mission were as successful as the more experienced companies. The Invest-in-USA Mission left Japan with 16 firm commitments for new plant investment and 50 more commitments expected shortly.

The most significant sign of long term success is that 80 to 90 percent of the industry Mission members will be following up on their new contacts. Fifteen trade missions sponsored by industry groups and state development agencies are also planning to go to Japan in the next six months. We are sponsoring a series of seminars throughout the United States; Mission members will be speaking about their experiences to other business executives interested in selling to Japan. Commerce is planning addiitonal export development efforts in Japan throughout 1979.

Our efforts, of course, must continue. The Missions were only first steps. U.S. companies must increase their efforts to sell knowledgeably to Japan by learning Japanese business practices and market needs. At the same time the U.S. Government will continue working toward increased market access through the U.S.-Japan Trade Facilitation Committee (FTC) and the Multilateral Trade Negotiations in Geneva.

2. The most ambitious effort to reduce trade barriers imposed by our trading partners is now being made in Geneva at the Multilateral Trade Negotiations (MTN). Representatives of about one hundred governments are in the final stage of negotiating comprehensive agreements on international trade liberalization which include international codes of conduct for various nontariff measures, eliminations or reduction of tariffs and nontariff measures and improvements in the general framework of international trading rules. We feel we are being very tough in our drive to reach agreements advantageous to U.S. industry and are confident that the results of the MTN will greatly benefit U.S. exporters by improving access to foreign markets. We are also aggressively pursuing negotiations to improve our trade relations with individual countries though numerous bilateral commissions and mechanisms like the TFC, as well as working in other forums to improve the workings of the international trade system.

3. We are now exploring with the Justice Department several approaches for implementing the President's export policy statement. Our proposals, which are aimed at removing the disincentive to exports caused by uncertainty about the antitrust laws, include the following:

Business review procedure.—Reassess the present procedure for obtaining Justice Department review of proposed business action, with the intent of determining possible modifications and expediting the process.

International antitrust guidelines.—The Justice Department already has an "Antitrust Guide for International Operations." It is a valuable resource, but is not known generally to businessmen and may be in need of updating or expansion to provide guidance in additional factual situations. We plan to give the Guide widespread distribution throughout the business community and to solicit business' suggestions for needed modification or expansion.

Joint Commerce/Justice educational campaign.—We have considered alternative approaches to arranging presentations by Justice and Commerce on antitrust issues before public audiences. The two Departments would work jointly in the preparation of appropriate videotape scripts and speech text for delivery before selected trade and industry groups.

The foregoing outline should be considered preliminary and tentative pending acceptance by Justice. We hope to have a final joint program in place shortly.

The President has also appointed a business advisory panel on antitrust export issues to work with the National Commission for the Review of Antitrust Laws and Procedures. The panel has met for the first time. Its recommendations are scheduled to go to the full Commission in early December.

I welcome your assistance in our efforts to increase U.S. exports, and look forward to our continued work together.

Sincerely,

FRANK A. WEIL,
Assistant Secretary for Industry and Trade.

RESPONSE OF HON. C. FRED BERGSTEN TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE LONG

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., October 18, 1978.

Hon. C. FRED BERGSTEN,
Assistant Secretary for International Affairs,
Department of the Treasury, Main Treasury,
Washington, D.C.

DEAR MR. BERGSTEN: I want to thank you very much for testifying before the Subcommittee on International Economics of the Joint Economic Committee. Your excellent testimony put the need for a national export policy in a broad economic perspective. As usual, your comments on the tax and other aspects of foreign economic policy made a major contribution to our hearing record. I know our hearing caught you with other official obligations. The fact that you could join us for an assessment of the President's new export policy was very much appreciated.

Unfortunately, time prevented me from asking you all the questions we had prepared. Would you please answer the following questions at your earliest convenience so that the questions and your answers to them can be included as part of the Committee's assessment of U.S. export trade.

1. In your prepared testimony, you mentioned the International Arrangement governing the use of government financing of exports. How well has that arrangement worked so far? You also stated that, ". . . if foreign competition in the area of export financing cannot be restrained, we will match it as needed." Because financing of exports may include interest subsidies, roll over of old loans, the mixing of commercial and concessional credits and other features, the ability to match foreign practices may require changes in current law and a considerable budgetary commitment. Could you please give us an idea of exactly how much it might cost to meet the foreign financing competition and an outline of what new legislation might be needed?

2. There are already a number of signs that point to labor market tightness and limited excess capacity. As we approach a high employment level of GNP, a successful export promotion program will either lead to greater domestic inflation or require some constraints on consumption. What fiscal measures will the government adopt to assist in the structural shift toward exports?

3. You mentioned the loss of U.S. competitiveness and the favorable impact that a depreciated dollar will now have on U.S. exports.

a. In what product markets and what geographical areas did our loss of competitiveness lead to lower export sales?

b. In what product markets, what geographic areas and in what time frame can the depreciated dollar lead to greater exports?

4. For the most part, tax policy was omitted from the first phase of the President's new export policy. I would appreciate your tackling two or three short questions on possible tax incentives.

a. The Congress has resisted Administration efforts to repeal DISC. Part of the difficulty in assessing the DISC program has stemmed from the shift in Treasury's methods of evaluating the DISC program and their varying estimates of how effective DISC has been. What has accounted for the change in approach?

b. The President has proposed that loan guarantees up to $500,000 per firm, financed by the SBA, be used to help offset the need for expanded capacity and to ease cash flow problems associated with overseas sales or initial marketing expenses. How effective will loan guarantees be relative to tax credits to offset marketing expenses? What happened to the preliminary recommendation for a world trade credit, consisting of a tax credit equal to 50 percent of a company's "incremental development expenses" up to $100,000 a year?

c. To what extent do you feel that the system of floating exchange rates has limited the effectiveness of tax incentives for exports?

Thank you again for your useful and stimulating testimony.

With kindest personal regards, I remain.

Sincerely,

GILLIS W. LONG,
Cochairman, Subcommittee on International Economics.

DEPARTMENT OF THE TREASURY,
Washington, D.C., November 22, 1978.

Hon. GILLIS W. LONG,
Cochairman, Subcommittee on International Economics, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. LONG: I know that Fred Bergsten appreciated the opportunity to appear before the Subcommittee on International Economics of the Joint Economic Committee in September to explain the particular problems we are seeking to alleviate with a national export policy. You have subsequently sent him a list of questions on this subject to which I would like to respond in his absence.

You asked how well the International Arrangement on Export Credits has worked so far. We are satisfied that the present Arrangement is a step forward from the situation which existed last year. However, we have proposed a new set of improvements to strengthen the Arrangement. Our proposal is now being considered by the participants in the Arrangement. As you know, we will report progress in this regard to the Congress by January 15, 1979.

Like you, we are acutely aware that an official export credit war would be costly and wasteful. You are correct in pointing out that matching the current official foreign credit competition might include interest rates subsidies which could have considerable budgetary implications. So far, we have been able to match foreign competition on the occasions when we felt it was necessary by increasing the amount of Eximbank financing and by extending the terms of a particular loan to the maximum allowed by the International Arrangement on Export Credits, while holding the interest rate up to or near the scale rates of the Export-Import Bank. While the interest rates on these transactions occasionally drop below the current cost of money to the bank, the budgetary costs have been minimal. We do not envision the need for massive subsidies to meet foreign official credit competition. With accumulated reserves of $2 billion, the Export-Import Bank earns sufficient interest on these reserves to cover a substantial amount of subsidization if need be.

Our objective in matching official foreign export credit competition is to emphasize to these agencies the need to limit the subsidization of exports rather than to embark on a program of export credit subsidization ourselves. We believe that by targeting our efforts on matching the offers of particular exporting countries we will be able to bring them around to improving the International Arrangement on Export Credits without undermining the bank's ability to be financially self-sustaining.

Another issue you raise is the limitations high domestic capacity utilization might impose on U.S. export growth. I do not believe there is an immediate constraint here. U.S. exports last year were over $120 billion out of a total GNP of $1,900 billion. Therefore, a very substantial $12 billion increase (10 percent) in exports would constitute less than 1 percent of GNP.

You have asked if we can anticipate those sectors in which exports are likely to grow so as to facilitate structural shifts. Our abilities in this area are limited. While major U.S. agricultural exports such as grains are traded largely on the basis of price and can be expected to grow substantially, demand for goods such as machinery or consumer items is affected by non-price factors such as taste or servicing arrangements. However, if lost U.S. competitiveness in manufactures in the last few years (measured in terms of export market share) is any guide to the prospect for renewed competitiveness at present exchange rates, export growth would be expected in non-electrical machinery, basic manufactures (steel and textiles) and in transport equipment.

In the area of tax policy, you have questioned changes in the Treasury's method of calculating the impact of DISC on U.S. exports. These changes have reflected limitations of our original methods and of the underlying data. In particular, in the Annual Report on the DISC legislation for 1975, the estimate was adjusted for the displacement of non-DISC U.S. exports by DISC exports, a correction not made in earlier reports. In the Annual Report for 1976, we changed the treatment of industries where non-DISC exports grew faster than DISC exports; applying the old method to the new statistics would, we believe, have led to a serious overstatement of the impact of the DISC legislation. To avoid undue confusion arising from these year to year changes in our method of estimating the impact of DISC, we presented in each subsequent report what the estimate would be under prior assumptions.

The DISC-like proposal to allow a tax credit equal to 50 percent of a company's "incremental development expense" has serious liabilities. That credit plus the ordinary deduction for such expenses produce a situation where the Treasury is paying approximately 98 percent of the expense and the company the remaining 2 percent. So rich a tax incentive invites abuse, a problem which would be compounded by the difficulty of giving precise meaning to the term, "incremental development expenses."

However, the Administration is continuing to examine fiscal measures which would encourage a structural shift toward export production. In this exercise, we must bear in mind the limitations which arise from our international obligations under GATT, particularly the subsidy/countervailing duty code now under negotiation in the MTN, and our concerns for tax equity. I would cite the recently enacted revisions to Section 911 as a constructive example of an appropriate balance reflecting our concerns for the U.S. export position and tax equity.

