

GAO

Report to the Chairman, Subcommittee on
Commerce, Consumer and Monetary
Affairs, Committee on Government
Operations, House of Representatives

January 1989

EXPORT PROMOTION

Problems in Commerce's Programs



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January 26, 1989

The Honorable Doug Barnard, Jr.
Chairman, Subcommittee on Commerce,
Consumer and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

This report describes problems in the Department of Commerce's export promotion program. The 1980 transfer of commercial activities from the Department of State to Commerce has resulted in better support of U.S. business interests overseas, but the efficiency and effectiveness of overseas trade promotion is limited by organizational, operational, and management problems in Commerce's International Trade Administration. We recommend that the Secretary of Commerce reorganize the International Trade Administration to address these problems. We also make recommendations to improve operations and to establish management accountability for program results.

Copies of this report are being sent to the Secretaries of Commerce and State and to other interested parties. This report was prepared under the direction of Allan I. Mendelowitz, Director, International Trade, Energy and Finance Issues. Other major contributors are listed in appendix VII.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

The United States, like most other developed nations, has a contingent of officers in foreign countries to promote the export of U.S. goods and services and to facilitate contacts between U.S. firms and host-country business and government officials. Until 1980, State Department officers attached to U.S. embassies carried out these functions. U.S. businesses complained that State's officers were not always responsive to their needs and that commercial matters were not given the same priority as economic policy and political matters.

In response to concerns about the effectiveness of government export promotion programs and certain provisions in the Trade Agreements Act of 1979, the President transferred primary responsibility for overseas commercial work from the State Department to the Commerce Department on April 1, 1980. Commerce created the Foreign Commercial Service within the International Trade Administration (ITA) to implement this new responsibility. The Foreign Commercial Service was later combined with Commerce's domestic district offices to form the U.S. & Foreign Commercial Service (US&FCS).

As the request of the Chairman of the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations, GAO reviewed the US&FCS' foreign operations and progress in revitalizing U.S. export promotion efforts.

Background

US&FCS' primary mission is to protect and promote U.S. business interests abroad and to increase the number of U.S. firms, particularly small- and medium-sized firms, involved in international trade. The overseas posts carry out export services and programs ranging from notifying U.S. firms about trade opportunities to staging exhibitions and trade missions.

US&FCS' foreign operations employ about 150 commercial officers and 450 foreign service nationals in 65 countries. The fiscal year 1987 budget was \$68.8 million, \$37 million of which was for foreign operations.

Results in Brief

The creation of the Foreign Commercial Service has resulted in more responsive support of U.S. business interests overseas. However, recent budget limitations have substantially constrained federal support for overseas export promotion activities.

Organizational, operational, and management problems in the ITA, coupled with competing policy objectives, have limited the efficiency and effectiveness of the overseas trade promotion program and other services to the business community. ITA's organizational structure does not ensure accountability for program results and the agency has no assurance that it is supporting the most appropriate or effective trade promotion events and activities. The trade events program, in particular, appears to need immediate management attention. New management initiatives are needed to keep the development of a computerized commercial information management system on track and to ensure that it provides businesses, trade associations, and state trade development agencies with complete, accurate, and timely information.

GAO's Analysis

US&FCS More Responsive to U.S. Business Interests Overseas

Most of the overseas government and business officials GAO interviewed said that US&FCS is more responsive to their concerns than was the State Department and that the quality of officers working on commercial matters has also improved. US&FCS officers at the overseas posts visited by GAO are involved in local business organizations and several posts have aggressive outreach programs.

Federal Government Efforts in Export Promotion Have Diminished

US&FCS' budget has basically remained constant while program costs have increased. As a result, the number of officers assigned to posts dropped from 176 in 1986 to around 150 in 1988 and some activities have been reduced or eliminated.

Increased Fees and Privatization Have Reduced Participation by Small- and Medium-Sized Firms and New Exporters

The Trade Agreements Act of 1979, which led to the creation of the Foreign Commercial Service, emphasizes government activities which enhance the role of small- and medium-sized businesses in export trade, and ITA budget requests emphasize US&FCS' role in assisting such firms. However, because of the elimination of previous government subsidies that encouraged firms to exhibit their goods overseas and the privatization of some events, the level of participation by these firms has decreased.

ITA officials say fees are still minimal and act to screen out firms that are not serious about exporting and that privatization is necessary to offset ITA's more limited export promotion capability.

Operational Inefficiencies Limit Trade Program Effectiveness

A 1980 ITA reorganization divided responsibility for trade promotion activities among three ITA units—Trade Development, International Economic Policy, and US&FCS—that have different trade-related mandates. The reorganization, along with a major 1982 realignment, created a substantial number of new assistant secretary-level positions and resulted in a compartmentalization of trade activities and a lack of coordination on events requiring joint efforts.

Planning and scheduling trade events requires cooperation and coordination between ITA programming units, overseas posts, and, to a lesser extent, Commerce's domestic district offices. However, ITA has not established formal guidelines outlining the duties and responsibilities of the various units and the specific steps to be followed in planning and executing a trade event. According to ITA officials, when scheduled events fail to materialize, the parties involved claim that another unit is to blame and no one is held accountable.

Cancellations and Questionable Events

The absence of a central management authority has resulted in poor event selection and inadequate support by the different units for some events. This has contributed to the number of cancellations and to events of questionable promotional value.

GAO's analysis of events on the schedule prepared at the beginning of fiscal year 1987 showed that about 55 percent of major events, such as trade missions and trade fairs, were cancelled. Cancelled events are replaced by new events, resulting in a continuous scheduling process. Because of this continuous shuffling of events, overseas posts waste time in planning and arranging for events that never take place. Moreover, little or no follow-up or evaluation occurs for most trade events and activities.

Attempts to Develop a Trade Information System Have Yet to Be Successful

Since 1978, US&FCS has attempted three times to develop an automated trade information data base. The objective is to be able to provide the overseas posts, Washington officials, Commerce district offices, state development agencies, and private organizations with up-to-date marketing and trade information from around the world. The third version,

after several delays, is scheduled to be operational by February 1989. Full implementation is estimated at \$39.9 million through 1993—not including the \$13.4 million spent on the two former automation attempts.

To date, the trade information system is in various stages of development in the district offices and overseas and many technical, management, and resource problems have yet to be resolved. According to program officials, the system that is expected to be in place in February 1989 will be limited. It is not clear when the system will be fully operational.

Recommendations

GAO recommends that the Secretary of Commerce reorganize the International Trade Administration to address inefficiencies in the trade promotion program. GAO also makes a number of recommendations to improve the operating efficiency of individual trade promotion activities, to establish management accountability for program results, and to better implement its faltering trade information system.

Agency Comments

The Departments of Commerce and State commented on a draft of GAO's report (See appendices V and VI). Commerce did not specifically address our recommendation to reorganize ITA to improve its effectiveness, but acknowledged our concern with the trade event planning and management process and is taking steps to respond to these matters. Commerce stated that it will establish a task force chaired by ITA's Deputy Under Secretary to review this process. The State Department's comments related specifically to its continuing role in assisting in export promotion overseas. Since State maintains responsibility for export promotion programs in 76 countries where the US&FCS does not have a presence, it emphasized the need for full consultation about any changes to Commerce's program.

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Abbreviations

AITS	Automated Information Transfer System
CIMS	Commercial Information Management System
CMP	Country Marketing Plan
EPS	Export Promotion Services
FSN	foreign service national
GAO	General Accounting Office
IEP	International Economic Policy
ITA	International Trade Administration
NTE	new to export
NTM	new to market
OMB	Office of Management and Budget
PCAP	Post Commercial Action Plan
REDO	Regional Export Development Office
TD	Trade Development
TOP	Trade Opportunity Program
US&FCS	U.S. and Foreign Commercial Service

Introduction

The Department of Commerce's International Trade Administration (ITA) has primary responsibility for activities designed to expand exports of U.S. goods and services. Until April 1980, the Commerce and State Departments shared responsibility for implementing these activities. State Department commercial officers, attached to embassies and consulates overseas, implemented export promotion programs that were developed and managed by the Commerce Department in Washington, D.C. This arrangement led to congressional and private sector criticism of the U.S. government's export promotion efforts. In a 1977 study the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations found that (1) the State Department devoted fewer resources to commercial matters than to other functions and (2) failed to recruit employees with strong commercial experience to perform its commercial functions. Further, State Department employees engaged in commercial activities suffered from lower career status and fewer promotions within the Department and were often encouraged to work on noncommercial matters. Congressional and U.S. business concerns over the quality of U.S. export promotion efforts became more acute as international competition intensified and the U.S. share of world markets continually declined. In 1979, Congress passed the Trade Agreements Act, which included a provision requiring the President to review the U.S. trade apparatus and to make recommendations to improve its effectiveness.

On April 1, 1980, the President transferred responsibility for overseas commercial work to the Commerce Department, resulting in the creation of the Foreign Commercial Service within Commerce's ITA. The objective of the transfer was to revitalize the U.S. trade promotion program to help U.S. firms meet increasing competition in world markets. In 1982, the Foreign Commercial Service was merged with ITA's domestic district office operations, the U.S. Commercial Service, and became the U.S. and Foreign Commercial Service (US&FCS).

Organizational Structure and Responsibilities

ITA attempts to involve more U.S. businesses in exporting through various export promotion programs and services and publication of marketing products. Fees based on the direct cost to the government, excluding salaries and other fixed costs, are charged for these products and services. Key overseas promotional activities include trade shows, trade

missions, catalog/video catalog exhibits, Matchmaker conferences,¹ and product-specific market analyses. Within ITA, three units share responsibility for export promotion—US&FCS, International Economic Policy (IEP), and Trade Development (TD).

The U.S. and Foreign Commercial Service

Two of US&FCS' principal objectives are to increase the number of new-to-export firms, particularly smaller firms, making a successful commitment to foreign trade and to encourage existing exporters to expand into new markets. This is accomplished through ITA-sponsored programs and activities and support for export promotion efforts of private sector organizations and the states.

The US&FCS is headed by an assistant secretary-level Director General. Organizationally, the US&FCS consists of the Office of the Deputy Assistant Secretary for Foreign Operations, which includes the overseas posts; the Office of Planning and Management; Export Promotion Services; and the Office of the Deputy Assistant Secretary for Domestic Operations. Foreign operations consist of about 150 commercial officers in 65 countries (see appendix I for map of post locations). The officer corps is augmented by about 450 non-U.S. citizens known as foreign service nationals (FSNs). Domestically, US&FCS' export promotion services are available from trade specialists in 48 district offices and 18 branch offices. US&FCS' fiscal year 1987 budget was \$68.8 million, of which \$37 million was for foreign operations.

The posts are the overseas service delivery arm for ITA's programs. As such, they

- conduct trade fairs and trade missions;
- provide business, investment, and financial counseling services;
- act as liaison between U.S. firms and local business and government leaders;
- gather data on specific export and investment opportunities;
- identify and evaluate agents, distributors, and joint-venture partners for U.S. companies; and
- offer seminars on exporting.

¹Matchmaker conferences are delegations of small U.S. firms, brought together with pre-screened potential foreign business partners (e.g., agents, distributors, licensees, buyers, and joint venture partners).

The overseas posts also support certain initiatives of other government agencies, such as the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the Office of the U.S. Trade Representative.

The State Department's economic officers manage commercial programs in 76 countries where there is no US&FCS presence, offering the same services noted above, but at a substantially lower activity level owing to the countries' limited market potential. They also back up US&FCS officers at one-officer posts and provide guidance at FSN-only posts.

US&FCS' Office of Export Promotion Services coordinates the planning, scheduling, implementation, and oversight for Commerce-sponsored trade events, provides exhibit design support, contracts for market research, and publishes export promotion material.

Trade Development

Trade Development is organized along industry lines, with its staff grouped into seven sectoral units—Aerospace, Automotive Affairs and Consumer Goods, Basic Industries, Capital Goods and International Construction, Science and Electronics, Services, and Textiles and Apparel. Each sector fosters the competitiveness and growth of its relevant industries and promotes their increased participation in international markets. This is largely accomplished through industry analysis, policy development, and trade promotion.

