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Before the Subcommittee on International Finance  
Committee on Banking, Housing and Urban Affairs  
U.S. Senate

Hearing to be  
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Tuesday  
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U.S. & Foreign Commercial  
Service

Comments on Proposed  
Transfer to the  
Department of State

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



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Mr. Chairman and Members of the Committee:

I am pleased to submit for the record information relevant to your deliberations on the proposal to abolish the Department of Commerce's United States & Foreign Commercial Service (US&FCS) and return primary responsibility for overseas commercial work to the Department of State. As we understand it, this proposal is part of a much larger effort to strengthen U.S. foreign policy decision-making by, among other things, transferring to the Department of State the operations and activities of several agencies that operate in the international arena. These agencies would include not only US&FCS, but also the Agency for International Development, the Arms Control and Disarmament Agency, the United States Information Agency, and the Department of Agriculture's Foreign Agricultural Service.

Since relevant history may be instructive in the consideration of the proposed transfer of responsibility for overseas commercial work, we are providing the following information. This information is largely based on more than a decade of GAO work, beginning with our October 1982 assessment of the transfer of responsibility from State to Commerce in April 1980 and the creation of the Foreign Commercial Service (FCS), and concluding with an August 1994 report on coordination of commercial activities at U.S. embassies in Pacific Rim countries. These reports chronicle the development of FCS from its troubled beginnings to an agency that today appears to have achieved the growing respect and support of others in the export community. Our work does not, however, discuss the cost-effectiveness of the proposed transfer or address the cost savings that might result.

#### STATE DEPARTMENT SHOWED LITTLE INTEREST IN OVERSEAS COMMERCIAL WORK

Until 1980, the State Department had the primary responsibility for handling overseas commercial work. State Department commercial officers at U.S. embassies implemented programs that the Commerce Department in Washington, D.C., designed, managed, and offered to U.S. business nationwide. However, the U.S. business community raised concerns about the quality of the State Department's work and about conflicts of responsibility inherent in having the State Department monitor foreign government compliance with trade agreements as well as maintain diplomatic relations with these governments. In response, Congress and the administration began to deliberate on how to better satisfy these needs. The result was the transfer of primary responsibility for overseas commercial work from State to Commerce in 1980 through the President's Reorganization Plan No. 3.

When the State Department had primary responsibility for commercial work abroad, the agency appeared disinterested in this responsibility, and this disinterest too often was reflected in the quality of work performed by State commercial officers

overseas. Internally, the State Department placed a very low priority on commercial work, as compared with foreign policy, economic and consular work. This was evinced, we reported, through the fact that State devoted fewer resources to commercial work than to other functions and failed to recruit employees with strong commercial experience. State Department employees performing commercial work suffered from lower career status and fewer promotions and were often encouraged to work on what was considered to be higher priority matters. State's disinterest translated to poor commercial service for U.S. businesses with overseas interests, who called upon their legislators for improvements.

At the same time, certain Members of Congress began considering the ability of State Department commercial officers to vigorously monitor and enforce foreign government compliance with agreements resulting from the Tokyo Round of multilateral trade negotiations.<sup>1</sup> These negotiations, which were conducted under the auspices of the General Agreement on Tariffs and Trade (GATT), concluded in 1979. Of particular concern was the GATT Agreement on Government Procurement, which, according to the administration, would open an estimated \$17 billion in U.S. government procurements to foreign firms in exchange for foreign government commitments to open a combined \$20 billion to \$25 billion in procurements to U.S. firms.

Participants in congressional deliberations emphasized that if the Government Procurement Agreement was to be successful, the administration would have to vigilantly police compliance by other signatories. Several critical documents associated with the deliberations on the Tokyo Round agreements stressed this point. These ranged from an Industry Sector Advisory Committee report on the Tokyo Round agreements to the Senate Finance Committee's report on the Trade Agreements Act of 1979 (P.L. 96-39, July 26, 1979), which ratified and implemented the Tokyo Round agreements.

In those deliberations, government and business officials focused attention on U.S. embassy commercial officers, who were seen as playing an essential role in monitoring compliance with this agreement. Commercial officers were the first line of contact with in-country U.S. businesses, which were best able to

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<sup>1</sup>See our October 1982 report, Problems Hamper Foreign Commercial Service's Progress (GAO/ID-83-10, Oct. 18, 1982).

<sup>2</sup>See our July 1984 report, The International Agreement on Government Procurement: An Assessment of Its Commercial Value and U.S. Government Implementation (GAO/NSIAD-84-117, July 16, 1984).

participate in host-country procurements. Congress, concerned that State Department commercial officers may not have been able to discharge this function, included in the Trade Agreements Act of 1979 a provision instructing the president to submit a proposal to reorganize the federal trade bureaucracy that would result in an upgrading of commercial programs and commercial attaches overseas to ensure that U.S. trading partners were meeting their trade agreement obligations.