In addition to a reexamination of fiscal measures, we need a substantial reduction in administrative barriers to U.S. exports both here and abroad. We have started on this course through internal review of our regulatory practices and our requests for foreign liberalization of non-tariff barriers, especially in the MTN.

We at Treasury look forward to working with you in the future on these issues.

With best regards,

Sincerely,

ARNOLD NACHMANOFF,
Acting Assistant Secretary.

RESPONSE OF HON. JULIUS L. KATZ TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE LONG

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., October 17, 1978.

Hon. JULIUS L. KATZ,
Assistant Secretary for Economic and Business Affairs, Department of State, Washington, D.C.

DEAR MR. KATZ: I want to thank you very much for testifying before the Subcommittee on International Economics of the Joint Economic Committee. Your detailed discussion of the Department of State's role in U.S. export trade formed a vital part of our hearing record.

Unfortunately, time prevented me from asking you all the questions we had prepared. Would you please answer the following questions at your earliest convenience so that the questions and your answers to them can be included as part of the Committee's assessment of U.S. export trade.

1. In the past, many businessmen have been critical of the State Department's handling of our overseas commercial efforts. There remains a feeling that the commercial officer is not really interested in promoting exports and suffers an institutional penalty for moving into the commercial areas.

How does the grade status of commercial officers compare to that of foreign service officers in other sectors of the State Department? How has the pattern of promotion of commercial officers compared to that of economic, administrative, political or consular officers?

2. In the course of your testimony, you expressed a desire that the United States would be ". . . less concerned and interested in withholding exports for symbolic reasons." How would you apply that admonition to the question of human rights? Under what circumstances would you use the "trade weapon" in pursuit of human rights overseas? To what extent should the competitive availability of a product determine the decision to restrict exports for human rights or other purposes?

3. We discussed the recent decision to allow Allis-Chalmers to proceed with its sale of turbines to Argentina. I asked you what improvement there had been in the human rights situation in Argentina that would justify the Allis-Chalmers decision. Because time did not permit you to respond in any detail, I wanted to give you a fuller opportunity.

Thank you again for contributing so generously to our hearing here.

With kindest personal regards, I remain

Sincerely,

GILLIS W. LONG,
Cochairman, Subcommittee on International Economics.

DEPARTMENT OF STATE,
Washington, D.C. December 7, 1978.

Hon. GILLIS W. LONG,
Cochairman, Subcommittee on International Economics, House of Representatives

DEAR MR. CHAIRMAN: Thank you for your letter of October 17, 1978, regarding the hearings on export policy which the Subcommittee on International Economics of the Joint Economic Committee held earlier in the year. With regard to the additional questions you raised in your letter, I am pleased to provide the following responses:

Question. How does the grade status of commercial officers compare to that of Foreign Service officers in other sectors of the State Department? How has the pattern of promotion of commercial officers compared to that of economic, administrative, political or consular officers?

Answer. The Department has made a deliberate effort to integrate the commercial function in the skills of Foreign Service economic/commercial officers.

We believe an officer who has both economic and commercial skills and is assigned to both economic and commercial positions will be better qualified and able to serve the needs of the American business community than an officer who has served in only economic or commercial positions.

According to any analysis which we performed on promotion patterns for all Foreign Service officers, economic/commercial officers have fared well, especially during the last two years, in terms of share of promotions, average age of promotees and average time in class when promoted. This analysis also supports our belief that integrated economic/commercial officers fare better in terms of professional advancement than either straight economic or commercial officers.

Question. In the course of your testimony, you expresed a desire that the United States would be ". . . less concerned and interested in withholding exports for symbolic reasons." How would you apply that admonition to the question of human rights? Under what circumstances would you use the "trade weapon" in pursuit of human rights overseas? To what extent should the competitive availability of a product determine the decision to restrict exports for human rights or other purposes?

Answer. I believe that sanctions which are multilaterally agreed, such as the UN embargo on Rhodesia, are much more unlikely to be effective than are unilateral U.S. controls. When we act alone to use trade measures to disassociate ourselves from extreme patterns of human right violations, we do so on a carefully selective basis.

I believe that in today's competitive markets the number of non-strategic goods which can be successfully withheld unilaterally from one country by another is small. Absent a multilateral agreement, I am skeptical of the utility of "trade weapons" for pursuing human rights or other U.S. objectives abroad. I would reserve the use of such restrictions to extreme cases where there was a reasonable expectation that the benefits to U.S. interests, in terms of a significant effect on the country involved, would outweigh the costs to U.S. citizens.

The use of export controls to advance human rights policy has been limited almost without exception to arms sales and other transactions related to the military. That is not to say that in a rare case export controls on commercial goods would not be used to further human rights or other policy objectives. Before resorting to such an action, however, I believe it is important that we first employ a broad variety of other policy instruments. In some instances quite diplomacy in the form of direct discussions with a country's leaders can have a considerable impact. At times public comment can be useful. When our relationship with a country includes military and economic assistance, we are prepared to adjust assistance levels in response to human rights developments. In those few cases where export controls are considered, our decisions regarding private transactions or government backed financing of commercial ventures should take full account of the competitive position faced by U.S. firms—including criteria such as whether the products in question are available in other countries—and of the impact of our action on domestic employment and our balance of trade.

Question. We discussed the recent decision to allow Allis-Chalmers to proceed with its sale of turbines to Argentina. I asked you what improvement there had been in the human rights situation in Argentina that would justify the Allis-Chalmers decision. Because time did not permit you to respond in detail, I wanted to give you a fuller opportunity.

Answer. The U.S. Government continues to be deeply concerned with the persistance of human rights problems in Argentina. These include over 3,400 detainees who are held without trial, and the unaccountable disappearance of numerous individuals.

In response to this situation we have taken a number of actions to convey to the Argentines how strongly committed we are to human rights—grant military training for Argentina has been withdrawn, arms sales have been held back, and we have linked our vote in the International Financial Institutions to the Argentine record on human rights. Also, in July 1978, the State Department recommended to the Export-Import Bank that it withhold letters of interest on two transactions on human rights grounds: one involving the sale of turbines by Allis-Chalmers and the other for the sale of papermaking machinery by the Beloit Corporation. This recommendation was made pursuant to the existing Export-Import Bank statute which provided that the Bank "shall take into account, in consultation with the Secretary of State, the observance of and respect for human rights in the country to receive the exports." We believe that our action helped advance the cause of human rights in Argentina. Our September recommendation that the Bank issue letters of interest was based on our hopes and expectations of Argentine willingess to take actions we believed would result in human rights improvements. The principal favorable developmet was the Argentine agreement, announced within weeks of our decision, to permit the Inter American Human Rights Commission to visit that country.

Export-Import Bank activities in the future will comply with a provision in the recently adopted authorization legislation which the Congress passed with the support of the Administration, and which states that the US should "give particular emphasis to the objective of strengthening the competitive position of United States exporters and thereby of expanding total United States exports. Only in cases where the President determines that such action would clearly and importantly advance United States policy in such areas as international terrorism, nuclear proliferation, environmental protection and human rights, should the Export-Import Bank deny applications for credit for non-financial or non-commercial considerations."

Sincerely,

JULIUS L. KATZ,
Assistant Secretary for Economic and Business Affairs.

RESPONSE OF HON. JOHN L. MOORE, JR., TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE LONG

Hon. JOHN L. MOORE, Jr.,
President and Chairman, Export-Import Bank,
811 Vermont Avenue, NW., Washington, D.C.

DEAR MR. MOORE: I want to thank you very much for testifying before the Subcommittee on International Economics of the Joint Economic Committee. Your fine testimony on the Export-Import Bank and the problems it faces in supporting U.S. exports formed a vital part of our hearing record.

Unfortunately, time prevented me from asking you all the questions we had prepared. Would you please answer the following questions at your earliest convenience so that the questions and your answers to them can be included as part of the Committee's assessment of U.S. export trade.

1. How competitive is the Export-Import Bank with other national export financing facilities? The U.S. Export-Import Bank is largely self-sustaining. Is that true for similar institutions overseas?

2. What are the prospects for expanding and tightening the international arrangement on government financing of exports? If the current arrangement proves unworkable, what will the Export-Import Bank and the United States do to meet foreign competition?

3. In a May 16th address before the Bankers Association for Foreign Trade, you asked the bankers for their reaction to a possible arrangement in which they would extend fixed interest rate loans to developing countries back by an Ex-Im guarantee to assure them a return of 1 percent over the prime rate. What was the response of the banking community to your proposal? What is the current status of the program? What are the estimated costs of the program, assuming different funding levels?

Thank you again for giving us the benefit of your financial wisdom and experience as part of our first look at the new U.S. export policy.

With kindest personal regards, I remain,

Sincerely,

GILLIS W. LONG,
Cochairman, Subcommittee on International Economics.

EXPORT-IMPORT BANK OF THE UNITED STATES,
Washington, D.C., January 2, 1979.

Hon. GILLIS W. LONG,
Cochairman, Subcommittee on International Economics,
Joint Economic Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: This letter is a followup reply to my letter dated November 3, 1978, regarding your inquiry to Chairman Moore on Export-Import Bank competitiveness vis-a-vis other official export credit agencies. I apologize for the long delay in our reply, but we were awaiting a report from the most recent OECD discussions in Paris and Brussels. Unfortunately, the delay proved unnecessary inasmuch as little progress was made on strengthening the International Arrangement on Exporter Credits. The talks will resume in Paris next week and Eximbank's participating staff members are hoping for more substantive results at that time.

We were also anticipating a recommendation from those Executive agencies which advise Eximbank on budget policy with regard to Chairman Moore's proposed fixed interest rate support program. Discussion is still underway within the Executive as to the feasibility of such a program. We will be happy to keep you informed of that decison.

I hope the attached responses answer your questions sufficiently. If you have any questions or if I can be of further service, please contact me.

Sincerely,

NANCY S. PIGMAN,
Congressional Relations Officer.

Attachments.

Question 1. How competitive is the Export-Import Bank with other national export financing facilities? The U.S. Export-Import Bank is largely self-sustaining. Is that true for similar institutions overseas?

Answer. Any assessment of Eximbank's comparative position regarding its export support programs should take note of the magnitude of competing foreign programs, and the relative importance of exports to the economies of the nations being reviewed. Such perspective is essential to understanding that, despite its best efforts. Eximbank is severely limited in its ability to match foreign competition in all transactions submitted for support.