Industry specialists research and analyze major trade issues, project industry trends and performance, and develop proposed trade policies and actions to open up foreign markets. Some industry sectors run their own export promotion programs based on industry interest, industry needs, and market access problems and opportunities. Industry specialists also recruit participants for trade fairs overseas and participate in domestic export seminars to promote industry awareness of foreign market opportunities.

International Economic Policy

IEP provides advice on the formulation and implementation of U.S. government trade policies relating to multilateral and country-specific issues. Organized on a country and regional basis, country desk officers identify, analyze, and develop strategy for multilateral and bilateral trade issues; monitor foreign trade practices and compliance with trade agreements; and review and analyze economic and commercial reports from overseas posts. The resulting commercial information is made

available to the business community in person-to-person counseling sessions and through market research reports and a variety of other publications, such as the Overseas Business Report series and the Foreign Economic Trends reports. IEP also conducts outreach programs designed to promote U.S. exports. IEP regional managers, in coordination with the US&FCS' Director General, provide oversight for the relevant policy and program activities carried out by the overseas posts.

Objectives, Scope, and Methodology

Congressman Doug Barnard, Jr., Chairman, Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations requested that we examine the management of US&FCS' foreign operations. In particular, we were asked to determine whether the government's overseas role in expanding U.S. exports has been revitalized by the transfer of primary responsibility from State to Commerce. In addition, we followed up on corrective actions Commerce has taken to address the personnel management problems identified in our March 1987 testimony. Appendix II discusses these actions.

We visited 20 posts in 10 countries representing both developing and developed markets: Canada, Mexico, Brazil, Venezuela, Japan, Korea, Singapore, West Germany, Italy, and the United Kingdom. These countries were selected from a list of the United States top 25 trading partners and represent about 60 percent of the U.S. total export market in 1986. These countries also supplied 66 percent of total U.S. imports in 1986.

In each country we interviewed the Senior Commercial Officer, commercial attache, and other commercial officers and foreign service nationals to obtain their views on US&FCS' export promotion activities. To obtain additional views on the export promotion program, we also interviewed State Department officials, including ambassadors, consuls general, deputy chiefs of mission and economic officers; and representatives of trade associations, the American Chamber of Commerce, state economic development and trade promotion offices, and other business organizations that interact with US&FCS. To assure uniformity of results, we used structured interviews. We also reviewed the posts' files of cable messages, Country Marketing Plans, and quarterly statistical reports with available supporting documentation.

To gain a working knowledge of US&FCS' various export promotion programs, we interviewed ITA headquarters officials, examined program

documents, and reviewed ITA's internal operations and management initiatives. We analyzed budget and staffing documents to determine the impact of funding constraints on overseas operations. To assess the effectiveness of the planning and reporting system, we analyzed guidance provided to the overseas posts for preparing annual work plans, monthly highlight and quarterly statistical reports, evaluated whether the reports reflected actual post activities, and determined reasons for variances.

To assess the effectiveness of the trade events and other trade promotion activities, we analyzed reports on planned events, event participants, event fees, and after-show evaluation reports. We examined these reports and conducted interviews overseas and at ITA headquarters to verify which planned events actually took place. We also reviewed agency studies of the trade events program.

In addition, we obtained and analyzed program documents and held discussions with key officials on the implementation status of US&FCS' Commercial Information Management System—an automated data base of trade information gathered by ITA's worldwide network of overseas and domestic offices. Finally, we reviewed Commerce Department Inspector General reports on various ITA programs and activities and followed up on actions taken to address identified problems.

We did not attempt to statistically assess the overall impact of US&FCS' export promotion activities. The major problems with assessing the impact of government export promotion activities are the unreliability of reported export sales data and the difficulty in isolating the impact of US&FCS' efforts from the many and varied determinants of U.S. export activity. The underlying price and quality of U.S. goods and services on world markets, the value of the dollar against other major currencies, and in many cases the attractiveness and availability of financing are the primary determinants of exports. Additional factors are the reluctance of most U.S. firms to engage in exporting, the restrictive impact of trade barriers, debt problems of major developing countries, U.S. export controls, and the shift toward worldwide sourcing of products. All of these factors contribute to the world demand for U.S. goods and services and the attitude and marketing aggressiveness of U.S. firms toward exporting. The US&FCS' role is to help U.S. firms overcome certain impediments that prevent competitive U.S. products from being exported, provide market information, and assist U.S. firms in displaying their products through different promotional efforts.

Chapter 1
Introduction

We obtained comments on a draft of this report from the Departments of Commerce and State, which we evaluated and incorporated as appropriate. Our work was performed in accordance with generally accepted government auditing standards. Our fieldwork was conducted from August 1987 through September 1988.

Budget Limitations Have Constrained Federal Export Promotion Activities

Funding for US&FCS' export promotion activities has remained at about the same level since fiscal year 1985, but the fall in the value of the U.S. dollar against other major currencies since 1985 has substantially reduced the US&FCS' purchasing power overseas. This is because a large share of the posts' budgets is paid in local foreign currencies (e.g., FSN salaries, rents, utilities, and administrative costs).

At its current funding level, US&FCS will have difficulty maintaining its current services and post and staffing structure while continuing to support U.S. trade negotiation efforts and the overseas programs of other government agencies. The number of officers that US&FCS actually has on board has declined to near the 1980 level. About 25 percent of the posts are staffed only with FSNs and about 50 percent with one American officer. At most posts, proactive promotional activities have been all but eliminated.

Moreover, previous government subsidies for export promotion activities have been eliminated. Since 1980, US&FCS has been collecting increasingly higher user fees for almost all overseas events and marketing publications and prices are now based on "full direct cost recovery." Additionally, some US&FCS events that in the past produced revenues to underwrite market development efforts have been turned over to private event organizers. Some program officials believe that these two policy initiatives are inconsistent with ITA's goal of increasing the number of small- and medium-sized businesses¹ engaged in export trade. Currently, most program participants are experienced exporters.

In contrast to declining federal efforts, state programs to encourage inward foreign investment and export expansion have grown significantly and their collective budgets now equal more than half of the US&FCS' total fiscal year 1987 budget of \$68.8 million.

US&FCS Funding Has Been Constant but Purchasing Power Has Decreased

Since US&FCS became fully operational in 1984, annual expenditures for export promotion activities have not changed significantly. During the same period, the value of the U.S. dollar has fallen more than 50 percent against such major currencies as the German mark and the Japanese yen. The dollars allocated for local foreign currency costs for items such as FSN salaries, administrative support, travel, rents, and utilities have

¹The US&FCS operations manual defines a small business as one that has less than 100 employees and/or under \$5 million in annual sales; medium-sized firms have between 100 and 999 employees and/or \$5 million to \$75 million in annual sales.

lost half their purchasing power in these countries. To illustrate, the dollar cost of a German FSN's salary of 50,000 marks rose from about \$15,000 in February 1985 to about \$27,000 in September 1988. Some of US&FCS' largest operations are in countries where the dollar has fallen significantly—over 20 percent of US&FCS staff is in the United Kingdom, Germany, France, and Japan.

According to a 1987 study made by US&FCS' Office of Planning and Management, the foreign operation's budget has lost substantial purchasing power since fiscal year 1985. US&FCS would have needed \$45.1 million in fiscal year 1987 to purchase the same amount of goods and services that cost \$37.5 million in fiscal year 1985 when the value of the dollar was considerably higher. The actual foreign operations budget for fiscal year 1987 was \$39.2 million. In fiscal year 1988, a budget of \$49.7 million would have been needed to maintain fiscal year 1985 purchasing power. The fiscal year 1988 foreign operations budget is estimated to be \$34.3 million.

Number of Officers Has Declined

As a result of constant funding, rising costs, and the decrease in purchasing power, the number of US&FCS' officers available in 1988 to assist U.S. firms and to undertake export market development activities has declined substantially since 1986. US&FCS now has about the same number of officers at overseas posts as the Department of State had in 1980 at the time of the transfer, which was designed to revitalize the U.S. trade program and to help U.S. firms meet increasing competition in world markets. The officers are spread out among 126 posts in 65 countries, resulting in a number of one-officer and FSN-only posts.

In fiscal year 1980, Commerce inherited 162 foreign commercial officer positions, to be phased in over 4 years, from the State Department. At that time, 154 officers were actually assigned to overseas posts and 8 officer positions were vacant. According to US&FCS staffing pattern documents, the number of officers on board peaked at 176 in fiscal year 1986. In fiscal year 1988, US&FCS had 186 officer positions. ITA reported that because of budget limitations, only about 150 positions could be funded in fiscal year 1988—almost the same as in 1980 and a reduction of 26 officers from the fiscal year 1986 peak. Since 1986, officers lost through attrition and unrenewed limited appointments have generally not been replaced.

In addition, according to available documents, 487 FSNS were transferred in 1980. However, as of March 1988, there were only 444 FSNS on board.

Staff has been spread thinner as a result of the reduction in the number of officers and FSNS. In March 1988, 51 of US&FCS' 126 overseas posts had only one American officer; 28 of which were in countries where US&FCS has only one post. In addition, 27 US&FCS posts are staffed by FSNS only. We noted, however, that many of these one-officer and FSN-only posts are in countries rated by ITA as having limited market potential.

Cutbacks in Some Activities

Because of the loss of overseas purchasing power and increases in salary costs, funds formerly available for direct program support activities have been virtually eliminated. According to US&FCS officials, posts need to have these funds to have a proactive export promotion program—one in which officers are actively making business contacts and developing trade leads.

US&FCS officials told us that the lack of funds for direct program support activities has caused posts to temporarily discontinue publishing commercial newsletters and to eliminate contracts for market research. In addition, commercial libraries at some posts have been closed and others have cut back on their hours or have cancelled their subscriptions, resulting in out-of-date materials, which are used to assist US&FCS staff and inform local businesses about U.S. products, services, business opportunities, and trade regulations.

In addition, the lack of direct program support funds has constrained some promotional activities. Officers in 7 of the 10 countries we visited stated that they had insufficient travel funds to conduct business outreach, visit host-country firms, or supervise FSN-only posts. Officers in 8 of the countries we visited told us that the representation funds, which they use to entertain host-country business and government representatives, are inadequate. In addition, some officers complained that they were unable to return long distance telephone calls to U.S.-based companies seeking export assistance.

Funding for US&FCS headquarters support of export promotion activities has also been reduced substantially, particularly the budget for information products and service. According to US&FCS officials, funding available to support (1) US&FCS' information gathering programs, (2) the implementation of an automated trade information data base, and (3) overseas trade promotion events, has declined from \$8.8 million to \$3.9 million (56 percent) since 1985. Over the same period, authorized headquarters staff to support these functions declined from 150 to 123.

Export Promotion Budget Funds a Variety of Trade- Related Functions

The US&FCS overseas budget supports a wide range of trade-related functions. Traditional activities such as trade fairs and exhibitions, trade missions, developing trade opportunities, and identifying agents and distributors consume the majority of officers' time. However, substantial amounts of resources are spent on trade policy issues and in support of other government agencies. US&FCS officials stated that it is necessary to engage in a broad range of trade matters in serving the U.S. commercial interests overseas. For example, in countries where the government plays a dominant role in the economy, trade policy activities are key to reducing trade barriers and thereby creating additional export opportunities.

Since there is no commonly accepted definition of what constitutes export promotion versus trade policy, the actual time spent on either activity is difficult to quantify. US&FCS's fiscal year 1987 Post Commercial Action Plan (PCAP) report shows that 572 workweeks—about 2 percent of the total available workweeks—were spent on trade policy/trade agreements. This work is performed only by officers, but the percentage is derived from a base that includes workweeks for FSNS and American secretaries. Thus, the percent of "officer" time spent on these activities is actually higher than 2 percent.