On April 1, 1980, the administration transferred primary responsibility for overseas commercial work from State to Commerce through Reorganization Plan No. 3 of 1979. The Commerce Department created a new agency--the Foreign Commercial Service (FCS)--to implement this responsibility. The new FCS had a headquarters staff of 17 positions (provided by Commerce) and an overseas staff of 162 Commercial Officer positions, 487 Foreign Service National (FSN) positions, and 15 secretarial positions (all transferred from State).

#### FCS HAMPERED BY UNSATISFACTORY TRANSFER OF RESPONSIBILITY

We reported in 1982 that Commerce's initial experience with managing FCS was problematic (see fn. 1). The agency did not have the time before it established FCS to create the management systems necessary to operate its new worldwide network of officers. The existing headquarters staff tasked with this responsibility lacked both staff and experience to create and routinize the administrative systems needed. They had previously performed little more than a liaison function with State commercial officers and, as a result, were overwhelmed.

Further, Commerce initially did not merge its new FCS with the domestic district offices that worked with U.S. exporters and generated the demand for FCS' services. As a result, overseas posts and domestic offices had difficulty coordinating; for example, they could not communicate directly, without going through Washington headquarters. In 1982, Commerce merged the two into the US&FCS. In 1986,<sup>3</sup> we reported the results of a GAO survey of U.S. firms which demonstrated that the merger had strengthened coordination, providing services to exporters in a more seamless and timely manner.

Commerce's efforts to launch FCS were also greatly complicated by a less-than-satisfactory transfer of responsibility from the State Department. State did not properly identify the resources it had devoted to its commercial function, and the lack of

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<sup>3</sup>See our February 1986 report, Export Promotion: Activities of the Commerce Department's District Offices (GAO/NSIAD-86-43, Feb. 14, 1986).

budgetary data resulted in a problematic transfer of funds and a need for continued negotiations after the initial transfer took place. As a result, FCS management was compelled to begin operations before negotiations on FCS' budget were complete and with uncertain budget figures.

As a consequence of these problems, FCS also suffered from staff misallocations. The State Department's data did not accurately identify the number of positions designated for commercial officers nor did it accurately reflect the amount of time FSN staff devoted to commercial work. Thus, State apparently did not transfer the appropriate commercial officer or FSN staff resources to FCS.

In other areas, US&FCS headquarters continued to experience serious management problems, some of which lingered well into the 1980s. In 1987,<sup>4</sup> we reported serious problems with all areas of FCS' personnel management system that we examined. We stated that these problems had a negative impact on the morale of the officer corps and diverted energy and attention from the goal of helping U.S. business to expand exports.

Overseas, FCS officers often operated in embassy environments that were not conducive to the revitalization of the commercial service anticipated by the transfer of responsibility. While a few FCS posts initiated new and innovative ways to be of greater service to U.S. exporters, other posts grappled with problems that hindered enhanced commercial assistance. For example, at certain embassies, FCS lacked independence from State's economic sections, which continued to require FCS staff to devote time to economic reporting. FCS staff also often found themselves devoting time to routine export services and administrative tasks formerly performed by embassy administrative staff.

We also reported in 1984 (see fn. 2) that most FCS posts we visited did not vigorously monitor foreign government compliance with the Government Procurement Agreement. Staff at these posts were unclear about what they could and should do when pursuing instances of noncompliance. They also were unable to obtain the concrete examples from the in-country U.S. business community needed to approach the host government because businesses were concerned about jeopardizing their relationships with host governments. As a consequence, apparent violations went unaddressed for lack of sufficient evidence.

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<sup>4</sup>See our March 1987 testimony, Personnel Management Issues in the Foreign Commercial Service (T-NSIAD-87-12, Mar. 11, 1987).

## US&FCS GROWS IN CONFIDENCE AND STATURE

Our reports show that after many years of struggling, FCS began to substantially strengthen its service to the U.S. business community. To a degree, these improvements resulted from the greater priority placed on international trade since the end of the Cold War. But, in addition, they resulted from benefits derived from improved personnel management, combined with the continued introduction into the service of new officers with strong business and commercial backgrounds.

Despite the serious problems that US&FCS encountered initially, U.S. firms reported that they saw a marked improvement in the US&FCS' handling of commercial work compared to the State Department's implementation of this function. By 1990, we reported that US&FCS had taken several steps to improve the administration of its personnel system and, as a result, processes and procedures had been strengthened, morale had substantially improved since our prior report (see fn. 4), and officers were optimistic about the potential for further improvements.

At about this time, we also reported that US&FCS' recruitment of individuals with strong commercial skills and experience had begun to improve the quality of overseas commercial services.<sup>6</sup> Business officials viewed the creation of US&FCS as resulting in a greater emphasis on export promotion activities and a higher priority on commercial matters. Business characterized US&FCS as being more responsive to its concerns than State and indicated that the quality of commercial officers had improved since the transfer of responsibility. US&FCS officers had started to play an important role in facilitating business contacts and intervening on the part of U.S. businesses with host government officials to resolve trade problems. Business was beginning to see these officers as knowledgeable about international trade and local market conditions and as having contacts with the host country government and business communities.