During 1977, Exim's major competitor agencies extended export credit insurance, guarantees and loans which totaled some $96 billion. This amounted to more than 20 times the authorizations of Eximbank/FCIA (Foreign Credit Insurance Association). In those countries where export promotion and growth are considered to be a key mechanism for enhancing economic growth in general, government support for exports is extensive and highly competitive. Such a national commitment to export expansion has yet to be developed in the United States.

With this as background, Exim concludes that based on broad, general comparisons, Eximbank's support programs—overall—compared favorably with the programs available to exporters and commercial banks in Canada, Italy, and the United Kingdom, but were not fully comparable with those available in France, Germany, and Japan—particularly as regards the level of interest rate and degree of credit participation in large transactions.

To minimize the prospect that U.S. exporters are denied overseas contracts due to uncompetitive financing, Eximbank has increasingly tried to match the credit packages offered by the Bank's foreign counterparts in cases where financing was believed to be an essential factor. In these cases Eximbank has increased its share of fixed rate direct funding, lowered the interest rate on its credit, and, when appropriate, lengthened the repayment term. This strategy has enabled Eximbank to achieve a substantial improvement in its relative competitive position.

Nevertheless, Eximbank's flexibility in this area is constrained by the Bank's status as a self-sustaining institution. Unlike its foreign rivals, Eximbank receives no annual appropriation from the general budget to fund special programs or to cover operating losses.

Just for comparison, the U.K.'s ECGD received a $450 million appropriation for interest rate subsidies in 1976/77—a year in which Exim ran a net profit of some $137 million.

This distinction permits foreign export credit agencies to offer expensive export subsidy programs which are not self-sustaining, specifically: mixed credits, local cost guarantees and credits, inflation indemnity insurance, and exchange risk insurance. To meet this competition, Eximbank has recently begun to extend direct credits to finance local costs and to match mixed credits on a selective basis. Even in these two areas, however, Eximbank's discretion is controlled by standards of financial prudence and recognition of its self-sustaining character. These considerations have also deterred Eximbank from establishing its own inflation indemnity and exchange risk insurance programs.

Question 2. What are the prospects for expanding and tightening the international arrangement on government financing of exports? If the current arrangement proves unworkable, what will the Export-Import Bank of the United States do to meet foreign competition?

Answer. Although all participants in the international arrangement are amenable to discussion and evaluation of the arrangement's impact so far, most countries believe that further time must elapse before any substantive changes can be made in the existing agreement. As a result, U.S. proposals to increase interest rates, restrain extraordinary export support programs like mixed credits and local cost financing, and broaden the arrangement's scope, have met considerable resistance. Thus, the prospects for expanding and tightening the arrangement are unfavorable. Nevertheless, Eximbank and other United States Government agencies will continue to strive for progress in this area by exploring new ways of limiting counter-productive competition in the provision of official export credit.

Eximbank is currently analyzing several alternative policies that could be pursued in the event that no improvement is made in the international arrangement. The objective of all these alternative programs would be to increase further the attractiveness and competitiveness of Eximbank's financial packages while maintaining, to the greatest extent possible, the Bank's financing integrity. The Bank would also have to seek increased budget authority so that its access to funds would be assured for the entire fiscal year. Because Eximbank has traditionally sought to preserve its self-sustaining character and has also sought to minimize the budget impact of its activities, embarking on these more expansive alternative policies would represent a significant departure from Eximbank's traditional philosophy. Although Eximbank is readying itself to meet the challenge that stagnation in the arrangement talks would present, we clearly hope that the ultimate success of these talks will obviate the need for such dramatic action.

Question 3. In a May 16th address before the Bankers Association for Foreign Trade, you asked the bankers for their reaction to a possible arrangement in which they would extent fixed interest rate loans to developing countries backed by an Eximbank guarantee to assure them a return of 1 percent over the prime rate. What was the response of the banking community to your proposal? What is the current status of the program? What are the estimated costs of the program, assuming different funding levels?

Answer. During the last fixe months, Eximbank has had extensive discussions with the private banking community and numerous branches of the Federal Government to evaluate the feasibility of the idea proposed to the Bankers Association for Foreign Trade. The private banking community is strongly supportive of such a program and appears to be willing to provide fixed rate financing without our guarantee of their commercial risks—if we are willing to guarantee them a given spread above the prime rate.

As the Swiss, German, and Japanese capital markets are extremely liquid at the moment and they are able to make private long-term fixed rate financing and Eximbank's government competitors also offer extremely attractive terms, we do need to consider proposals of this kind. Nevertheless, to date there is not yet agreement within the Executive branch on how such a program should be organized, what the cost would be, and if we should go ahead with it as a major operating program for the bank. Nevertheless, our review of this idea continues with extensive internal staff work and interagency discussions and the various options should be considered by the National Advisory Council early next year.

RESPONSE OF HON. G. EDWARD SCHUH TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE LONG

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., October 13, 1978.

Hon. G. EDWARD SCHUH,
Deputy Assistant Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture, Washington, D.C.

DEAR MR. SCHUH: I want to thank you very much for testifying before the Subcommittee on International Economics of the Joint Economic Committee. In light of the President's new emphasis on agriculture in the first phase of his new export policy, it would have been a disappointment not to have Agriculture with us. I very much appreciate your joining us on such short notice.

Your well-drawn testimony put the importance of our agricultural exports in a clear, economic perspective. The recent success of your Foreign Agricultural Service was impressive and promising at the same time. I wonder if we can do as well in other sectors of our economy.

Unfortunately, time prevented me from asking you all the questions we had prepared. Would you please answer the following questions at your earliest convenience so that the questions and your answers to them can be included as part of the Committee's assessment of U.S. export trade.

1. You emphasized the value of the cooperator program in facilitating U.S. agricultural exports. Could you please describe that program in greater detail? Do you feel that the cooperator or other Agricultural department programs are transferable to the industrial or service sectors of our economy? To what extent are agricultural programs exempted from the purview of American anti-trust statutes?

2. The Foreign Agricultural Service is independent of the State Department's Foreign Service. Has that been vital in the success of the FAS? What will be the probable impact of any move to upgrade the status of FAS officers serving abroad? Could the FAS experience be applied to the promotion of industrial or service exports?

3. The first phase of the President's new export policy included a number of proposals to stimulate agricultural exports. What will be the quantitative impact of the President's proposals on agricultural exports?

4. Ambassador Robert Strauss, U.S. Special Trade Representative, has placed considerable emphasis on reducing barriers to U.S. agricultural exports as part of a balanced multilateral trade agreement. The impact on agricultural exports can be expected to vary with the degree of reduction in current trade barriers. With that in mind, what range of benefits for American agriculture can one reasonably expect from the Tokyo round of trade negotiations?

Thank you again for your thoughtful and timely testimony.

With kindest personal regards, I remain

Sincerely,

GILLIS W. LONG,
Cochairman, Subcommittee on International Economics.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., December 28, 1978.

Hon. GILLIS W. LONG.
Cochairman, Subcommittee on International Economics, Joint Economic Committee, House of Representatives, Washington, D.C.

DEAR MR. COCHAIRMAN: Thank you for your recent letter expressing appreciation for my remarks on U.S. agriculture and agricultural exports to the Subcommittee on International Economics of the Joint Economic Committee. I will try to respond to your questions below.

The cooperator program is the Department's major modus operandi for carrying out overseas agricultural market development work. Cooperators are nonprofit organizations representing the interests of farmers and, secondarily, related businessmen and firms in developing and maintaining commercial overseas markets for U.S. agricultural products. Cooperator activities are carried out under contractual agreements with the Foreign Agricultural Service (FAS). Promotion activities are proposed in annual marketing plans developed by the cooperators and submitted to FAS for approval. FAS approval of these annual marketing plans is based on compliance with budget and program regulations and probable effectiveness of each activity in reaching specific objectives. Overseas operations are under general supervision of agricultural attaches.

In the joint FAS/cooperator program, two basic approaches to market promotion are used. These are trade servicing and consumer promotion (often broken into generic promotion and brand promotion). Many activities may be included in one or another of the types of promotion on the basis of program strategy.

Trade servicing simply means helping the buyer choose the right U.S. product and use that product efficiently. Bulk, unprocessed commodities such as soybeans and feedgrains especially lend themselves to trade servicing activities. Such efforts may be designed to encourage direct sales and/or to impart information to potential buyers and related government agencies with regard to price, availability, usage, technical application, etc. On the other hand, the impact of the activity may be indirect; for example, increased egg consumption is encouraged, which in turn raises demand for imports of U.S. feedgrains. Trade servic'ng also is useful in consumer-oriented programs to insure that foreign tradesmen know how to handle an unfamiliar product. Regardless of the specific application, trade servicing is intended to help create a favorable image abroad of the United States as a dependable source of quality products.

Consumer promotion is a major technique used by cooperator groups representing producers of semiprocessed and processed products— those products that do not lose their U.S. identity before reaching the foreign consumer. Generally, consumer promotion is designed to create demand for a product having substantial growth potential. At times, consumer promotion of semiprocessed products is used to tie the processor to the U.S. source of supply. Cooperator groups representing bulk commodities may promote (consumer-ready or finished) products to expand demand for the related raw material.

Generic and brand promotion are the two overall types of consumer promotion. Either type may contain elements of trade servicing or elements of other types of consumer promotion. Both types of promotion utilize standard media advertising and other appropriate promotional techniques.

Currently there are 45 cooperators with ongoing programs.

As for the transferability of the FAS/cooperator program approach to market development to other sectors of the economy, certainly the goals of effective trade servicing and product promotion must form part of any solid market development program. However, a fundamental rationale for the program is that it is an effective and efficient means of performing those necessary marketing functions for agricultural commodities which individual producers (farmers) cannot do themselves. A farmer normally has neither the specific expertise, the time, nor the opportunity to explain to a Polish Gvernment official or scientist why and how he should increase the soybean content of his poultry feed rations, or to help convince a high income Swedish consumer why he should drink more U.S. orange juice. Large firms in the industrial and service sectors engaged in international trade often have this capability themselves and, of course, the Department of Commerce performs a range of services which parallel some of those performed by FAS. Our cooperators promote but do not carry sale order books. This insures that their efforts do not favor any potential U.S. exporter over its U.S. competitors. Possibly this aspect of the cooperator program could be incorporated more fully into joint efforts by nonagricultural U.S. business groups to promote their products overseas.