Posts in seven of the countries we visited listed trade policy work among their top three priorities. We noted that officers in Canada, Mexico City and Tokyo were devoting substantial amounts of time in supporting major trade negotiations. For example, the U.S. ambassador to Mexico assigned US&FCS a role in U.S./Mexico trade negotiations. US&FCS/Tokyo also participated in the U.S./Japan Market-Oriented Sector-Selective talks and led the negotiations on telecommunications. These talks recently resulted in agreements to remove trade barriers to exports of U.S. pharmaceutical and medical equipment, open up the Japanese telecommunications market, and reduce Japanese tariffs on electronics and forestry products.

Officers in Brazil, Canada, Mexico, Japan, and Korea were supporting U.S. efforts to combat unfair trade practices or were attempting to influence host-country trade legislation and regulations. We also noted cases in Japan, Brazil, Venezuela, and Canada where US&FCS officers met with host-government officials in efforts to protect or promote U.S. business interests in bidding on major projects. For example, US&FCS/Korea, in cooperation with embassy economic section and other U.S. government agencies, negotiates with the government of Korea for the removal of certain tariffs and import restrictions. The post also negotiates with

local industry and government officials for the removal of industry-established licensing and performance requirements and warehousing and distribution restrictions. US&FCS/Ottawa was supporting U.S. efforts in a Canadian countervailing duty suit against U.S. corn exporters. The post in Tokyo was pursuing intellectual property rights protection issues. It was also heavily involved in negotiations with the government of Japan to promote the interests of U.S. construction firms in bidding on the Kansai Airport project. Similarly, US&FCS/Brazil was negotiating memorandums of understanding with the Brazilian government for U.S. firms to receive first consideration in bidding on contracts for major Brazilian development projects.

US&FCS posts overseas also support Commerce's Bureau of Export Administration. This involves collecting business information, counseling local businesses on U.S. export license regulations, and conducting pre-license and post-shipment checks. Pre-license checks involve verifying information on export license applications submitted by local businesses in order to determine whether the businesses are suitable to receive the goods in question. Post-shipment checks involve US&FCS visits to local foreign businesses to see whether the U.S. exports are in the location specified in the application and are being used for stated purposes.

US&FCS overseas posts also support other government agencies' programs. According to the US&FCS 1987 fiscal year commercial activity report, overseas posts spent over 1,700 workweeks (6 percent of total available workweeks) in support of other U.S. agencies' programs.²

Impact of Full Cost Recovery and Privatization

Previous government subsidies for trade promotion activities have been gradually eliminated. As a result, U.S. firms must now bear the "full direct cost"³ of participating in US&FCS' overseas events and pay fees for marketing publications. Moreover, some events that generated revenues which could be used to underwrite certain promotional activities have been turned over to the private sector. Some program officials believe that these two policy actions have had a substantial impact on ITA's

²This includes the Agency for International Development, Export-Import Bank of the United States, Overseas Private Investment Corporation, U.S. Trade and Development Program, State Department, and Office of the U.S. Trade Representative.

³Direct cost to the government for the individual promotional activity, excluding salaries and other fixed costs.

trade promotion programs and appear to be in conflict with ITA objectives to bring new U.S. firms, particularly small- and medium-sized, into the export business and to stimulate sales of U.S. exporters in existing and new foreign markets.

U.S. Firms Must Pay Full Cost to Participate in ITA Overseas Trade Promotion Activities

Prior to 1965 there was no fee⁴ for participating in large Commerce Department overseas trade shows—even round-trip freight charges were covered. In the 1970s ITA charged a fixed fee of \$900 for new-to-export (NTE)/new-to-market (NTM) firms⁵ and \$1,800 for firms who were already exporting to the market. According to Commerce officials and documents we reviewed, a 1975 Office of Management and Budget (OMB) review of all government export promotion programs led to a pricing structure based on actual direct cost to the government and a gradual reduction of the remaining subsidy element for promotional events.

In 1981, OMB again reviewed government export promotion programs and reportedly recommended that ITA's export promotion activities be eliminated. Although OMB did not prevail, Commerce further reduced the subsidy for trade promotion activities and began moving toward full cost recovery in its pricing of trade promotion events. By fiscal year 1982, special price incentives for NTE/NTM firms had been discontinued and the trade events program began to operate on a "full direct cost recovery basis." The recession, high interest rates, and the rise in the value of the U.S. dollar against other major currencies in the early 1980s reduced the desire of U.S. firms to participate in overseas trade promotion events. These factors, along with full direct cost recovery which increases fees, have had a significant negative impact on participation, particularly, according to ITA officials, on small-and medium-sized firms. A 1985 US&FCS report on the impact of full cost recovery stated that

"as fees for trade promotion events increased, the number of participants decreased. At the same time, the ratio of [new to experienced exporting] firms participating in ITA trade promotion events declined steadily. Participation by NTE/NTM firms in ITA trade promotion events declined by 50% between fiscal years 1979 and 1984."

⁴Throughout this report the term "fee" relates to the cost of exhibit space only and does not include freight charges and applicable duties for items exhibited or costs for travel, hotel accommodations, meals, and other incidentals.

⁵New-to-export firms are businesses that have no previous sustained exporting experience in any foreign country. Exporters who have not sold on a sustained basis in the specific country in which the trade event is being held or who are introducing a new product line are classified as new-to-market.

Between fiscal years 1979 and 1983, the median participation fee for the three major types of overseas trade promotion events ITA sponsors more than doubled. Median trade fair fees increased 192 percent, trade mission fees 135 percent, and catalog show fees 214 percent. According to US&FCS' documents, "these increases were made in response to rising overseas costs, combined with the Administration's mandate to target [federal activities] for full cost recovery and the need to offset reductions in appropriated funds." In 1988, the median fee for participating in an overseas trade fair ranged from \$250 for a catalog show to \$5000 for an executive trade mission. However, fees vary substantially from event to event, depending on the country and the type of event. For example, the 1988 fee for one event in the Middle East was \$12,000 while the median fee for all comparable events in its category was only \$2,500.

Most Program Participants Are Experienced Exporters

There is no specific statutory requirement for Commerce to serve small- and medium-sized and new exporters, and the President's Reorganization Plan No. 3, which established the Foreign Commercial Service, is not specific on this matter. Nevertheless, congressional support for US&FCS is largely based on the assumption that its primary mission is to assist small- and medium-sized firms. The Trade Agreements Act of 1979, which led to the creation of the US&FCS, makes particular reference to government activities that enhance the role of small- and medium-sized businesses in export trade, and ITA budget requests have emphasized ITA's role in assisting such firms. ITA publications are replete with references to its commitment to small- and medium-sized firms and new exporters. Furthermore, attempts to eliminate the US&FCS and criticism of its role in certain promotional functions have been blunted by statements of support based on the understanding that the primary users of its services are small- and medium-sized, new-to-export firms.

According to a 1987 report by the Office of Technology Assessment, the rationale behind most government export promotion activities is that expanding the base of companies engaged in international trade is a necessary condition for the United States to overcome its trade deficit and that thousands of small- and medium-sized companies, if given technical assistance and sufficient information about opportunities abroad, could successfully compete in world markets.⁶

⁶Federal Programs for the Promotion of Manufactured Exports, Office of Technology Assessment, June 1987.

Prior to 1980, Commerce did not track the size of firms participating in its overseas trade events but instead focused on their exporting experience. Participants were classified as new-to-export (NTE), new-to-market (NTM), or old-to-market. However, a key program official characterized most NTE and NTM firms participating in Commerce's programs as small- and medium-sized businesses. Findings from our 1986 report⁷ on the US&FCS domestic district offices support this contention. That review found that 92 percent of the new exporter and new market entrants using US&FCS' services had fewer than 250 employees and 68 percent had less than \$5 million in annual sales. In 1979, about half (48.3 percent) of trade show participants were NTE/NTM firms.

US&FCS documents show that 32 percent of event participants in both fiscal years 1986 and 1987 classified themselves as small businesses.⁸ About one-third of the 2,755 fiscal year 1986 participants and 28 percent of 1987 participants classified themselves as NTE/NTM firms.

The fiscal year 1986 and 1987 information is based on events that were programmed and budgeted by US&FCS headquarters. Most "post initiated"⁹ events are not included in the headquarters data base. For example, the fiscal year 1987 figures are based on participant profile cards for 255 headquarters-sponsored events. No reliable records exist on the total number of events that actually took place; however, our analyses show that at least 450 events were held in fiscal year 1987. According to a 1985 Commerce Inspector General report, events recruited¹⁰ by the ITA headquarters units—those included in the data base—are likely to have a higher percentage of small and new-to-market firms than those recruited by the overseas posts. Moreover, although the overseas posts do not collect data on the size of firms participating in their events, the majority of senior officers estimated that most are medium-to-large, experienced exporters with facilities or agents in the host country. Of the countries we visited, only US&FCS/United Kingdom and US&FCS/Italy estimated NTE/NTM participation levels in their events at least equal to

⁷Export Promotion: Activities of the Commerce Department's District Offices, (GAO/NSIAD-86-43) Feb. 1986.

⁸In fiscal years 1986, 36 percent of participants did not supply ITA with information about their size and in 1987 42 percent did not supply this information.

⁹An event that cost less than \$10,000 and is planned, organized and executed by a US&FCS overseas post without major assistance from ITA headquarters units.

¹⁰The term "recruited" refers to the process of soliciting business firms and other organizations to participate in a trade event.

40 percent (60 percent and 41 percent, respectively). US&FCS/West Germany, which sponsored many more events than the other two European posts, reported about 19 percent NTE/NTM participation (4 percent NTE and 15 percent NTM). Therefore, any representation of program participants that is based on the headquarter's database may overstate participation by small- and medium-sized and NTE/NTM firms.

In response to a 1982 House Committee on Government Operations report,¹¹ which requested an analysis of the impact of full-cost recovery, the US&FCS stated that:

"US&FCS believes that the user fee serves as a means for testing the ability of our services and helps determine the seriousness of the potential U.S. exporter. Doing business overseas involves a financial risk on the part of the exporter. The cost of our services is a relatively minor part of that overall expense. The exporter's willingness to pay user fees for products and services is a statement of the exporter's sincere interest which is needed if the company really wants to export."

Successful Events Are Being Privatized

ITA launched its "trade fair certification" program as a way to (1) reduce the government's role in export promotion activities and (2) overcome its reduced capabilities as a result of budget reductions. Under this initiative, events organized by the private sector are "certified" by the Commerce Department if the organizer agrees to comply with certain requirements. The organizer can have his/her event certified or request that a show formerly sponsored by ITA be turned over to him. The private organizer pays a \$1,000 fee to have the event certified. According to US&FCS officials, the certification initiative has reduced the government's ability to assist new potential exporters and conflicts with the ITA objective of expanding the base of small- and medium-sized exporters. They said that private organizers have taken over only the most profitable shows and are not required to undertake activities to support this ITA objective. In addition, they pointed out that unlike the government, private organizers do not limit participation to U.S. firms.

ITA certification gives official U.S. government support to the trade event. The organizer takes overall responsibility for the event (e.g., leasing space, printing brochures, marketing) while ITA assists in recruiting U.S. firms and arranging meetings for U.S. exhibitors with host-country contacts. In addition, ITA provides the organizer with available market data collected by the US&FCS post(s) in the country where the fair is held.

¹¹Federal Government Export Promotion Activities: Oversight of Foreign Commercial Service, House Report 98-677.

If it is deemed necessary, ITA headquarters or US&FCS post personnel will staff a business information booth provided by the organizer.

ITA export promotion activities are operated on a direct full-cost recovery basis under a "world-aggregate" pricing concept. This means that, collectively, the direct cost of all ITA events is recovered. According to one ITA program official, this has allowed for reduced fees in events oriented toward small- and medium-sized, NTE/NTM firms. A US&FCS official told us that the world-aggregate pricing concept also allowed for limited market development in certain countries and cited US&FCS/Mexico's use of funds from profitable computer exhibitions to subsidize events marketing U.S.-made pollution control equipment.