In addition, later initiatives, such as the US&FCS' comprehensive "strategic review" of its operations and the efforts of the interagency Trade Promotion Coordinating Committee (TPCC), are beginning to have an effect on US&FCS operations. In July 1989-- a little less than a decade after its start--US&FCS initiated a full-scale strategic review of its mission, operations, and

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<sup>6</sup>See our March 1990 report, Export Promotion: Personnel Management Issues in the U.S. and Foreign Commercial Service (GAO/NSIAD-90-51, Mar. 16, 1990).

<sup>7</sup>See our January 1989 report, Export Promotion: Problems in Commerce's Programs (GAO/NSIAD-89-44, Jan. 26, 1989).

ability to achieve its goal of assisting U.S. business. In 1992,<sup>7</sup> we commended US&FCS for undertaking this strategic review, which we characterized as the first systematic effort by a government agency to identify the needs of the customers for its export promotion services and to tailor its services to meet those needs. As such, we believed that it served as a model for other units within Commerce and other federal agencies on how better to focus and improve their export promotion programs.

Through its strategic review, US&FCS first identified its ideal customers as export-ready firms who were infrequent exporters. The agency then developed a program structure to meet the needs of these firms and a management structure to support delivery of these services to customers and ensure their high quality. In 1994,<sup>8</sup> we reported that as a result of the strategic review, US&FCS officers in Pacific Rim countries we visited<sup>9</sup> had focused their activities on providing product-specific market information and setting up trade events to showcase small- and medium-sized new-to-market firms. US&FCS officers at these posts were expanding programs to provide market information, business counseling, sales leads, and opportunities for businesses to participate in trade promotion activities, such as trade shows.

TPCC has also had an impact on the operations of US&FCS. TPCC, which is chaired by the Secretary of Commerce, was codified by the Export Enhancement Act of 1992 (P.L. 102-429, Oct. 21, 1992) to coordinate federal export promotion efforts. These efforts involved 19 agencies implementing over 100 programs and activities. Among its many initiatives, TPCC has sought to improve coordination of export promotion activities at U.S. embassies by requiring agencies involved to jointly develop Embassy-wide "country commercial plans." In 1994, we reported (see fn. 8) that although commercial activities at the embassies we visited were well-coordinated, staff saw the benefits to be derived from further integrating their activities through developing "country commercial plans," as required by Washington headquarters agencies.

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<sup>7</sup>See our March 1992 testimony, Export Promotion: U.S. Programs Lack Coherence (GAO/T-GGD-92-19, Mar. 4, 1992).

<sup>8</sup>See our August 1994 report, International Trade: Coordination of U.S. Export Promotion Activities in Pacific Rim Countries (GAO/GGD-94-192, Aug. 29, 1994).

<sup>9</sup>These included U.S. embassies and consulates in China, Hong Kong, Indonesia, Malaysia, Singapore, and Thailand, and the American Institute in Taiwan.

In addition, we reported in 1994<sup>10</sup> that the U.S. government will need to monitor foreign government trade practices affected by the Uruguay Round of multilateral trade negotiations, conducted under the auspices of GATT. Under the present structure, the US&FCS will play an important role in helping to monitor foreign government activities in several diverse areas. These include protection of intellectual property rights (e.g., patents, trademarks, and copyrights); regulation of foreign direct investment; government granting of subsidies; and development and implementation of policies affecting agriculture, service industries, and government procurement.

### CONCLUSIONS

While we have not assessed the cost-effectiveness of US&FCS or the cost savings that might be realized from a transfer of primary responsibility for commercial work to the State Department, we have described how State experienced fundamental impediments to performing this type of work. These impediments led to the transfer of responsibility for commercial work from the State Department to the Commerce Department and the creation of US&FCS. There is a current emphasis on developing export markets to enhance the growth of the U.S. economy. Similarly, the United States recently ratified the agreements resulting from the Uruguay Round of trade negotiations. If promoting exports and monitoring foreign government compliance with trade agreements are to remain a priority, evaluations of the merits of transferring these functions should consider the State Department's capacity for implementation.

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<sup>10</sup>See our July 1994 reports, The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains, Vols. 1 & 2 (GAO/GGD-94-83a&b, July 29, 1994).

RELATED GAO PRODUCTS

Problems Hamper Foreign Commercial Service's Progress (GAO/ID-83-10, Oct. 18, 1982).

The International Agreement on Government Procurement: An Assessment of Its Commercial Value and U.S. Government Implementation (GAO/NSIAD-84-117, July 16, 1984).

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Personnel Management Issues in the Foreign Commercial Service (T-NSIAD-87-12, Mar. 11, 1987).

Export Promotion: Problems in Commerce's Programs (GAO/NSIAD-89-44, Jan. 26, 1989).

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