The cooperator program is not exempt from the purview of American antitrust statutes. However, the program is designed and operated so as not to restrict competition or conflict with other antitrust requirements.

We do indeed consider that the inclusion of the agricultural attaches as an integral part of the agency has been vital to the success FAS has enjoyed in fulfilling its mission of expanding commercial sales of U.S. agricultural exports. All aspects of agriculture, and most certainly agricultural trade, are complex. Accordingly, FAS insures that the agricultural attaches have the necessary training and experience in agricultural economics and/or agricultural marketing before they are stationed overseas. Thus, they have the technical expertise to carry out their representational, reporting, and marketing responsibilities—all of which are directly related to the economic welfare of U.S. agriculture. The direct link in terms of authority and responsibility between FAS/Washington and the attaches makes for efficient communications and for effective implementation of programs. It also insures that our attaches have every incentive to concentrate on the major task at hand—stimulating sales of U.S. agricultural products and reporting on related developments. The Ambassador's authority insures that all attache activities are in accord with overall U.S. policy objectives.

The upgrading of agricultural attaches at certain foreign posts to the rank of counselor provides them with diplomatic status which is commensurate with the importance of these posts to U.S. agriculture—and to the United States in general. The higher rank and the enhanced status associated with it would aid our agricultural representatives in doing their jobs better by increasing their stature in the eyes of the host country officials they are there to deal with. I might add that foreign government agricultural representatives assigned to important overseas posts usually have counselor status. As far as applying this approach to those promoting industrial or service exports, I think you will find that the chief representatives for these areas in our embassies, the economic and/or commercial officers, generally already have counselor status.

As you know, the Agricultural Trade Act of 1978 was signed by President Carter on October 21, 1978. I assume your question regarding the President's new export policy as it relates to agricultural exports referred to provisions contained in that bill. The article on page 2 of the enclosed issue of Foreign Agriculture sums up the major export expansion provisions of the Act and the rationale behind them. While we are confident that the effects on the value and volume of U.S. agricultural trade will be positive, I don't believe anyone can quantify the impact with any degree of precision.

There is no dollar target toward which we are negotiating in the multilateral trade negotiations because the benefits we seek are of several different types. First, we are seeking reductions in foreign tariffs and nontariff trade barriers as they apply to specific U.S. products. We are concentrating on those products for which concessions are needed to help us substantially increase our exports and to help us maintain our existing markets in competition with other countries. Specific tariff and nontariff barrier concessions are being sought primarily for $3 to $4 billion worth of selected U.S. agricultural exports. These trade coverage figures are only indicative of the possible benefit; the effect of concessions in later years could be much higher in trade value. In addition to specific product concessions, the United States is also seeking improved trading rules, the most important of which concern stricter limits on the use of export subsidies. Such rules have the potential to benefit almost the entire range of U.S. agricultural exports. Finally, for certain commodities there may be international commodity arrangements. In the case of feedgrains, meat, and dairy products, these arrangements would provide mainly for a better base of information from which to deal with international trade problems. In the case of wheat, our objective is to stabilize the market, improve world food security, and achieve a more equitable sharing of the burden of adjustment to changing world market conditions. Benefits of this kind are real, but cannot be quantified in terms of their contributions to increased U.S. agricultural exports.

Thank you again for your interest in our agricultural export programs. I hope the above information has helped to clarify the issues you addressed in your letter to me.

Sincerely,

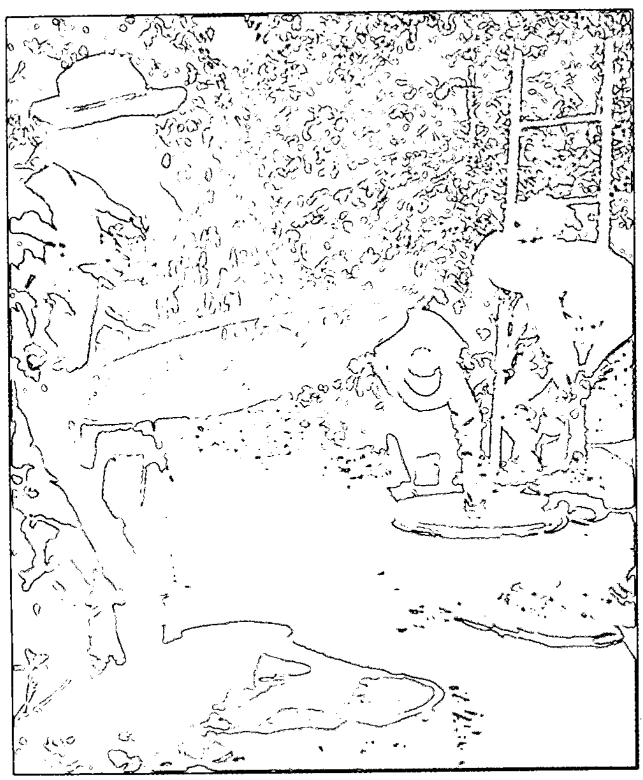
G. EDWARD SCHUH,
Deputy Assistant Secretary.

Enclosure.

October 30, 1978

Foreign Agriculture

Foreign
Agricultural
Service
U.S. DEPARTMENT
OF AGRICULTURE



Brazilian coffee pickers winnowing newly harvested coffee berries from waste materials.

Agricultural Trade Act Paves Way for Gains In U.S. Farm Exports

By Ron Deaton

Following a record-breaking showing of more than $27 billion in the fiscal year just ended, U.S. farm exports will get another shot in the arm from the just-passed Agricultural Trade Act of 1978. The new law focuses on market development and additional credit provisions as means of boosting U.S. agricultural exports. It could also help enlarge the already hefty U.S. farm trade surplus and thus narrow the deficit in total U.S. trade.

U.S. exports of breeding cattle could benefit measurably from the intermediate credit provided in the new farm trade act.

On October 21, 1978, President Carter signed into law the Agricultural Trade Act of 1978. This important legislation promises to be the most significant development in U.S. Government efforts to promote export sales of farm commodities since the Agricultural Trade Development and Assistance Act of 1954. The law is the result of a widespread consensus among members of Congress, the Carter Administration, and the farm sector that more can be done to promote and expand foreign sales of the abundance produced by U.S. farmers—and in ways that benefit the nation.

The key provisions of the new law can be summarized as follows:

• **Intermediate credit.** Authority is provided for a new Commodity Credit Corporation (CCC) loan program with repayment terms of 3-10 years.

• **Credit sales to the People's Republic of China (PRC).** The PRC is made eligible for 3-year credits.

• **Agricultural counselors.** Authority is provided to the Secretary of Agriculture to raise the status of at least 10 Agricultural Attachés to the diplomatic rank of Counselor.

• **Agricultural trade offices.** Authority is provided for the Secretary of Agriculture to establish between 6 and 25 agricultural trade offices in the most important commercial regions of the world.

Dr. Deaton is Legislative Assistant to the Administrator, FAS.

The legislation resulted from the widely held belief that the United States could improve the sale of U.S. farm commodities abroad by increasing and strengthening the tools available for market development. It received overwhelming support in Congress and passed both houses with little opposition.

The importance of U.S. farm exports has grown massively in the decade of the 1970's. The objective of the new law is to maintain and expand on recent sales.

Domestic farm programs, including the 1977 farm bill, are dependent on an export outlet for the commodities produced in excess of domestic needs. At present, nearly one out of three acres of harvested crops in the United States goes into international commerce. Without these exports, the United States would be saddled with large crop set-aside programs, increased deficiency payments, costly Government stock acquisitions, and even larger budgetary expenditures.

The ripple effect of benefits from agricultural exports is felt throughout the entire U.S. economy. Agricultural exports generate about 1.2 million jobs, but only 500,000 are directly involved in farm production. The rest are employed in food processing and other manufacturing related to it, as well as trade, transportation, and other services necessary to move the commodities abroad.

The total business activity generated by the production, processing, transport, and export of agricultural commodities may exceed $50 billion.

The nation as a whole also is highly dependent on export sales as one of the few bright spots in an otherwise-dim balance-of-trade picture. Export sales of U.S. farm commodities have gone from less than $7 billion in 1968 to over $27 billion in 1978. Estimated earnings for the major exports in fiscal 1977 (October-September) included $5.7 billion for soybeans, soybean oil, and meal; $4.5 billion for corn; and $3 billion for wheat. All are projected to be higher in fiscal 1978.

The net favorable agricultural trade balance of the United States has recently totaled $10-$13 billion per year, despite an overall trade imbalance in excess of $20 billion. Clearly, the future health of the U.S. dollar is linked to the volume of agricultural exports and the earnings they produce.

The sponsors of various legislative proposals leading to passage of the Agricultural Trade Act of 1978 shared two common views: (1) They recognized the recent successes in increasing overseas sales by building upon programs already in existence; (2) they stressed the creation of new legislative authorities that would provide additional tools beyond those in existing law.

The result was a package that combined the strengthening of traditional mechanisms, such as the CCC's 3-year loan program and the Foreign Agricultural Service's network of attaché's, with innovations such as the trade offices.

The legislative process that resulted in the passage of the Agricultural Trade Act of 1978 began with the introduction of export credit proposals shortly after the 1977 farm bill was signed into law by President Carter in August 1977. The first major bills were introduced by the late Senator Hubert Humphrey of Minnesota in the Senate and by Congressman Paul Findley of Illinois in the House. They contained provisions for intermediate credit and CCC loans to nonmarket countries.

A large number of agricultural export bills were introduced in both houses at the beginning of the second session of the 95th Congress. The most comprehensive legislation was first introduced by Congressman Poage of Texas and Congressman Mathis of Georgia. A similar bill was introduced in the Senate by Senator Clark of Iowa. Provisions in their bills for Counselor status for agricultural attachés and for creation of agricultural trade offices were adopted by the lawmakers.