According to some headquarters officials and some commercial officers, certification has been requested for only the most profitable events. Private organizers have not requested certification for any of the events aimed at establishing U.S. presence in new or developing markets or seeking to assist emerging industries because these events are not profitable. As a result, US&FCS is left mostly with high cost events that are more difficult to recruit.

During discussions on a draft of this report, senior US&FCS officials stated that 63 percent of the certified events during fiscal years 1986 and 1987 were formerly ITA-sponsored events. This includes 25 former ITA-sponsored events that were held in U.S.-owned overseas trade centers and restricted to U.S. firms.

Our review of events certified for fiscal year 1987 shows that 11 were in Western Europe, namely West Germany, France, and Italy, and 10 were in Asia/Pacific, 5 of which were in China and 2 in Japan.

Some US&FCS officials say that the implementation of full cost recovery and privatization has created confusion about the objectives of the trade events program. The seeming conflict in policies was recognized by ITA in its 1985 response to the House Government Operation's Subcommittee report. The response stated that:

"Inherent in the issue of cost recovery for ITA products and services are three somewhat self-conflicting imperatives: (1) the need for higher revenues, (2) the need to reduce costs to taxpayers for ITA programs, and (3) balancing the goal of privatization with a mandate to increase NTE/NTM export activity."

The response also said that ITA had established a fiscal year 1985-1989 Business Plan which outlined a strategy to reconcile the conflicts contained in these imperatives and to facilitate attainment of three objectives:

1. Expanding the number of private sector organized, government-certified trade fairs by 20 percent per annum through fiscal year 1987.
2. Increasing the number of NTE/NTM firms participating in overseas trade events by 183 percent during fiscal years 1985-1989.
3. Generating, by fiscal year 1989, annual trade event revenues of \$11 million, while maintaining a constant appropriated fund base adjusted only for inflation.

The strategy focused on increasing revenues by expanding the number of ITA fairs, missions and video/catalog events and increasing the actual number of participants in each event through stronger recruiting efforts.

Program officials told us that the Business Plan was abandoned in fiscal year 1986 because it was driven by a goal to increase revenues and did not reflect ITA's real export promotion capabilities and the different ITA units' priorities.

State and Local Governments Are Increasing Efforts to Attract Foreign Investments and Expand Exports

While federal support for export promotion has declined in real terms, the number of state export promotion programs has grown. Many of the programs were established to increase economic development by encouraging more firms to export and by attracting foreign investments. The export programs are designed to help small- and medium-sized businesses market their products overseas. Some state officials say that their programs are designed to fill the voids in federal efforts. According to the National Association of State Development Agencies, 41 states now maintain at least one overseas trade and investment office. The size and aggressiveness of the programs vary but most include business counseling, trade and investment seminars led by high level officials, and arranging for state businesses to exhibit in overseas trade shows. A few states provide export financing assistance.

State Spending Is More Than Half of Federal Worldwide Efforts

Together, the states employ more than 500 persons and spend about \$40 million a year on export promotion and foreign investment programs. Moreover, in 1987, 11 states had export promotion and trade and investment budgets in excess of \$1 million and 22 states employed 10 or more people in export promotion and foreign investment programs. Twenty-five states have three or more people assigned to overseas offices. Additionally, the overseas corps of U.S. states now comprises more than 80 offices in about 40 countries.

Types of Assistance Provided

Many states now offer a menu of services similar to those available from the US&FCS. Some state activities either piggyback on the US&FCS overseas trade intelligence network or are conducted in conjunction with US&FCS events. Although the types and depth of assistance provided vary significantly, the most common include

- business counseling, both in-house and on-site;
- company specific market research;
- trade lead information service;
- agent/distributor search;
- publication of trade-related products;
- seminars and conferences; and
- missions led by high-level state officials.

A few of the states have also adopted “mentor” programs, in which large exporters help small companies learn how to export. The New York-New Jersey Port Authority has launched a publicly-owned export trading company to handle all overseas marketing for small- and medium-sized firms that have either never exported or never exported to a particular region of the world.

In addition to export awareness, counseling, and information services, nine states also now offer export finance assistance. In most cases, financial assistance is provided through a state export development entity that provides a source of capital (e.g., loans, guarantees and credit insurance).

Conclusions

The loss of overseas purchasing power and the implementation of full cost recovery and privatization have constrained some ITA trade promotion activities. Increases in salary and other operating costs have also had an adverse impact on US&FCS’ activities. Absent a significant funding increase, we believe ITA will need to critically assess its role in promoting

U.S. exports. Such an assessment should focus on eliminating programs and activities with the least potential for accomplishing its defined export promotion goals and objectives or that are available from the private sector. Additionally, given the congressional support for the expansion of the number of small- and medium-sized exporting firms, we believe ITA needs to develop a strategy for increasing participation by such firms in overseas trade promotion events. One way to achieve this objective is to revise the “certification” program to require private organizers to take certain steps to attract small- and medium-sized and NTE/NTM firms. For example, the director of the Trade Fair Certification program, in consultation with Trade Development, could make a case-by-case determination on the minimum number of these firms that an applicant would have to agree to recruit in order to have an event certified. Factors such as the type of event, the industries involved, and the estimated number of export-capable firms in the target groups, could be considered. This would allow ITA to continue to privatize profitable export promotion activities and also increase participation by the currently under-represented target groups.

We also believe US&FCS needs to reconsider its post structure and staffing pattern. In terms of US&FCS’ primary mission—export promotion—we question the efficacy of one-officer and FSN-only posts in developing and carrying out a successful program, particularly since many are in countries with limited business opportunities. Some specific questions that US&FCS needs to address follow.

- Should better coverage of large, promising markets be sacrificed in order to maintain a presence in many countries?
- Is US&FCS seeking to have worldwide representation like that of a diplomatic organization, or is it a commercial organization that follows the pattern of economic activity?

We recognize, as the Department of State has noted in its comments on a draft of this report (see appendix VI), that any change in Commerce’s overseas staffing would have to be coordinated with State, since it is responsible for export promotion programs in 76 non-US&FCS countries. If US&FCS should decide to adopt a commercial organization that follows the pattern of economic activity, as suggested above, State believes it should do so only after full consultations with State and consideration of resource implications for State (i.e. in those countries where US&FCS would decide to withdraw, the commercial activity level would have to be picked up and sustained by State.)

Recommendations

We recommend that the Secretary of Commerce direct the Under Secretary for International Trade to:

- Revise the regulations for the trade show certification program to require, as a condition for U.S. government certification, that applicants agree to meet participation targets or goals for small- and medium-sized firms and new exporters.
- Establish a process to evaluate the Trade Show Certification Program's effectiveness in meeting congressional and ITA's export promotion objectives of expanding the volume of exports by small- and medium-sized and NTE/NTM firms.

Agency Comments and Our Evaluation

Commerce agreed that there is a need to ensure that the certification is meeting ITA's mandate to assist small and NTE/NTM firms. It described a series of steps ITA plans to take which are in line with the objective of our recommendations. In particular, ITA stated that it will hold consultations with organizers prior to granting certification to establish the need for small and NTE/NTM firms to be recruited for the event. Commerce also stated that in ITA's follow-up with the organizer, feedback on such firms' participation will be used as a criterion for evaluation. However, Commerce believes that requiring targets or goals for small and NTE/NTM firms' participation would put an undue burden on the private organizer who is bearing all of the risk and could result in many organizers no longer seeking ITA certification. Commerce also pointed out that participation targets would have to be set on an industry-by-industry basis because the number and proportion of small and NTE/NTM firms varies greatly by industry and such a proposal would be difficult and resource-intensive to enforce.

We recognize the difficulties associated with establishing goals, however, we believe that ITA has a fundamental responsibility to demonstrate that U.S. public policy objectives are being met through its support of private sector promotional activities under the certification program. Without some type of goals for target population participation, it is difficult to see how ITA can make such a determination about the certification program's effectiveness. Therefore, we continue to believe that targets for small- and medium-sized and NTE/NTM firms' participation in certified events should be negotiated with the sponsor on a case-by-case basis.

Commerce has developed a questionnaire, which is currently awaiting OMB approval, that it will use to collect data from private organizers on

Chapter 2
Budget Limitations Have Constrained Federal
Export Promotion Activities

the result of each event. It also provides for the assessment of each event by US&FCS overseas posts. We believe the questionnaire is a step in the right direction. However, it does not provide for the collection of data on the participation of small- and medium-sized firms. Such data is needed to judge the certification program's effectiveness in achieving one of ITA's principal objectives.

Transfer Has Resulted in More Emphasis on Commercial Matters but Problems Limit Program Effectiveness

Our discussions with government and business officials indicated that the transfer of responsibility for overseas commercial work from the Department of State to the U.S. and Foreign Commercial Service has resulted in a higher priority on commercial matters and more active support of U.S. business interests overseas. US&FCS officers at overseas posts appear 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 related problems.

However, we identified organizational, operational, and management weaknesses in ITA which we believe have limited the effectiveness of individual export promotion programs. These weaknesses have contributed to a high level of trade event cancellations and events that are poorly organized and/or have questionable promotional value—resulting in wasted resources and lost opportunities. Moreover, the US&FCS Foreign Buyer Program, which is designed to introduce U.S. firms to foreign firms without the cost of participating in overseas trade events, is not being fully implemented by most US&FCS posts. In addition, the Trade Opportunity Program, a long standing program to alert U.S. firms to potential trade opportunities overseas, is currently being revised to improve its effectiveness after years of declining participation by U.S. industry.

We believe that an ITA-wide organizational change and operational improvements would increase program efficiency, improve the delivery of services, and enhance the formidable task of expanding the U.S. exporter base.

Officers More Responsive to U.S. Business Interests

One of the major reasons for the transfer of commercial work from State to Commerce was a perception in the Congress and the U.S. business community that the State Department was not devoting sufficient resources to commercial matters and did not recruit employees with strong commercial experience. Business officials we talked with said that creation of the US&FCS has resulted in more emphasis on export promotion activities and a higher priority on commercial matters in general. They also stated that US&FCS is more responsive to their concerns than the State Department was and that the quality of officers working on commercial matters has also improved. In addition, during our overseas fieldwork we observed that US&FCS officers at most posts are involved with local business organizations.

As noted in chapter 2, US&FCS officers are active in a variety of activities in support of U.S. business interests overseas. Our discussions with American Chambers of Commerce, trade associations, and individual business firms indicate that:

- Business counseling and facilitation are the services most often requested by the business community.
- US&FCS is generally responsive to, and has established credibility in, the resident business community.
- US&FCS officers are generally knowledgeable about international trade and local market conditions and have developed contacts in host country government and business communities.

Organizational and Operational Problems in the Trade Events Program

ITA uses a variety of trade promotion events to market U.S. products overseas. There are three major categories of ITA-sponsored events with several variations within each category—trade shows, trade missions, and catalog exhibits. Between 130 and 170 major ITA-sponsored events and numerous other small post-initiated events are conducted each year. Planning, scheduling, and executing these events is a major task, requiring cooperation and coordination among the ITA programming units (IEP, TD, US&FCS/EPS), the overseas posts, and to a lesser extent, Commerce's domestic district offices.

Currently, however, the trade events program appears to be in a state of disorder. The events planning and execution process has led to poor event selection, marketing, and recruitment and a lack of accountability for either positive results or failures. As a result of these problems and a lack of intra-ITA coordination, about half of the major scheduled events are cancelled and replaced by new events in an almost continuous scheduling process. As a result of this continuous shuffling of events to be supported and the sponsoring of some questionable events, US&FCS overseas posts spend a lot of time planning and arranging for events that never take place or supporting events promoting products that have little or no market potential. Moreover, according to some ITA officials, the practice of advertising trade events and subsequently cancelling the majority of them has limited the credibility of the program in the U.S. business community and in some overseas locations.

The three major categories of trade events are:

- Trade shows: ITA sponsors participation of U.S. industry in overseas trade shows in several ways. Under the most common arrangement, ITA

or an ITA “certified” private organizer rents space for a U.S. pavilion in an established international exhibition organized by the host government or the private sector. U.S. firms are then recruited to participate in the exhibit, and for a fee, are given a display booth in the U.S. pavilion, assistance with freight forwarding and export licensing, host country promotion, and appointments with key contacts. Occasionally, ITA promotes solo trade shows overseas. These exhibitions are wholly conceived, organized, and promoted by ITA, and participation is restricted to U.S. firms.

- Trade missions: ITA sponsors various types of trade missions designed to allow U.S. business people to travel overseas and meet potential buyers, agents, and other key contacts. “Specialized trade missions” are planned around a single industry theme. ITA selects product lines and organizes visits to countries with the best potential markets. Generally, these types of missions include 5 to 12 U.S. firms recruited by ITA industry specialists. ITA also provides advice and support to “state or industry organized missions” and coordinates itineraries and overseas support by US&FCS posts.
- Catalog and video catalog exhibits: Catalog exhibits display U.S. firms’ sales brochures and other graphic sales materials. They represent a low-budget technique for U.S. industry exposure overseas. The exhibits are organized and recruited by ITA and should reflect a promising market theme identified by posts. Catalog exhibits are usually sent to several locations in a geographical region and are accompanied by an “industry technical representative” selected from an independent consulting firm, trade association, or university. Video catalog shows are organized similarly to regular catalog shows. US&FCS posts are responsible for promoting these exhibits in the target countries.

Trade Event Planning, Scheduling, and Implementation

As a result of major reorganizations in fiscal years 1980 and 1982, responsibility for planning and executing trade promotion events is now divided among three ITA units—Trade Development, International Economic Policy and US&FCS. In trying to identify the causes of problems in the trade events program, we found that ITA has not established formal guidelines outlining the duties and responsibilities of the various ITA units and the specific steps to be followed in planning and executing trade events. However, through discussions with key program officials and review of a draft trade event management manual prepared in 1984, we were able to establish a general outline of the trade event planning and execution process and the roles and responsibilities of each ITA unit.

Chapter 3
Transfer Has Resulted in More Emphasis on
Commercial Matters but Problems Limit
Program Effectiveness

Essentially, the trade event management process consists of seven basic steps/functions. Roles and responsibilities are not fixed and change with the type of event. Table 3.1 shows the organizations that have primary responsibility for each of the functions.

Table 3.1: Trade Event Management Process

Function	ITA Unit Responsible
Proposal solicitation	US&FCS (Export Promotion Services)
Proposal screening	US&FCS (Regional Export Development Offices)/IEP (country desks)
Event selection	Committee of mid-level representatives from TD, IEP, and US&FCS
Event schedule maintenance	US&FCS (Export Promotion Services)
Market research and plans	International Economic Policy
Industry recruiting	Trade Development/US&FCS overseas posts
Event execution	US&FCS (Export Promotion Services and overseas posts)

In general, the scheduling process begins with proposals from any of the three major units (TD, IEP, US&FCS)—though most originate from the overseas posts. The office of Export Promotion Services (EPS) within US&FCS initiates the process. About 24 months before the fiscal year in which events are to take place, EPS requests proposals from overseas posts for promotional events in their host countries. The posts have about a month to submit proposals based on their annual Country Marketing Plans and following EPS guidance. Several hundred proposals for different types of events are submitted each year, including trade shows, missions, seminars, and video catalog shows.

The four EPS Regional Export Development Offices (REDOS) and IEP desk officers review the proposals to determine if they are adequately justified by market data submitted by posts and to coordinate the timing of events to avoid conflicts. Proposals approved by REDOS are submitted to the Trade Promotion Committee, which consists of mid-level representatives from US&FCS, IEP, and TD. After reviewing all proposals the Coordinating Committee agrees on a worldwide fiscal year calendar of events. No one committee member has the final say about which proposed event will be placed on the schedule. For event proposals that are approved, IEP country desks prepare a “plans package” based on the market data submitted by posts and other available research. TD industry specialists use the plans package to recruit U.S. firms to participate in the events.

The trade event schedule established at the beginning of the planning cycle, however, is not a fixed agenda. During the 2-year planning period, as well as during the event year, proposals are continually submitted and approved and subsequently dropped or revised. Between July 1985 and the end of fiscal year 1987, 1,395 events were on the event schedule. Our analysis showed that about 45 percent of these events actually took place. For example, in fiscal year 1987, 40 trade fairs, missions, video/catalog and regular catalog events were conducted in the three Latin American countries we visited. Sixteen of these events were added to the schedule during the fiscal year and 11 of 34 on the schedule at the beginning of the year were cancelled. Because of the uncertainty as to whether a scheduled event will in fact occur, US&FCS recently decided not to automatically include the original schedule of ITA-sponsored events in its new automated trade information data base until a firmer determination is made that the event will actually take place. Information in the data base is used in counseling potential and existing exporters about overseas business opportunities and the different ways to introduce their products or services to new markets.

Cancellations and Questionable Events a Major Problem

Trade event cancellations have been a major problem for ITA since the early 1980s. A 1985 Inspector General report on ITA trade promotion activities found that more than 50 percent of scheduled events did not take place at selected European posts, and a 1986 review of posts in four Asian countries showed an even higher cancellation rate—about 67 percent.

Since ITA begins developing the event schedule for any particular year 2 years ahead of time, some events are cancelled for reasons beyond ITA's control, such as deteriorating market conditions or political unrest. However, our analysis of events on the schedule prepared 7 days before the beginning of fiscal year 1987 (Sept. 24, 1986) showed that about 33 percent of the events scheduled for that year did not take place. If lesser events such as video/catalog and regular catalog shows and certified events—activities which do not require a major effort from ITA—are excluded, the cancellation rate for the originally scheduled events was about 55 percent.

Trade Missions Are the Most Often Cancelled Events

The events that are most often cancelled are trade missions. Our analysis of the September 24, 1986 trade events schedule shows that 69 percent of the listed trade missions were cancelled. During our overseas fieldwork, US&FCS posts complained about the number of cancelled and

inappropriate trade missions and the lack of headquarters recruiting in support of their events. The posts said that after much planning, many missions were often cancelled only a few weeks before they were supposed to arrive. In some cases, the cancellations have had a negative impact on US&FCS credibility.

In March 1987, the US&FCS Office of Foreign Operations requested comments from overseas posts on the number of trade mission cancellations that had occurred over the past 24 months and the reasons. The request cable from Washington stated "there seems to be a pattern of planning a large number of TMs, going through the preparation stage (market studies, approval on the FY promotion event schedule, hotel reservations, and even appointments or other commitments) for a good number, only for the post to be notified that the TM is variously cancelled or postponed because it can't be recruited."

We reviewed cables from 21 European and Latin American posts. The Office of Foreign Operations could not locate response cables from the remaining posts. Certain common themes emerged regarding trade mission cancellations and the event selection process:

- A large number of trade missions had been cancelled. Fourteen of the 21 posts reported that scheduled events had been subsequently cancelled. Thirteen posts had cancellation rates of at least 50 percent and 8 of these had rates of 100 percent.
- Substantial resources had been devoted to events that were subsequently cancelled. Posts reported spending from 2 to 10 work weeks, beyond market analysis and justification, on events that were eventually cancelled. Nine posts reported at least one cancelled event that had progressed beyond market analysis and justification.
- Cancellations were not always timely. Five posts complained that events were cancelled on short notice, and some said they were uncertain of the status of some events.
- Thirteen of the posts complained about the amount of time spent developing proposals that in all probability would not be selected or, if selected, subsequently cancelled. Several small posts stated that staffing limitations made it difficult to develop the kind of information needed to support proposals for trade events and that even when they can be supported, the proposals are not competitive with those submitted by posts in larger countries in terms of market potential for event participants.

We could not identify any management action to address these problems. The special solicitation of overseas posts' comments seemed to

result only in disagreement among ITA officials as to how the responses should be analyzed—more precisely, which of the events that did not take place should be counted as cancellations and how multiple-stop events should be counted when one or more stops were cancelled.

In our analysis of trade mission cancellations, we counted each stop because we were concerned with the impact of cancellations on 1) post resources spent in developing proposals and making business appointments and hotel arrangements and so on for events that ultimately did not take place and 2) missed promotion opportunities and possible loss of credibility with host-country government and business officials.

Rationale for Some Trade Missions Is Questionable

In addition to cancellations, overseas posts we visited complained that they have been forced to support trade missions unrelated to the best market prospects in their particular country, missions whose members were looking for sources of supply, and missions marketing products that could not be sold in the country. Some posts said that the missions were approved and held, even though they had advised ITA in advance that there was little or no market for the products. For example, one ITA unit sponsored and accompanied a used medical equipment delegation to a country even though the post had advised that such equipment could not be sold in that country. Another post cited the example of a mission that had representatives from several different industry sectors—a practice discouraged by ITA guidelines¹ on the composition of trade missions. US&FCS staff at the post speculated that the mixing of different sectors was done in order to salvage the mission.

In other cases, missions were sent to several countries without designated leaders and definite agendas. Another post official told us of a trade mission that arrived, against his advice, on a national holiday. These observations are supported by a recent Inspector General review of export promotion activities in three Latin American countries, which found that 40 percent of the trade events proposed for these countries involved industry sectors that were not listed as good prospects in the country marketing plan submitted by the respective US&FCS posts.

The ITA headquarters officials we spoke with said that trade missions organized by state and regional organizations and approved by ITA were the ones most often cancelled or most likely to be of questionable promotional value. They further stated that, given the size of the trade deficit

¹ITA guidelines state that trade missions should be organized around a single theme.

and the accompanying political attention, ITA cannot refuse to support missions led by popular state and local officials. Our analysis of scheduled trade missions, however, shows that while many of these non-ITA missions did not materialize, most cancelled missions were ITA missions.

Organization Structure Causes Major Problems in the Trade Event Program

Our review of pertinent documents and discussions with ITA officials indicate that the sheer difficulty of administering the worldwide trade promotion program has been compounded by (1) the institution of full cost recovery and privatization, discussed in chapter 2, and (2) ITA's current organizational structure which has contributed to poor trade event selection, marketing and recruiting, and lack of management accountability for program results.

The President's Reorganization Plan No. 3 of 1979 mandated the centralization of operational responsibility for non-agricultural trade within the Department of Commerce. In 1980, certain Treasury Department trade administration functions (the antidumping and countervailing duty investigations programs) were transferred to Commerce and the former Industry and Trade Administration was reorganized and named the International Trade Administration. The stated purpose of the reorganization was to refine the focus of the new ITA and to enhance Commerce's industrial analysis capabilities to facilitate the President's trade policy initiatives. The reorganization established four operating units within ITA—Trade Development, International Economic Policy, Trade Administration, and the Foreign Commercial Service and created an Under Secretary and Deputy Under Secretary for International Trade, four assistant secretaries, and nine deputy assistant secretary positions.² During the 1982-1987 time frame, additional organizational changes at ITA, including the merger of the Foreign Commercial Service and the U.S. Commercial Service, increased to 23 the number of deputy assistant secretary positions.

As stated previously, responsibility for planning and executing trade promotion events is divided among three ITA units—Trade Development, International Economic Policy, and US&FCS—and each organization has its own orientation. TD is organized by industry sector and seeks to identify markets with the most potential for U.S. exports. IEP has country

²In its budget submission for fiscal year 1980, the former Industry and Trade Administration's organization chart showed one assistant secretary and two deputy assistant secretary positions and six operating bureaus headed by Senior Executive level directors. (See appendices III and IV for the 1980 organization chart and the proposed organization chart included in ITA's fiscal year 1989 budget submission.)

desks and is primarily concerned with trade policy matters as they relate to individual countries. US&FCS, on the other hand, has posts in 65 countries—some with substantial market potential and some with little or no current potential—and must have a trade promotion program for each. Moreover, within TD and IEP, each deputy assistant secretary has individual, trade-related program objectives. This operating structure appears to have resulted in a mismatch between headquarters resources for supporting events and the needs of the overseas posts, lack of central management authority, little or no management accountability, and an inability to deal with day-to-day problems in a timely manner—all of which have contributed to the number of cancelled and/or inappropriate trade promotion events.