The legislation was referred to the Committee on Agriculture, Nutrition and Forestry in the Senate and to both the Committee on Agriculture and the Committee on International Relations in the House.

A major reason for the fairly rapid consideration and successful passage of the Agricultural Trade Act of 1978 was the broad consensus among farm groups that recent export sales growth should be consolidated and expanded.

The widespread dissatisfaction among farmers over commodity price declines during the fall and winter of 1977/78, which precipitated the emergence of the American Agriculture Movement, gave added impetus to the passage of the legislation.

In March 1978, hearings were held in the House of Representatives on the various measures. Similar hearings were held in the Senate in April. There was extensive testimony from a wide variety of individuals and groups regarding the merits of the bills and the needs to which they had been directed.

There was broad agreement that agricultural trade offices would be beneficial in many ways. Witnesses noted that the trade office can serve as the focal point for market development activities within a region of high potential commercial activity. By locating the private commodity sales effort together with the services provided by the trade officer, a "one stop" center for export promotion and sales effort can be achieved.

In particular, it was noted that trade offices could help pinpoint additional areas of market potential and provide advice on local laws, local travel, foreign exchange restrictions, and foreign national employment regulations.

There was also widespread support for upgrading a number of agricultural attachés to the rank of Counselor in major posts. Despite the key role that U.S. food and agriculture plays in world affairs, the Counselor designation had been unavailable to representatives of the Department of Agriculture since 1954.

Witnesses argued that this change would provide greater diplomatic ranking and entree with foreign officials for the agricultural attaché. Senator Clark, in urging Senate passage of the Agricultural Trade Act, noted that increased effectiveness and a higher visibility for the role of overseas market development is a major goal of the new law.

The new ranking for agricultural attachés is a reflection of this increasing importance for U.S. agriculture in world affairs.

Differences emerged over the issue of expanding credits to nonmarket countries and the issue of creating a new intermediate credit program. These proved to be the most controversial items in the legislation.

The Senate Agriculture Committee declined to alter the prohibitions on credits to the nonmarket countries, which were established in the Trade Act of 1974, other than to make the PRC eligible for 3-year CCC credits.

In the House, both the Agriculture and International Relations Committees were supportive of expanding CCC eligibility. The bill originally reported by the House Agriculture Committee would have made several other nonmarket economy countries eligible. However, the measure was amended by the House International Relations Committee to limit that additional eligibility to the PRC—and a few East European countries.

The Conference Committee resolved the issue by limiting eligibility to the People's Republic of China.

The issue of intermediate credit as an addition to both the 3-year CCC program and the Food for Peace Program also produced considerable debate. The principal concern was that unlimited authority and use of such a program could initiate a credit war among competing exporters that would be a disservice to all. This led to efforts to clarify its purposes and restrictions in ways that would reassure other countries as to the limited purposes for intermediate credit.

The Administration stressed the value of such credits for financing the export sale of breeding livestock, in view of the time necessary to generate returns sufficient for repayment. In addition, the potential use of such credits to provide financing and accumulation of stocks as part of an international grain reserve was recognized and endorsed by the Administration.

The Senate and House Committees considered other uses and purposes for intermediate credit as well. Of particular interest was the potential of such credits for financing facilities abroad to remove bottlenecks in storage, handling, or transportation of commodities. The law as passed by Congress and signed by the President includes new authority in this area.

Passage of the law came quickly as the end of the 95th Congress drew near. The Senate passed the bill on September 8—by an overwhelming majority of 65 to 1. The House passed it by a majority of 325 to 62 on September 25. The Conference Committee convened to resolve the differences on October 4 and 5 and final passage in both Houses was perfunctory. A few days later, President Carter signed the Agricultural Trade Act of 1978. □

President Carter Announces New Export Initiatives

President Carter recently announced a new program of initiatives to enhance exports of U.S. agricultural and industrial products. The measures are intended to help reduce the U.S. trade deficit, strengthen the dollar, and contribute to the Administration's efforts to combat inflation and unemployment.

In his September 26 statement, President Carter focused on the trade deficit problem that has become chronic in recent years. That deficit hit more than $30 billion in the fiscal year just ended, reflecting in large part this country's heavy dependence on imported oil and the lack of U.S. exports sufficient to balance import costs.

U.S. exports have grown at a slower rate than those of other industrial countries, in part because growth rates abroad have been inadequate to stimulate demand for U.S. products, particularly industrial goods.

"Over the past 20 years, our exports have grown at only half the rate of other industrial nations and the United States has been losing its share of world markets," the President said. "Until now, both business and government have accorded exports a relatively low priority."

The export program consists of three broad sets of goals:

- Increased direct assistance to U.S. exporters;
- Reduction of domestic barriers to exports; and
- Reduction of foreign barriers to U.S. exports to secure a fairer international trading system.

Among the actions announced to achieve these objectives is expansion of loan authority for the Export-Import Bank—from $700 million in fiscal 1977 to an estimated $4.1 billion by fiscal 1980. This will improve the Bank's competitiveness and provide more flexibility in its terms of financing for U.S. exporters.

Other measures include an expanded role for the Small Business Administration in assisting small business exporters and expanded funding for export-promotion ventures of various Federal agencies.

The President emphasized the important role of agriculture as a highly successful component of the U.S. trade balance. The Administration's export program aims at strengthening the recent success story of agricultural exports—the brightest area of U.S. trade in recent years. In addition, it focuses on expanding sales of industrial products so that the overall export performance of the United States can be enhanced.

U.S. agricultural exports in fiscal 1978 are estimated at a new high of over $27 billion and contributed a net agricultural trade surplus of about $13.5 billion.

Among the agricultural programs and measures endorsed by the President are opening of Agricultural Trade Offices abroad, increased funding for the Foreign Agricultural Service's cooperator program, and authority for Commodity Credit Corporation loans in excess of 3 years for selected agricultural exports.

At the conclusion of the announcement of his new initiatives, President Carter cautioned that this was a major challenge that would not yield to short-term or easy solutions. Rather, it would require a continuation of aggressive market development efforts and a position of sustained high priority.—*Ron Deaton, FAS.* □

U.S.-Canadian Pork Trade Patterns To Reverse in 1978

By George C. Myles

Pork trade between the United States and Canada for 1978 is expected to depart from the trend of the past 3 years, with Canada shipping more pork to the United States and U.S. pork exports declining from levels of the past few years.

The United States continues to be a net exporter of pork to Canada, but by a smaller margin. U.S. exports to Canada are estimated near 50,000 tons for 1977—the fourth straight year that the United States has been a net exporter to Canada. Before 1975, the United States was usually a net importer.

Canada's pork exports to the United States may double this year to 20,000 tons from 10,000 tons a year earlier as a result of increased production, which is expected to total 585,000 tons—8.5 percent greater than pork output in 1977.

Also contributing to higher Canadian shipments to the United States is the lower value of the Canadian dollar compared with the U.S. dollar.

The same forces have also been reducing the level of Canadian pork imports from the United States. During January-August 1978, imports of U.S. pork were running 45 percent below imports during the comparable period of 1977.

Firm prices for market hogs in Canada throughout 1977 led to overall increases in breeding stock numbers and farrowings by early 1978. Increased output in eastern Canada will account for most of the 1978 rise in pork production, although a modest gain is expected in the western part of the country. But slaughterings in the west—expressed as a share of total Canadian slaughterings—may be expected to decline further in 1978.

Also contributing to greater Canadian pork production in 1978 is the revision of Canada's Federal hog grading regulations that were put into effect on January 2, 1978. The new regulations permit producers to market heavier hogs that were previously discounted under Canada's index evaluation system of backfat measurement. Slaughter weights thus far this year are up 4 kilograms or about 5 percent from last year's levels.

The system will operate on a temporary basis for 1 year, after which the Canadian Department of Agriculture will asses the amended system with hog and meat packing industries.

During 1975-77, developments within Canada's domestic hog industry and changing pork trade patterns made Canada into a net pork importer.

Canadian imports of U.S. pork have climbed steadily since 1972, when 15,700 tons (carcass-weight equivalent—cwe) of U.S. pork accounted for about 76 percent of total Canadian pork imports. By 1977, imports of U.S. pork had risen to 90,175 tons (cwe)—representing 98.5 percent of Canada's imports.

Much of the gain in imports of U.S. pork, particularly during 1975-77, entered western Canada, where pork supplies were reduced as a result of both declining pork production in the western part of the country and an increase in pork exports to Japan under contract with the Prairie Provinces' hog marketing boards.

Japan is currently Canada's major export market for pork. Prior to 1975, the United States absorbed most of Canada's pork exports, but since that time, exports to Japan have increased while those to the United States have declined.

Canadian pork exports in 1977 totaled 46,000 tons (cwe), valued at Can $125.7 million. Of that amount, 10,000 tons, valued at Can $22.2 million, went to the United States; 33,750 tons, valued at Can $99.5 million, were shipped to Japan.

In January-August 1978, Canadian pork exports to the United States ran at an annual rate of 20,000 tons, double the 1977 level.

During 1978, exports of Canadian pork to Japan will likely be more dependent on spot sales, as pork export contracts—negotiated over the past few years with the Provincial hog marketing boards of Alberta, Saskatchewan, Manitoba, and Ontario—begin to expire, with renewal prospects uncertain. During January-August, pork exports to Japan were 28 percent below year-earlier levels.

During the 1970's, developments within both Canada's grain and livestock industries have been reshaping pork production. Traditionally, the basis for a viable hog industry in the western part of the country has rested securely on the demand for pork in the eastern Provinces. Thus, western producers had the alternative of using western feedgrains to raise hogs during years of low cash returns for grain sales.

Starting in 1972, greatly improved grain prices and higher initial payments by the Canadian Wheat Board to producers for feedgrains appeared to be disincentives to hog expansion in the west. In following years, hog production on the prairies began to be consolidated into larger units with fewer grain producers following the tradition of phasing in and out of hog production as hog and grain market prices dictated.

By April 1976, the Canadian Government announced its Western Grains Stabilization Program, designed to stabilize the net cash flow to commercial grain producers on the prairies. Under the program, the guarantee that net cash flow for grain producers would not fall in any given year below the average of the previous 5 years removed the market risks of grain production, further discouraging hog production expansion.