Since the first reorganization, the trade promotion program has been plagued by poor intra-departmental coordination, cooperation, and communication. Studies by the Commerce Inspector General in 1985 and 1986 reported significant coordination problems between the various units in ITA responsible for supporting trade events. In response to the Inspector General's findings, US&FCS, IEP, and TD attempted to negotiate a memorandum of understanding that would delineate each unit's responsibility. However, the memorandum was never finalized. ITA officials told us that, even though the senior-level people could not agree on specific language for the memorandum, a working-level group composed of representatives from each unit was formed and that the situation has improved. However, the officials also told us that the lack of a central management authority makes it difficult to resolve day-to-day problems with the trade event schedule, thus every programming and management decision has to be negotiated and no one takes charge when routine problems occur. For example, after ITA discovered that mail for trade event promotion campaigns was not being properly sent by a mass mail contractor, no action was taken for several months and many events had to be cancelled. They said that top-level ITA officials are normally too involved with trade policy and other more visible issues to deal with such matters.

The absence of a central management authority has resulted in a complicated process for managing the trade event schedule. The linchpin of this process is the Trade Promotion Events Committee, which consists of mid-level management representatives from each unit and has assumed a decision-making role in the management of the trade event schedule.

Members of the Committee stated that even though the current process for managing trade events is burdensome, it works. However, individuals responsible for implementing overseas trade events at posts and in Washington raised serious questions about the effectiveness of the current process.

The lack of a central management authority for the trade events program has resulted in poor event selection, inadequate marketing plans, poor recruiting of participants, and lack of accountability.

Poor Event Selection

According to various ITA officials, some events are placed on the promotion schedule even though required market research is either incomplete or inadequate. US&FCS posts complained that they are asked to support some events that are not adequately justified by market research. TD officials said that too many proposals from the posts are not accompanied by adequate market research. Under the current event selection process, no one group has the final say about which proposals will be selected and there is no requirement that an event be supported by a majority of the selection committee. Key program officials told us that this tripartite decision-making process results in marginal events being placed on the schedule.

The market data used in recruitment campaigns is in most cases obtained from the "Industry Sector Analyses" or market briefs prepared by the posts. The analyses are broad descriptive accounts of the state of a given industry in the host country with statistical data obtained from the host country government. TD staff stated that in most cases these documents lack the evidence and analysis needed to support an aggressive recruiting campaign and said that events are sometimes scheduled before market research is conducted.

Some officials also complained about the lack of industry input to the selection process. They said that in the past, industry's interests and knowledge was infused into the process through regular polling, which is currently not being done. According to an internal report on problems in the trade events program:

"only if the poll was positive did an event get approved for the schedule and for the first time announced to the public. The wholesale announcing of proposed events to the public before they have been proofed and then cancelling the majority of them has been a major reason for a loss of credibility in the promotion program by U.S. industry and post personnel."

Because of the lack of confidence in scheduled events taking place, US&FCS recently decided not to include ITA-sponsored events in its computerized trade information data base (see chapter 5).

Poor Marketing of Proposed Events

One US&FCS post complained that marketing materials developed by TD are not very appealing to prospective participants. Post officials said that brochures prepared by private organizers and US&FCS posts with trade centers are imaginative, informative, short, and easy to read (marketing oriented) while those prepared by TD are drawn out and academically oriented.

TD representatives agreed that even when the market research data is available and is timely and reliable, they usually lack the funds to print the kind of attractive, professional-looking materials that are the hallmark of private organizers.

Poor Event Recruiting

Several US&FCS headquarters officials and overseas posts said that poor recruiting by TD industry officers is a major reason why a high percentage of trade events are cancelled or attract few participants. Some of these individuals said that industry specialists do not have the resources to recruit successfully and may lack the desire to perform this often “unpleasant” task. They further alleged that TD industry officers use lack of industry interest as the reason that an event has to be cancelled. Some posts cited events that they were able to carry out as post initiated projects but that TD said could not be recruited. We were also told that recruiters are not required to document their efforts.

In response to our questions regarding trade event recruiting, the then-Deputy Assistant Secretary for Trade Development stated that some recruiters could probably try harder but that the major problems in recruiting are event quality and limited resources. She further stated that US&FCS posts often succeed in getting events on the schedule that are not supported by the economics in the country or the status of the particular industry sector. In addition, she said that US&FCS posts also fail to recognize that competing trade events are being staged throughout the world and that industry typically participates in events with the most potential. She added that TD's efforts must reflect the priorities established by the ITA Administrator and some events proposed by US&FCS posts often do not fit with these priorities. According to this official, TD has the resources to support about 50 to 60 major events a year—well below the 250 to 300 major events on the typical schedule.

The official stated that in the early years of the Reagan administration, the emphasis on trade policy and competitive analyses was so strong that trade promotion probably suffered to some extent. She suggested that some of the complaints we received probably related to trade events that had taken place prior to 1986 and that trade promotion efforts designed to take advantage of successful market access negotiations are now one of TD's major priorities.

Lack of Accountability

The major weakness with the current process is that the Trade Promotion Committee makes final decisions regarding the approval of trade events proposals, but it lacks the authority to take action to ensure that the events are properly carried out. The individuals actually responsible for supporting trade events in TD sub-units, IEP country desks, US&FCS overseas posts, and EPS are not directly accountable to the Trade Promotion Committee.

Under the current process, any unit can independently withdraw support for proposals approved by the Committee. Since each unit is responsible for a critical aspect of event management, failure by any one unit to support an event leads to cancellation or poor implementation of the event. When an event is cancelled or poorly executed, each of the parties involved can claim that another unit is to blame and the Committee is unable to hold anyone responsible. Individuals or groups appear to be free to take actions that affect the promotion program without approval or review of the action by senior management officials. For example, one program official told us that a TD industry specialist (recruiter) can cancel an event, citing lack of industry interest, without having to provide support for his contention.

The performance of TD industry specialists, IEP desk officers, and US&FCS commercial officers are evaluated separately within their respective units. Success or failure of any particular trade event is not tied to an individual's evaluation. Moreover, officers in each unit and overseas posts have many other responsibilities besides supporting trade events. While US&FCS officers overseas often blamed Washington for event cancellations and poorly organized events, headquarters officials responsible for managing trade events downplayed the role of their own units in the process. One senior EPS official said that the EPS role in support of the principal categories of trade events is rather limited. An IEP spokesman said that his unit is involved in the trade event program only in a support capacity. Similarly, a senior TD official observed that her unit has other responsibilities besides supporting trade promotion events.

Different ITA Units Compete for Program Participants

There is some evidence that the different ITA units compete with each other for program participants, although neither its impact nor the extent of occurrence is clear. In addition to the major events that require joint efforts from all ITA units, three of the units have separate export promotion programs. Trade specialists in TD told us that a program such as "Matchmaker", carried out exclusively by US&FCS, is oriented toward the same audiences as some of the ITA-wide events. They also pointed out that TD's new "Bulletin Board" display program competes with US&FCS' video/catalog and regular catalog programs.

Some US&FCS overseas posts offset the lack of recruiting support from TD by sending post representatives to the United States to recruit for post-sponsored events. The cost for such travel is not included in post operating budgets and is recovered from participation fees. In addition, recruiting efforts are sometimes combined with other official travel to ITA headquarters.

Lack of Effective Trade Program Evaluation

We could not find any evidence that either the trade event program as a whole or individual events are evaluated for their value to U.S. industry. Without such evaluations, ITA has no assurance that the most effective events are taking place in the right country at the right time nor does it know the mix of companies that are participating.

In most cases, after-show reports, which would form the basis for effectiveness evaluations, are not completed or could not be located. There also are indications that some reports that are completed do not always reflect actual results. We did not attempt to analyze a scientific sample of after-show reports, but in trying to determine if a scheduled event did in fact occur, we noted that one report submitted to US&FCS headquarters did not agree with the actual results we documented overseas. For example, this report did not mention the disorganization and missed appointments that we documented at the post.

We could not identify any studies or analyses that assessed the effectiveness of different trade promotion events. The high cancellation rate for trade missions as well as the apparent lack of industry support for many events suggests that some type of program evaluation is needed. US&FCS officials agreed that more substantive trade event evaluations are needed but said that resources are not available to do so. They said that most staff are too busy trying to meet the demands of the next upcoming show to worry about the quality of after-show reports and evaluations.

Foreign Buyer Program Not Actively Supported by Overseas Posts

The Foreign Buyer Program is designed to introduce U.S. firms to potential foreign buyers without the cost of participating in an overseas trade event and US&FCS overseas posts are supposed to carry out a series of steps to encourage their attendance at major trade events in the United States. We found, however, that support for this program was largely perfunctory. Recent Commerce Inspector General reports on US&FCS posts in Asia and in three Latin American countries reached a similar conclusion. Aggressive steps outlined in the US&FCS operations manual were not being implemented at most of the posts we visited and program officials at US&FCS headquarters told us that the situation is the same at a number of other posts.

Under the Foreign Buyer Program, US&FCS assists in recruiting foreign firms through the overseas posts, assists the private U.S. organizers in developing trade information and counseling U.S. firms, and operates international business centers during shows. Potential Foreign Buyer shows are developed from the "best prospects" listed in the posts' Country Marketing Plans. The private organizer must commit to certain US&FCS-prescribed accommodations and is required to pay US&FCS \$3,500. For example, the organizer is required to have international finance specialists in the business center and to prepare an international marketing plan. In addition, a multi-language brochure and an exporting interest directory have to be submitted to US&FCS at least 9 months before the event. To be listed in the interest directory and receive US&FCS assistance, a firm's products must contain 51 percent U.S.-manufactured contents.

According to the program director, only well-established events are selected; no first-time events are considered. However, effective February 1987, an event cannot be selected more than two times in a 3-year period. Once a show is selected, a US&FCS headquarters project manager works with the organizer and prospective exhibitors to ensure that the event is successful.

The US&FCS Operations Manual outlines the following steps that overseas posts should take to encourage foreign firms to attend major trade events in the United States that are included in the Foreign Buyer Program:

- Organize a group travel package in cooperation with local travel agents.
- Make mass mailings to the target audience describing the show and offering the promotional package.

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- Personally call on appropriate buyers groups, such as trade associations, chambers of industry and commerce, the trade press, government ministries, and large individual purchasers.
- Cable US&FCS headquarters not later than 15 days in advance of the show with the number of confirmed foreign buyer participants indicating company affiliation and any particular interests the visitors have in specific appointments.
- Cable a final report on the show to US&FCS headquarters after each event.

None of the posts we visited were taking these actions. At most posts, support for the Foreign Buyer Program was limited to sending the list of approved events to trade associations. Moreover, while the guidelines direct that the post perform an after-show evaluation for each event, post representatives said that they do not get feedback on the results of Foreign Buyer missions for their respective countries. In fact, some of the posts said they did not even know which foreign firms participated in Foreign Buyer events targeted for their respective countries.

Some posts told us that supporting the Foreign Buyer Program is not an effective use of their time, that the same shows are promoted year after year, and that the program is not suited for all countries. In particular, they stated that the guidelines require the posts to organize groups of business people to travel to the United States and that in some countries group travel is not an accepted practice. Some posts also said that travel to the United States is so easy and the events are so popular that there is no need for them to use their resources to recruit for Foreign Buyer shows.

In responding to the posts' concerns, a key US&FCS headquarters official said that the Foreign Buyer Program is an effective means for introducing foreign firms to U.S. suppliers, but that US&FCS officers are not convinced of this and have put forth only token efforts. He also said that some senior US&FCS officers are trade-policy oriented and do not want to do traditional trade promotion work. This official said that most posts in Asia and the Middle East, together with one in Latin America and one major post in Europe, have done the least to support the program.

Since the posts apparently have not implemented the program according to established guidelines, it is not clear whether it is an effective trade promotion activity in all countries. Full implementation by the overseas posts and monitoring by US&FCS headquarters would establish the basis for an assessing the program's effectiveness.

Efforts to Improve TOP

US&FCS recognized the problems with TOP and in August 1987 eliminated the subscription feature and began publishing trade leads in the Journal of Commerce. US&FCS also instituted a pilot program called HOT TOP, which has a follow-up provision. This version of TOP is patterned after a program developed by US&FCS/London and is now being tested in 10 countries.

US&FCS began publishing trade leads in the Journal of Commerce to ensure that they would be available to a broader section of the U.S. business community. However, some officials we interviewed stated that publishing the leads in the Journal would only increase the number of "junk" responses as well as open up the program to foreign firms that subscribe to the Journal. The Deputy Assistant Secretary for Foreign Operations stated that foreign firms will not respond to trade leads in any greater number than they have in the past.

In March 1987, US&FCS/London implemented what it calls SUPERTOP. A trade specialist reviews each TOP lead, using his/her own judgment to determine which leads offer the best prospects and then develops more specific information on the products or services the firm is seeking. This information is then forwarded to state trade development offices located in Europe. US&FCS/London has not yet evaluated the impact of SUPERTOP. However, our interviews with state officials indicate they are satisfied with the program. One state official noted that SUPERTOP information is more detailed and product specific than was the original TOP. Without specific direction or approval from Washington, US&FCS/Venezuela has implemented a similar program and its officials believe that the state offices have been considerably more responsive to TOP leads than Washington.

Based on initial results from US&FCS/London's program, US&FCS began pilot testing HOT TOP, which is designed to improve the distribution and follow-up of high potential trade leads. In the HOT TOP pilot, 10 selected posts send their trade leads to designated Commerce district offices, which have 30 days to provide the posts with potential American suppliers. US&FCS posts have mixed views as to how well this version of TOP will work.

Conclusions

The data we collected and analyzed suggests that the current ITA organization, while possibly beneficial to other departmental objectives, has contributed significantly to problems in the overseas trade promotion program. The different units are so compartmentalized that the day-to-

day decisions necessary to keep trade events on track are delayed or not made. Moreover, the current structure does not establish accountability for either positive results or failures. The absence of a single authority to make program decisions and ensure that the right events are selected and adequately supported has contributed to poor event selection and high cancellation rates. As a result, the event planning and selection process has little credibility with those who are responsible for its execution. Events are continuously added and dropped from the schedule with little or no senior management involvement or approval. As a result, ITA has no assurance that the most effective events are taking place. To be efficient and effective, the current organization structure requires a great deal of coordination and cooperation among the various ITA units, and it was evident that this was not occurring.

There are several possible ways to address the management and program weakness we identified; however, we believe a reorganization that reduces the number of operating units and compartments, increases accountability and managerial control, and facilitates day-to-day decision-making would be the preferable approach. This could be accomplished without sacrificing the positive aspects of the current structure.

We recognize that reorganization alone cannot improve the quality of trade promotion activities, increase U.S. industry's interest in participating in ITA events, or guarantee rational decision-making. Nevertheless, it could promote these objectives by providing a logical framework that simplifies and improves the process of policy development and encourage relatively consistent and effective implementation of agreed activities.

However, whether ITA is reorganized or not, the trade events planning and selection process must be formalized and responsibility for its execution established. Formal guidelines outlining the duties and responsibilities of each ITA unit and the procedures for planning, recruiting, and executing trade events should be developed to establish management accountability.

We also believe that the trade event schedule should be formalized to help create a sense of permanency or commitment. Currently, those who are charged with responsibility for different pieces of the events cycle, as well as the trade specialists who counsel U.S. firms seeking to introduce their products in new markets, seem to have very little confidence that planned events will actually occur. Only events that are supported

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by appropriate market research and industry polling should be advertised to the business community. The recent decision not to enter ITA-sponsored overseas promotional events (events totally dependent on ITA efforts) in US&FCS' new computerized trade information data base is, in our opinion, an indication of the lack of confidence that scheduled events will actually take place. The events scheduled should include only those events that require major resource commitments by ITA.

We believe that ITA needs to determine the number of events it can reasonably support during a given year with current staff and resources. Continually scheduling hundreds of events that have little or no chance of actually taking place diminishes ITA's credibility with the business community and host-government officials and results in inefficient use of limited resources. Once a list of events has been approved by senior ITA management at least 12 months in advance of the event year, the overseas posts could tailor their activities around the approved schedule. Under the scenario(s) we envision, TD would announce the industry sectors with the greatest potential and the top markets before the scheduling process starts. We do not see the value of having US&FCS overseas posts with small staffs in countries with relatively limited market potential compete with better staffed posts for trade events. These smaller posts spend much time and energy developing event proposals that are not competitive economically and, if accepted, are likely to be cancelled at a later date. We believe it would be preferable for these posts to develop locally based programs, thus maximizing available resources.

The event planning cycle also needs to be shortened. The justification for the current 24-month plus cycle is that industry needs to be able to plan its participation far in advance. However, the high cancellation rate for ITA-only events does not necessarily support the need for such a long, drawn-out process for all types of events. Further, posts' responses to headquarters cables on trade mission problems suggest that recruiting campaigns, or at least decisions on participation for some events, do not take place until close to the time the event is to occur.

Lastly, ITA needs to reexamine its role in export promotion. Although ITA has a role in expanding the volume of exports as well as the exporter base, clearly the growth in the number of qualified private organizers and the strain on ITA's resources dictate that ITA should assume a narrower and more clearly defined role.

For the Foreign Buyer Program, we believe that US&FCS should monitor posts' implementation over a specified time period and then evaluate its

effectiveness in relation to other promotional activities. Likewise, we believe that ITA needs to critically assess the payoff, in terms of actual sales, from the new HOT TOP in relation to its costs.

Recommendations

We recommend that the Secretary of Commerce reorganize the ITA to reflect its major responsibilities. ITA now has two key trade-related missions: trade policy formulation and implementation, including import administration; and trade development, which includes export promotion.

We also recommend that the Secretary of Commerce direct the Under Secretary for International Trade to:

- Develop guidelines outlining the duties and responsibilities of each ITA unit and operational procedures and instructions to govern the event planning, selection, and implementation processes.
- Formalize the trade promotion event schedule and require periodic reports on the status of each event, including developing a firmer event schedule, establishing management controls over event additions and cancellations, and reducing the current 24 months plus planning interval for trade events.
- Issue instructions that all proposals for these “ITA approved” events must be supported by detailed market research and that the proposed location be compatible with the best prospects identified in annual Country Marketing Plans.

Agency Comments and Our Evaluation

Commerce did not directly address our recommendation to reorganize ITA to improve its effectiveness, but it acknowledged our concern with the trade event planning and management process and is taking steps to address these matters. Commerce stated it would establish a task force chaired by ITA’s Deputy Under Secretary to review this process. Upon completion of the review, Commerce will implement formal guidelines which will document the trade promotion event scheduling process, outline the duties and responsibilities of each ITA unit, and require periodic reports on the status of each event. Event cancellations and additions will be controlled at the Assistant Secretary level, and industry input will be provided in the planning process. Commerce did not state whether it plans to reduce the 24-month planning interval as recommended.

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As part of the task force effort, we believe that ITA should consider reducing the number of operating units and increasing accountability and management control as ways to improve the overseas trade promotion program and ITA's overall effectiveness.

Improvements Needed in the US&FCS Planning and Reporting System

Past studies by a congressional committee, GAO, and the Commerce Inspector General, as well as internal reviews, have characterized the US&FCS planning and reporting process as administratively burdensome, perfunctory, and of limited usefulness. US&FCS has attempted to address some of these concerns by reducing or eliminating certain reporting requirements and restructuring annual planning documents. We believe opportunities exist to further reduce reporting requirements. Our review of the reporting system showed that quarterly statistical reports on work accomplishments are not reliable and are not used for managerial decisionmaking as intended.

The US&FCS planning and reporting system consists of annual Country Marketing Plans and quarterly and monthly post commercial action reports. The annual Country Marketing Plan (CMP) is a comprehensive document which describes the commercial environment, trade and investment concerns, and promotional activities and market research that will be conducted during the upcoming fiscal year. During the year, the posts submit monthly narrative and quarterly statistical reports of their accomplishments and activities. According to US&FCS documents, approximately 5 percent of total overseas staff resources are spent planning and reporting on post activities.

Attempts to Reduce Reporting Requirements

Over the years, US&FCS has made several changes to its Post Commercial Action Plan (PCAP) reporting system in an effort to reduce the posts' administrative burden and to produce more meaningful statistics that reflect the posts' actual activities. One major change took place in 1987. Until fiscal year 1988, each senior commercial officer was tasked to prepare a "start-of-year" PCAP consisting of a short narrative on proposed post activities and a workload analysis forecasting time to be devoted to these activities and anticipated outputs. The posts complained about the difficulty in predicting activities for the coming year that were largely based on customer demand. Moreover, headquarters officials noted that quarterly reports had become more a reflection of PCAP forecasts (i.e. each quarter about one-fourth of the forecast was reported as accomplished) than accurate reports of the posts' activities. The posts viewed the PCAP quarterly reporting process as a meaningless exercise that also was of very little use to them.

Starting in fiscal year 1988, the start-of-year PCAP was eliminated as a formal requirement. The country workplans now included in the annual CMPs are designed to serve the same purpose as the start-of-year PCAP

but do not require workweek and output estimates. In addition, the number of data elements in the quarterly reports has been reduced.

Value of PCAP Statistics Is Questionable

Our analysis of PCAP reports showed major inaccuracies, double-counting and lack of documentation to support claimed accomplishments. According to senior US&FCS officials, the quarterly reports generally are not reviewed or used to monitor post activities or accomplishments. The use of the data collected from these reports is limited to preparing budget justifications and other presentations to OMB and the Congress.

Initially the PCAP reports were used by IEP to monitor the overseas posts' workloads and to balance tasking requirements from the other ITA units and organizations, such as the Department of State, the Overseas Private Investment Corporation, and the Office of the U.S. Trade Representative. The Office of Foreign Operations also used them in evaluating post performance and in deciding on resource allocations. However, US&FCS officials have stated that the quarterly statistical reports are now mostly used to gather information for budget presentations and hearings before the Congress. We found that the quarterly statistics are not reliable, in many instances cannot be supported by documentary evidence and sometimes appear to be meaningless. Consequently, we question whether they should continue to be required. On the other hand, the monthly highlights reports appear to provide information that officials use to make program and management decisions and to track host-country economic developments.

Reliability Problems in PCAP Reporting System

Past studies of the PCAP reporting system showed that US&FCS did not have adequate internal control mechanisms to ensure that PCAP statistics were accurate and supportable. The overseas posts were not required to maintain documentation supporting the statistics and had not been provided with any guidance on how activities should be categorized in the reports. The posts were using a variety of techniques to summarize the PCAP quarterly data, resulting in inaccuracies and double-counting.

At posts we visited, we found that most of the PCAP statistics reported to US&FCS headquarters cannot be supported. Where some form of documentation did exist, we found numerous significant errors. For example

- One post reported 101 post-organized events in fiscal year 1987. However, in reviewing supporting documentation, we determined that only 77 events actually took place. A post official stated that he may have

inadvertently reported the number of firms attending a trade event instead of the number of events that took place.

- One FSN reported supporting two trade delegations under the Foreign Buyer Program. However, we determined that neither of the delegations went to any of the 15 Foreign Buyer shows held in the United States.
- One post reported supporting two trade events involving 480 companies. We found that a commercial officer and an FSN both worked on one particular trade show. The officer contacted 250 companies, while the FSN dealt with 230 of these same companies. The final report showed two separate events involving 480 companies—a double count of one event.
- The posts were reporting the same event more than once. In one case, a trade show was held over a 3-day period, with 1 day falling in the third quarter and 2 days in the fourth quarter. A post official told us that he reported the event as an accomplishment in both quarters. In another case, a post double-counted a trade mission—once in the quarter in which it was planned and once in the quarter in which it occurred. In both cases the reporting officials stated that they had no guidance on reporting such events.
- The posts were not consistently reporting business counseling sessions. We found that one trade specialist gave a 15-minute speech to a group of 60 businessmen and reported it as 60 individual business counseling sessions. Another post's officers attended trade fairs (where there was no Commerce-sponsored pavilion) and reported business counseling sessions when they talked to U.S. exhibitors or exchanged business cards. Calls to commercial libraries were also reported as counseling sessions. At one post, 49 percent of the 1,341 business counseling sessions reported were telephone calls received by the post's commercial librarian.