More recently, energy-related employment opportunities in the construction industry in Alberta—the west's main hog-producing Province—have offered an attractive alternative to grain farmers who raise hogs in the offseason.

During 1970-77, federally

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Brazil's Challenge: Boosting Farm Output To Meet Growing Export And Domestic Needs

Brazil, with its rapid growth in farm production and exports, is the Horatio Alger of agriculture. It has become the world's third largest farm exporter with a myriad of products ranging from soybeans to mangoes. However, the country has a serious challenge to meet: Growing domestic demand that could inhibit export trade in the next decade. Leon G. Mears, leaving Brazil after 2 years as U.S. Agricultural Attaché there, reflects on Brazil's agriculture—where it is going and its prospects for success.

Generating a sufficient volume of agricultural production to meet expanding domestic and export demand is the major challenge confronting Brazil for the next decade or more.

Says Leon G. Mears, former U.S. Agriculture Attaché in Brasilia: "Brazilian agriculture will have a great challenge in the immediate years ahead meeting increased domestic needs, and this will tend to restrict the quantity of agricultural products moving into the world export market." In short, greater domestic consumption means less food and feed for export.

According to Mears, rapid expansion in agricultural production is almost a foregone conclusion for Brazil. Its potential as a farm producer has barely been scratched, and no other country in the world has increased agricultural exports more rapidly than has Brazil in the past 2-3 years. In 1977, agricultural exports contributed about 65 percent of total foreign exchange earnings. Brazilian agriculture, said Mears, holds several strong cards—land resources, Government support, and increased foreign investment.

"Brazil's rich agricultural resources are perhaps its greatest strength," Mears said. "At present, only 5 percent of Brazil's total land area is under cultivation. A number of studies in recent years have indicated that about 30 percent of the land can be utilized for agriculture."

The Brazilian Government has a number of domestic regional development programs aimed at developing the agriculture of frontier or chronically low-income areas. The principal tools of these programs are investment credits at favorable terms for private investors.

Among the areas targeted for these programs are the cerrados (the savanna area covering most of the State of Goias, and parts of Mato Grosso, Minas Gerais, and other states), the north and northeast parts of the country, and the Amazon Basin. There are also sectoral development programs for livestock, limestone, grain, alcohol, and pork.

"In addition to land resources, the Brazilian Government has provided strong support to the agriculture because of the important role farming and farm exports play in Brazil's economy."

The goal for agriculture in the Second National Development Plan (1975-79) is a 7-percent annual growth rate, to be achieved through remunerative minimum prices for agricultural commodities, attractive credit terms, support to research and extension, and improvement of the infrastructure of rural areas. Convinced that only better and more intensive research can lead to higher productivity, the Government has given high priority and a hefty budget to research and education in agriculture.

The Government is also concerned with maintaining adequate food supplies for the population at reasonable prices and with promotion of expanded agricultural exports.

The third major factor supporting the conclusion that agriculture will expand is the important and growing foreign investment in Brazilian agribusiness (farm machinery, farm chemicals, fertilizer, and seed) by the United States, Japan, West Germany, the Netherlands, Canada, and others. Most of the firms from these countries are investing in Brazil because of the widespread recognition that Brazil holds the opportunity for agricultural growth. These countries see Brazil as a last frontier.

But tempering this optimism over the heights to which Brazilian agriculture can reach is the reality of Brazil's increasingly affluent as well as growing population. The Government's attempt to improve the diets of the country's people is a major challenge for Brazilian agriculture.

"There are a number of low-income Brazilians (35-40 percent of the population), particularly in the northeast part of the country that has traditionally been a poor area with per capita incomes substantially lower than in other parts of Brazil," explained Mears.

"The basic diet of a large number of people in this area has consisted mainly of manioc, beans, rice, and a wide variety of fruits. The Government has a number of programs aimed at assisting the poor sectors of the economy in consuming higher quality foods. As these low-income people earn more money and as their purchasing power increases, they immediately begin to buy more animal products—meat, milk, and eggs—and vegetable oil. They begin to smoke more cigarettes and purchase more textiles.

"This factor, combined with Brazil's rapidly growing population (the annual growth rate is roughly 2.8 percent) has resulted in a dramatic rise in demand for selected commodities. It will take at least a decade to bring the consumption level of many of these commodities to a more reasonable level," said Mears. "Until then, we expect very sharp annual increases in per capita demand for selected food items, cigarettes, and textiles.

"Beyond the next decade or so," continued Mears, "we

By Lynn Krawczyk, staff writer, *Foreign Agriculture.*

believe that the annual growth in per capita consumption of many of these commodities will begin to decline somewhat. Absolute increases in consumption will continue, but the annual growth rate will be somewhat less per capita.

"We also believe that by that time the population growth rate will begin to decline rather significantly."

Mears added, "Beyond the mid-1980's, more rapid expansion in agricultural exports will be seen, particularly of soybeans, feedgrains, and perhaps rice.

"For some commodities—coffee, cocoa, sugar, soybeans, corn, tobacco, orange juice, and poultry meat—exports will continue to expand and outpace the growth in domestic consumption."

To meet the challenge facing its agricultural economy, Brazil is gearing up to expand farm production. According to Mears, the expansion in agriculture is moving northward.

"Traditionally," he explained, "most of the commercial production in Brazil was in the southernmost States—Rio Grande do Sul, Santa Catarina, and Paraná. But now we see agriculture moving both northward and westward into the huge State of Mato Grosso and other frontier areas.

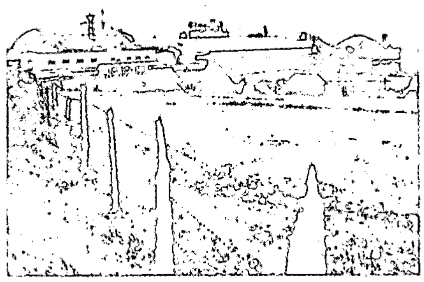
"The State of Mato Grosso is roughly twice the size of France and has only come into agricultural production in a meaningful way in the past 4-5 years. Even today, most of the land is not being used for agriculture. The southern part of the State has a large area of deep, rich, red soil that has also made the State of Paraná famous for its agricultural productivity."

Said Mears, "The State of Minas Gerais is another large area in the central part of the country that is becoming increasingly important as an agricultural producer. Minas Gerais currently is the largest dairy-producing State; in the southwestern part, there is a large area that is well suited for corn farming. Much of the increase in Brazil's corn output in recent years has come in this part of the State—the so-called Minas Triangle."

The crops involved in this expansion to other states are corn, soybeans, coffee, and rice. According to Mears, not only greater planted area is being used to up production, but expansion in yields, as well. "Yields of corn in Brazil are very low, especially relative to soybeans. In some areas of Brazil, yields of corn are no higher than those of soybeans. This is in sharp contrast to what we see in the United States. The average soybean yield in Brazil is around 25.5 bushels per acre, while the yield for corn in many of these same areas is only 25 bushels per acre." (In the United States, average soybean and corn yields are 28 bushels and more than 90 bushels per acre, respectively.)

Corn is the most widely planted crop in Brazil, covering about 25 percent of the country's crop area. Output has risen from around 10 million metric tons in the early 1960's to 17-18 million tons in recent years. The largest domestic market for corn is Brazil's fast-growing mixed feed industry, which absorbed nearly 5 million tons of corn in 1977. Corn exports are also on the rise.

Another crop that will probably expand, although perhaps at a slightly slower pace than has been seen in recent years, is soybeans. Soybeans are one of Brazil's wonder crops. From 206,000 tons in 1960, output grew to 12.2 million tons in 1977. Although drought has cut this



Top: Grain bins and vegetable oil processing facilities at a farmer cooperative in Rio Grande do Sul, Brazil. Above: A section of São Paulo's Jaguaré market. Brazil's plans for growth of its agriculture are based on remunerative minimum prices, attractive credit terms, strengthened research and extension services, and improvement of rural infrastructure.

Cutting sugarcane in northern Paraná.

year's output to around 10 million tons, soybean production is expected to rebound next year and in the future.

Not only traditional soybean lands are being expanded; some soybeans are being planted in more tropical areas further north. But there is one barrier to this region—climatic conditions.

"Diseases and weeds are going to be a major problem in the future for Brazilian soybeans. Brazil does not have the cold weather that we have in the United States. As a consequence, some of the diseases, weeds, seeds, and insect larvae are not killed by strong freezes as they are in the United States. Continuously cropping soybeans without proper rotation also tends to aggravate the disease and weed problems.

"In some of the more tropical areas up north," Mears continued, "one of the limitations—using current varieties—is the amount of daylight the soybeans receive. Soybeans are very responsive to daylight. In the tropics, they get too much light.

"The Brazilians have conducted some experiments on soybeans up in the territory of Roraima along the Venezuelan border in the northern hemisphere with good results. One of the advantages for the Brazilians in producing soybeans in this area is that all the inputs—machinery, fertilizer, and seeds—can be brought up the Amazon River and then up the Boa Vista River by ship; the production is also taken out by ship, reducing transportation costs significantly.

"However," he added, "I do not think that production will be very significant up in those tropical areas for a number of years, until the technology and improved varieties have been developed for that area.

"In addition to Roraima, which has 3-4 million hectares that are fairly well suited for soybeans and corn, there is the territory of Rondonia in the westernmost part of Brazil, bordering on the Amazon Basin. Here, too, the soils are rich and deep, and inputs and output can be transported by ship. But again, the production potential is one of long-term growth.

"Coffee production," said Mears, "is also moving northward. After the freeze in July 1975, the expansion in coffee tree planting in areas further to the north accelerated. Trying to escape the periodic freezes that have caused great difficulty for the coffee industry in Brazil, coffee trees are now being planted in Minas Gerais, Goias, and Mato Grosso. Coffee is also being planted in Bahia and on the fringes of the Amazon.

"The bulk of coffee production is still in the States of Paraná and São Paulo. Both States are susceptible to occasional frost.[1] With the movement of coffee production northward, the risk from freeze damage is reduced, but the chance of drought damage increases. Further north in Brazil, there are distinct wet and dry periods. If the dry period is unusually lengthy, it has a severe impact on coffee yields. So in the future, we're likely to have two basic factors—frost and drought—impact on year-to-year coffee output."

Rice is another crop that could grow in importance for Brazil. As parts of the State of Minas Gerais and other states further north come into irrigation, rice production is expected to grow. In the far northeast, there are a number of irrigation projects for rice that will be completed in the next year or so.

Mears said that rice is considered to be one of the more attractive crops in the frontier areas. Rice tends to be tolerant of the acid soils, and until the soil is corrected with limestone and phosphates, rice does better than other crops such as soybeans.

"In frontier areas, for the first few years until land is brought into production, Brazilian farmers tend to plant rice. During a period of 1-3 years, farmers apply limestone and phosphate fertilizers, then shift from rice to soybeans and corn. As these new areas expand, there will probably be larger rice production in Brazil. This is also the case as more areas come under irrigation," explained Mears.

"Rice consumption is growing rapidly in Brazil," he said. "Again, the shift from manioc to wheat foods, rice, and beans has made it a more important crop than in the past.

"Some people" said Mears, "believe that Brazil will be a major rice exporter starting in about 2-3 years. However, Brazil's production costs are much higher than those in the United States, so we're not so certain about Brazil's potential as a large exporter of rice. In certain years—assuming good weather—it will be a sizable exporter. In other years, exports will be very small.

"Although Brazil will not export any rice this year, or perhaps just a small amount of brokens because of the severe drought, it normally exports a couple of hundred thousand tons, which is quite small compared to what the

[1] *This interview was conducted prior to the recent low temperatures in these States, which were not nearly as severe as the 1975 frost.*

United States exports. For Brazil, export potential hinges on rice projects in the northeast. There are a number of U.S. investors that are putting money into rice production close to Belém and that area of Brazil where very large areas of rice are coming into production. We are not convinced that it is efficient production at this point . . . we'll have to wait and see."

Brazil, currently the second largest exporter of cocoa and products, is also expanding production of that item, and believes that within the next decade it will move into the No. 1 spot. About 3 years ago, according to Mears, Brazil launched a major cacao expansion program aimed at increasing cacao production area outside of the traditional producing area of Bahia.

Some 90 percent of Brazil's cacao production is exported. Half of these exports are shipped in the form of processed products such as cocoa butter, cake, powder, and liquor. Domestic processing of cocoa will continue to increase in the future; exports of processed products receive tax incentives not available for cocoa bean exports.

"Brazil's basic strategy," said Mears, "is to export the processed or semiprocessed cocoa products, rather than the raw product. This strategy is reflected in Brazil's agricultural products across the board—soybeans and meat, for example."

Auguring well for Brazil's increased production of farm products and for expanded area are its natural resources, Government support, and foreign investment. But there are major obstacles the country must hurdle if it is to up production enough to keep pace with domestic and export demand.

"Perhaps the biggest bottleneck for Brazilian agriculture," Mears said, "is transportation." Facilities are inadequate for efficient transport of commodities because of the growth in the amount of commodities (particularly soybeans) available for export and the overdependence on truck transport.

"A few years ago," Mears explained, "Brazil made a major policy decision to expand roads primarily for automotive and truck transportation. Railroad expansion and modernization took a back seat to cars and trucks. With the advent of the petroleum crisis, gasoline prices went up sharply and today approach $2 per gallon. The cost of transporting bulk commodities such as soybeans, corn, and rice has jumped very sharply and is a major factor in the total production and marketing cost.

"Most of the frontier areas are a long way from the consuming centers and from ports. As a consequence, transportation costs are very high. Recent studies have indicated that the marketing cost for soybeans from the farm gate to the oilseed crushing plant or the seaport is five times the cost for similar movement of production in the United States. Included in that figure are the internal taxes the Brazilian Government places on agricultural products.

"But the major portion of the marketing cost is that of physically moving the product. Most of this is done by truck, a fairly small share by railroad, and very little by barge."

Mears said that the transportation problem will be an extremely difficult one to overcome and is a problem that everyone recognizes but for which no one has an effective, low-cost solution. "It's going to be expensive to build railroads," said Mears, "which would probably be the best answer in the long run. It will be expensive to dredge rivers and to build canals to utilize what barge traffic can be effectively put to use in Brazil. The great distances over which commodities must be transported also complicate the issue dramatically."

Mears explained that Brazil is attempting to solve the transportation problem by one means of alternative fuel:

"Brazil has launched a major national alcohol program aimed largely at displacing a sizable share of gasoline consumption with domestically produced alcohol from sugarcane and manioc. The program is coming along very well, is ahead of schedule, and—while there are a number of problems to be resolved—looks quite promising at this time. Perhaps over the long term, that is, in 10-15 years, this program will prove to be at least a partial solution to Brazil's transportation problem."

Mears cited another problem: "Brazil has an abundant supply of labor at relatively low cost, but the problem is that much of the labor is unskilled. The weakness is that the country needs to train more people in agricultural skills. Brazil has launched a number of agricultural training programs, and some Brazilians are studying abroad—not only in the United States, but also in France, West Germany, and Japan—to bring home the most up-to-date skills that are being used around the world in the agricultural sector."

In addition to the drought, which has caused reduced availabilities of commodities for export and stimulated imports of certain commodities such as corn, Brazil has the problem of declining world prices for sugar, coffee, and cocoa.

"There are some long-term trends starting to develop here," said Mears. "It could be that these commodities (especially coffee and sugar) may be in long supply in years ahead. There are indicators pointing in that direction. On balance, this would mean reduced prices for these commodities, which are all very important to Brazil. Brazil is the No. 1 coffee producer and exporter, the No. 2 cocoa and products exporter, and a major sugar exporter. These and soybeans are Brazil's big commodities."

On balance, Brazil's future looks even brighter than its past. If Brazil keeps on course with its plans for agricultural development, it may be enough to offset negative factors. Over the long term, Mears believes the country will move ahead in the agricultural area and be an increasingly large supplier of a wide variety of farm products for the world market, as well as supply growing domestic needs.

For U.S. exporters, Brazil offers both significant potential for expanded sales and considerable frustration in trying to increase markets. Potential lies in the increasing population's growing demand for food and feed, the large tourist industry, and economic growth.

Frustrations stem from Brazil's protective trade policies favoring domestically produced goods, a balance-of-payments disequilibrium and resulting import restrictions, and preferential trading arrangements with other Latin American countries.

But it is anticipated that as Brazil's economic situation improves and import restrictions are relaxed, Brazil may become a more receptive market for U.S. exporters. □

Farm-Commodity Portion Of Soviet Imports Declines

The value of agricultural imports absorbed a smaller percentage of total Soviet foreign purchases in 1977 than in 1976, primarily because of reduced takings and lower prices of Western grain, according to a report from the Office of the U.S. Agricultural Attaché, Moscow.

Food (and raw materials for its manufacture) absorbed 20.8 percent of the Soviet import outlay in 1977 as compared with 22.8 percent in 1976. Even so, there were commodities of interest to U.S. exporters that registered sizable gains: Rice (42 percent), peanuts (42 percent), and meat and products (71 percent), along with increased purchases of almonds, citrus, dried fruit, nonconcentrated juices, tobacco, and seed.

Soviet imports of cotton (none from the United States) declined from 116,500 metric tons in 1976 to 94,400 tons last year—the lowest level in many years. The Soviet Union's purchases of U.S. soybeans during 1977 continued at about the same level as in 1976.

Soviet food/agricultural exports increased slightly from 3.0 (1976) to 3.1 (1977) percent of total exports, with volume gains in cotton (11 percent), wool (19 percent), tea (50 percent), and flax (1 percent). Grain exports apparently also climbed, as the ruble value figure more than doubled. Bigger grain exports were reported earlier by the Ministry of Foreign Trade sources and by world grain trade, but unlike previous years, no tonnage figures were given in the Soviet trade yearbook.

The outlook for 1978 trade in most commodities is little changed. While Soviet sugar reserves are believed to be good, low world prices may spur additional imports of sugar. □

Latin American Agreement Aids Agriculture

The Inter-American Development Bank has entered into an agreement to cooperate with the International Fund for Agricultural Development (IFAD) in IFAD's agricultural development projects in Latin America.

IFAD, whose headquarters are in Rome, was established to mobilize additional resources on concessional terms for agricultural projects in developing member countries.

The agreement established a target of $1 billion in contributions, most of which would come from petroleum producing countries which are members of the Organization of Petroleum Exporting Countries (OPEC) and from the industrialized nations of the Organization for Economic Cooperation and Development (OECD).

IFAD provides financing primarily for projects and programs specifically designed to create, expand, and improve food production systems in the least developed, food-deficit countries, as well as to encourage food production increases in other developing countries.

Under its agreement, IFAD is supposed to cooperate closely with other organizations concerned with agricultural development, and may entrust the administration of its loans to competent international institutions. The Inter-American Development Bank will assist the Fund in identifying projects that are economically viable. □

CCC Approves $162.2 Million In Farm Export Credits

Export credits valued at $162.2 million were approved during August 13-September 12 under USDA's CCC Export Credit Sales Program.

Export sales of corn accounted for $113.2 million of the total. A $110-million line of credit was extended to Romania to finance export sale of about 1.1 million tons of corn, and a $3.2-million credit to Greece covers export sale of about 32,000 tons of U.S. corn to Greece.

Credits totaling $30 million to finance export sales of about 6,500 metric tons of U.S. tobacco were established for Australia ($8 million), Ireland ($7 million), New Zealand ($5 million), and the United Kingdom ($10 million).

A $15-million credit for Cyprus is to finance export sale of about 124,000 tons of feedgrains ($12 million) and about 23,000 tons of wheat ($3 million). A separate $4 million credit for Cyprus covers sale of about 6,135 tons of U.S. vegetable oils.

Two credits previously extended to Poland were revised. A total of $12.3 million in credits to finance sale of U.S. linseed meal, soybean meal, and cottonseed meal ($6 million), vegetable oils ($5 million), and soybean ($1.3 million) has been transferred to feedgrains, and financing for meals, vegetable oils, and soybeans has been reduced proportionately.

A total of $1.5 million in credits previously allocated to finance sale of U.S. tallow and cotton to Poland has been transferred to feedgrains, bringing total credits available for feedgrain purchases by Poland to $247 million. □

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Canadian Pork

inspected hog slaughter in western Canada fell from 43 percent of total Canadian pig slaughterings to 32 percent. Conversely, eastern hog slaughter climbed from 57 percent to 68 percent of the total.

The Province of Quebec registered the largest gains over this period—increasing its federally inspected hog slaughter by 61 percent. With such dramatic expansion, Quebec's hog slaughter actually exceeded that of Ontario by 1977. However, Ontario remained Canada's largest hog-producing Province because Quebec packers purchased some Ontario hogs. □

Soviet Meat Imports Large In 1977, None Made in 1978

Strong Soviet demand for meat and products in 1977 resulted in a near-record level of production, record meat imports, and a drop in exports. But as far as is known, there have been no Soviet meat purchases in 1978—and certainly none from Western sources.

Soviet data for 1977, released recently, shows total USSR imports of meat and meat products in 1977 were 617,000 tons, 255,000 tons greater than the reduced 1976 level of 362,000 tons, and 102,000 tons greater than the previous records of 515,000 tons set in 1974 and 1975. Soviet exports of meat and meat products fell from 41,000 tons in 1976 to 33,000 tons in 1977.

According to Soviet trade data, the largest import gains were in fresh, frozen red meats, which almost doubled in volume between 1976 and 1977 from 226,000 tons to 438,000, and in poultry meat, which more than doubled, rising from 58,000 tons to 121,000.

Imports of canned meat rose by 25 percent—from 61 million cans in 1976 to 75 million in 1977—while imports of canned meat with vegetables dropped by a third to 71 million cans.

Soviet imports of fresh frozen red meat came mostly from New Zealand, Australia, Romania, and Argentina, with the largest 1977 volume—105,500 tons—coming from New Zealand. Imports from France, which fell in 1976, continued to drop in 1977.

Bulgaria and the Netherlands were the only countries listed as supplying the Soviet Union with fresh, frozen poultry meat, although it is known the United States supplied a little over 6,000 tons in 1977.

Romania, Yugoslavia, and Somalia were the major suppliers of Soviet canned meat imports.

Despite the drop in total Soviet meat and meat product exports, those of fresh, frozen meat (including poultry meat) remained at the 1976 level of 8,000 tons. Exports of canned meat fell 16 percent from 75 million cans to 63 million cans.

Soviet fresh, frozen meat exports reportedly went to Switzerland, Sweden, and Norway. Most exports of canned meat exports went to Cuba.—*By Angel O. Byrne, ESCS.* □

Kenya Raises Pyrethrum Prices To Spur Output

Kenya, which supplies about 66 percent of the world's pyrethrum, must step up production by a sizable volume if the country is to maintain its share of the world market, according to Dale K. Vining, U.S. Agricultural Attaché, Nairobi.

Exports of 3,275 metric tons of pyrethrum flowers and powder were off in 1977 from the 1976 level of 3,665 tons. Extract exports were down in 1977 to 418 tons from 503 tons in the previous year. The value of all pyrethrum exports was about US$14.6 million.

The United States imported only 10 tons of flowers and powder in 1977, but was the biggest customer for pyrethrum extract, with imports of 82 tons.

Production began to decline in 1975/76, after peaking in 1974/75 at 15,095 tons. This has continued, and output for the 1977/78 season is forecast at only 10,000 tons. The principal factor responsible for the deterioration in output has been the relatively low price offered to producers vis-a-vis other crops, so that growers switched to more income-generating options.

From 1974 through 1977, average pyrethrum producer prices increased only by about 30 percent, compared with 307 percent for coffee, and 131 percent for tea.

Poor management of the smallholder marketing cooperatives was also a contributory factor, as was growers' failure to use high-yield seed varieties, especially in Kisii District, which produces about 60 percent of Kenya's total output.

The Pyrethrum Board receives its pyrethrum flowers from cooperative societies and cooperative farms, which contribute over 85 percent of total output. The rest of the crop is produced by large-scale farms whose significance is decreasing.

To arrest this downward trend, and in view of the current strong world demand for pyrethrum, the Pyrethrum Board of Kenya has increased by 15 percent the price offered to producers. Interim pool prices have also been raised.

Effective October 1, 1978, the basic interim price for pyrethrum will be about $76 per kilogram of pyrethrins. Pyrethrin content of dried pyrethrum flowers generally ranges between 1 and 2 percent. □

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International Meetings—November

Date	*Organization and location*
Late Oct.-early Nov.	U.S.-Korea economic discussion, Seoul.
In Nov.	Semi-annual consultations with European Community, Washington, D.C.
1-7	Pan-American Health Organization—Hemispheric meeting on foot-and-mouth disease and international trade in animals and animal products, Buenos Aires.
4	Agriculture Secretary Bergland to People's Republic of China.
6-10	UNCTAD—Third Preparatory Meeting on Cotton, Geneva.
6-24	UNCTAD—Negotiating Conference on Grains, London.
8-9	U.S.-Polish Trade Commission, 8th Session, Washington, D.C.
9-12	U.S. Meat Export Federation and American Meat Institute, annual meeting, Chicago.
13-24	International Sugar Organization, Council meeting, London.
14	American Fats and Oils Association, annual meeting, New York.
14-27	UNCTAD Negotiating Conference on a Common Fund, Geneva.
Mid-Nov.	Signing of U.S.-Bulgarian statement on agricultural cooperation and trade, Washington, D.C.
20-23	OECD 6th Working Conference of Representatives of Higher Education in Agriculture, Paris.
22-Dec. 6	FAO/WHO panel on pesticide residues and the environment, Rome.
25-26	International Institute for Cotton—General Assembly meeting, San Salvador.
26	International Cotton Advisory Committee—plenary meeting, San Salvador.
27-30	International Wheat Council, London.
27-Dec. 1	OECD Fruit and Vegetable Standardization Scheme, Paris.
27-Dec. 8	FAO Council, Rome.

Trade Teams—November

U.S. Teams Overseas

Date	*Organization*	*Visiting*
Oct. 14-Nov. 2	U.S. seed industry team	Belgium, Yugoslavia, Greece, Israel, Iran.
Oct. 21-Nov. 1	U.S. meat industry team	Japan, Hong Kong, Philippines.
Oct. 26-Dec. 1	Western Wheat board members	Iran, India, Thailand, Malaysia, Singapore, Hong Kong, Philippines, Taiwan, Japan, Korea.
Oct. 28-Nov. 11	Mohair Council of America team	United Kingdom, Italy, France, West Germany, Netherlands.
Nov. 2-Dec. 2	Wheat quality mission	United Kingdom, Netherlands, West Germany, Poland, Romania, Italy, Switzerland, Spain, France, Portugal, Norway.
4-18	American Soybean Association seminars	United Kingdom, Netherlands, Belgium, France, Italy.
4-19	California Table Grape Commission team	Japan, Hong Kong, Taiwan.
10-17	Northwest Horticultural Council team	Japan.
Nov. 12-Dec. 5	Dry Pea & Lentil Council team	Japan, Taiwan, Thailand, India, United Kingdom.

Foreign Trade Teams in the United States

Date	*Organization*	*Visiting*
Oct. 21-Nov. 11	Pakistan wheat team	Washington, Oregon, Montana, Kansas, Missouri, Washington, D.C.
Oct. 29-Nov. 13	French wheat trade mission	Illinois, North Dakota, Tennessee, Kansas, Louisiana, Washington, D.C.
18-24	Japanese wheat quality survey team	Washington, Oregon, Montana, North Dakota, Minnesota, California.
Nov. 19-Dec. 4	Polish grain team	Georgia, Kansas, Texas, Washington, D.C.

Representative LONG. Second, I wonder if any of you in particular, Mr. Weil, as chairman of this task force, might give us some idea of what your timing is on the next phase of your task force efforts.

Mr. WEIL. I was very pleased to see in the President's speech at the IMF on Monday that he referred to this as the "first phase."

To be frank, we don't have a second phase in mind yet. But we are happy to see that the President presumably has another phase in mind.

I think, if you will, another phase will be getting at some of the problems in the policy which called for future action—such as the tax incentives.

I think that we will be monitoring carefully and riding herd on this, as Senator Javits said, the development of this businessman's advisory panel for the antitrust commission.

We will be following up on all this regulatory analysis with respect to export consequences, and I think that perhaps the next phase, if that is the word, is more likely to come after the President's reconstituted export council takes stock of where we are sometime next year.

I don't want to suggest for a moment that we are not prepared to add components to the program as we go along. But these things will move slowly. I think that we should not look for another massive second phase unless the overall program proves ineffective.

Representative LONG. Mr. Daniel, I regret we are about to get through as you get back. We had a vote on the House floor. Do you have any questions?

Representative DANIEL. Let me express appreciation to you for letting me attend your hearing.

Let me ask you, or any of you, to respond to this. How do arms sales impact the subject that we are discussing here, the balance of payments, for example?

Mr. KATZ. Well, obviously, it has a positive impact on the balance of trade.

We are a major exporter.

I did comment in respect to another question, Mr. Daniel, that we are confronted with—frequently—with conflicting objectives, and the problem in the past has been that, in this area, that export policies had a very low priority.

What we are proceeding to do is to raise it considerably in priority.

There is a policy which the Congress has endorsed, and maybe even taken the initiative on to reduce the level of arms trade in the world.

So, we do have to look at that objective. We have to be careful about where we send arms, but it is an important item in our trade balance.

Representative DANIEL. When I undertook this assignment, I thought we were going to deal primarily with military matters, but as it turned out, it is more economic and political than it is military.

That is the reason I wanted to be here, Mr. Chairman, this morning as much as I could, because I think this subject is going to have more and more importance as to my job, with respect to standardization and so forth.

Representative LONG. We would be most happy to make available to you a transcript of the hearing.

Representative DANIEL. It would be helpful if you would, Mr. Chairman.

Representative LONG. We had a discussion the other day to the effect that this hearing might be helpful to you with respect to the direction in which your special subcommittee is attempting to move.

We will be glad to make that available to you in the next few days.

Representative DANIEL. I will be grateful to you.

Representative LONG. Gentlemen, let me thank you for being here.

[Whereupon, at 12:12 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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