Poor internal controls over the preparation of the PCAP reports and lack of US&FCS guidance on how to report post activities have largely contributed to these problems. For example, one commercial officer responsible for preparing the post's quarterly PCAP report stated that the staff did not take into account the "multiplier organizations," such as trade associations and American Chambers of Commerce, when reporting businesses counseling sessions. Therefore, the officer arbitrarily inflated the quarterly statistics.

While attempting to verify reported post activities, we found that some reported events were mischaracterized and presented a misleading picture of post commercial activity. At one post we found that 15 of 65 reported events were seminars organized by the American Chamber of

Commerce, and some were on topics such as tax reform, financial planning, year-end tax planning, and pension legislation. For another 13 events, the post merely rented government-controlled building space to private groups to hold seminars. The post's involvement was the time required to complete the paperwork so the companies could use the space. At another large European post, there was no documentation on 35 of the events reported to US&FCS headquarters. Post personnel told us that their role in these events was to merely rent the space.

In addition to being inaccurate and misleading, we believe that some of the PCAP statistics are meaningless. This is best exemplified by statistics reported on the Foreign Buyer Program. For fiscal year 1987, the end-of-year summary PCAP report for all 65 countries showed that posts had supported 659 events. It should be noted that in fiscal year 1987, there were only 15 Foreign Buyer events held. If each country reported supporting an average of 10 events, the total count would be over 650. Given that the total number of foreign buyer events is finite each year, and that the posts are not required to designate which events were supported, we question the value of such statistics.

ITA's 1987 Internal Control Review of the CMP/PCAP Processes

In 1987, ITA conducted an internal control review of and reported on the CMP and PCAP processes. While some of the report's findings were similar to those identified in our overseas fieldwork, it differed in its conclusion on the reliability of the PCAP statistics. Although 42 percent of the posts surveyed said that they would prefer a higher degree of accuracy in their PCAP data, the report stated that there was no direct indication that PCAP information was erroneous or inaccurate.

We believe that the report's finding stems from its data collection methodology. The ITA review team interviewed headquarters officials and solicited data from overseas posts via a questionnaire sent to the top 10 countries on its U.S. export list, plus every sixth country on the list thereafter; 19 of the 20 countries surveyed responded. The questionnaire essentially asked the Senior Commercial Officers to self-assess the accuracy of their own PCAP reports. There was no on-site verification of responses and the posts were not required to provide documentation to support their claims.

Other major findings in the report are as follows:

- Twenty-six percent of the respondents said that they had definitional problems with business counseling sessions.¹
- The PCAP essentially was viewed as an administrative mechanism to collect data used in responding to inquiries from the Congress, OMB, and others. Interest on the part of IEP and TD's Office of Industry Assessment in the PCAP portion of the process had diminished considerably since inception of the CMP/PCAP, when they played significant roles in all phases, including start-of-year planning sessions.
- Workload tasking to posts was not being monitored by headquarters. IEP was originally designated to perform this function, but it was no longer taking an active role in the PCAP process.
- IEP country officers indicated that they did not read PCAP reports and summaries and did not know what activities were covered in the different reporting categories.

Monthly Highlights Reports Are More Useful

In contrast to the quarterly statistical reports, the posts and headquarters officials view the monthly narrative reports as a valuable decision-making tool. In the monthly reports, the posts highlight success stories and major accomplishments, discuss progress in meeting planned objectives, identify emerging trade policy issues, and report major changes in the countries' trading environments. Headquarters units use these reports to monitor post activities and evaluate officer performance. The internal control review report noted that the monthly highlights reports were regarded by the posts and Washington trade policy and trade development officials as the most effective means for capturing current country trends. IEP country officers indicated that they invariably study the monthly highlights and found them to be valuable sources of information.

Conclusions

The quarterly PCAP statistical reports do not appear to be used to any extent in managing the overseas posts. In addition, it appears that PCAP reports are not used by other ITA units because the results are not meaningful—they capture workweeks spent on various inter-related tasks that, in most cases, do not lend themselves to detailed categorization. The PCAP process is an exercise to divide total workweeks spent into activity categories that are difficult to define and not consistently understood by either the preparers or the intended end users. In the

¹In its fiscal year 1988 quarterly statistical report instructions, US&FCS further clarified business counseling.

absence of information on actual accomplishments, the PCAP report's utility seems minimal.

At the posts we visited, we found evidence of inaccuracies, double counts, and potentially misleading information. Given that any attempt to better document activities would create a significant paperwork burden and that verification would still be difficult, the need to continue the quarterly statistical reports is questionable.

Recommendation

We recommend that the Secretary of Commerce direct the Under Secretary for International Trade to combine the quarterly statistical report and the monthly narrative highlight report.

Agency Comments and Our Evaluation

In the draft of this report we proposed the elimination of the quarterly Post Commercial Action Plan statistical report. The Department of Commerce disagreed with our recommendation. Commerce stated that in the absence of any reporting system, it would have to query the posts by cable each time an information request was made from within and outside of the agency and that this would be disruptive and likely to produce information that is less accurate than data now contained in the quarterly reports. Additionally, Commerce noted that a number of improvements have been made over the years and stated that it intends to continue to refine the report to improve data quality and to further reduce the posts' workload.

We believe that there will always be instances when the posts will have to be cabled for information. In fact, this occurs under the current system. For example, before the Bureau of Export Administration was established, ITA needed to identify the amount and type of export control work done by the posts to help determine the number of positions to transfer to the new Bureau. Although the quarterly statistical reports showed time spent on trade administration, more information was needed on the type of work being done such as counseling, seminars, post-shipment checks, and prelicensing. Selected posts were cabled and asked to collect and report this information.

While we agree that ITA has improved the report format and simplified report preparation, when submitted in isolation, the statistical reports do not provide the quality information needed to manage the overseas posts, make resource allocation decisions and for budget justifications. However, if ITA believes that the statistics are absolutely necessary and

Chapter 4
Improvements Needed in the US&FCS
Planning and Reporting System

can be afforded in a period of budgetary constraints, as a minimum, they should be combined with the monthly narrative highlights report and we have modified our recommendation accordingly.

ITA's Attempts to Implement an Automated Commercial Information Management System Have Not Yet Been Successful

ITA collects, analyzes, organizes, and distributes commercial information gathered by its worldwide network of overseas and domestic field offices. This information includes market trend analyses, product-specific market research, market assessments, trade policy research, competitive assessments, industry reports, trade contacts (e.g. buyers, agents, distributors), and trade opportunity leads. ITA and other U.S. government agencies use this information in developing trade policies and monitoring foreign trade developments. It is also used to produce ITA marketing publications and by a variety of federal, state, and private organizations in counseling existing and potential exporters. ITA has long recognized that an automated system could speed the delivery and enhance the utility of data gathered from around the world. Sales of information from an automated system are projected to cover the system's direct operating costs, fund market research activities, and support other trade promotion efforts. Since 1978, ITA has pursued automation concepts ranging from a totally centralized commercial information system to a primarily decentralized system with limited success.

The Commercial Information Management System (CIMS), ITA's third attempt to develop an automated comprehensive trade information data base, is now scheduled to have limited operational capability by February 1989. This system is designed to link the overseas posts and domestic district offices to a central data base in ITA headquarters. In 1987, CIMS' full implementation cost was estimated at \$39.4 million through 1993; this was in addition to the \$13.4 million spent on two former automation attempts. Since then, new requirements have been identified and currently it is not clear how much full implementation will cost.

We found that CIMS' implementation, as that of its predecessors, has been hampered by a series of technical, management, and resource problems. To date, some computer hardware is in place and some hard copy market research documents and client files have been entered into the central data base. CIMS is operating with limited capability in all 48 district offices except Alaska. Sixteen overseas posts have had CIMS software installed and the staff have been given basic CIMS training. It is not yet clear when the remaining 110 posts will receive CIMS software and training. There is a backlog of research reports and studies to be entered into the system. No plans have been developed or resources identified to maintain the system once it is operational and to replace aging computers and equipment.

No guidelines have been issued to the overseas posts governing data base development. As a result, significantly different criteria are being used to develop CIMS client files and data base development varies widely from post to post. According to agency officials, the system that is now expected to be in place in February 1989 will be far less capable than originally planned. Because of technical and resource constraints, the overseas posts will not have direct access to the central data base for the near future.

It is not clear when CIMS will be fully operational, what it will cost, or what it will be capable of doing. We believe, and key program officials agree, that there is potential for CIMS to languish with only minimal capability if the above problems are not addressed by senior Commerce officials. New management initiatives are needed to keep the system's development on track and to ensure that government agencies, businesses, trade associations, and state trade development agencies are provided with complete, accurate, and timely information. The recently enacted Omnibus Trade and Competitiveness Act of 1988 requires that within two years of the Act's passage, the Secretary of Commerce shall establish a National Trade Data Bank consisting of two systems—the International Economic Data System and the Export Promotion Data System. The Export Promotion Data System is expected to be an expansion of CIMS. We believe that the management group the Secretary assembles to plan and manage this task should address the problems we identified before making decisions on system expansion.

Accomplishments to Date Have Been Limited

CIMS is ITA's third attempt to automate its worldwide trade information data base. Its first attempt in 1978, the Worldwide Information and Trade System, was supposed to link key overseas posts and district offices to a central data base via satellite. This effort only proceeded through the prototype stage because of projected costs and opposition from members of the Information Industry Association, who contended that the government was competing with their publishing and information disseminating efforts. The second effort, the Automated Information Transfer System (AITS), was started in 1981. It was a decentralized system focused on automating existing client files and customer lists so that local data bases could be used to generate mailing lists and applied to other information services (e.g., Agent/Distributor Service, TOP). AITS would have allowed the field offices to communicate with one another

without going through Washington but did not include a centrally managed data base. Training, technical, and data base management problems limited AITS' usefulness. CIMS was designed to use data files established under its two predecessors.

Current Operational Status of CIMS

When we began our review, we were told that CIMS was scheduled to be fully operational by December 1987. However, according to US&FCS officials, funding constraints, delayed State Department support, and various technical problems have slowed CIMS' implementation. As of September 1988, US&FCS planned to have limited operational capability at all domestic and overseas locations by February 1989. To date, CIMS' implementation is in various stages both domestically and overseas. The status of major steps associated with full implementation of the system are outlined below.

- Computer hardware procurement: The overseas posts and domestic district offices have the basic hardware (Wang VS computers, personal computers, printers) necessary to perform limited functions with the CIMS software. Most of the hardware was purchased before fiscal year 1987. Hardware purchases to achieve a two person per computer screen ratio were completed in June 1988. With existing hardware, the posts should be able to create and update CIMS files and perform a limited number of functions (e.g., create mailing lists) within their own data bases.
- Computer software development: Three versions of CIMS software have been developed—a COBOL version for the overseas posts with access to VS computers, a "Knowledgeman" version for those with personal computers, and "Speed II" for headquarters and district office VS computers. However, all have limitations and new versions of each are being developed under CIMS II.
- Installation of CIMS software: As of September 1988, CIMS software had been installed in all of the district offices (except Alaska), which should enable them to communicate with one another and the central data base in Washington once the required telecommunication network is fully implemented. CIMS software was installed at the first overseas post in May 1988, and 16 posts had it as of September 1988. Until May 1988, travel funds had not been available for EPS staff to go to the posts to oversee the installation of CIMS software and train staff in its use. Currently there is a moratorium on installing CIMS software at overseas

posts while the State Department upgrades its WANG VS computers¹. Without the CIMS software, the posts must continue to use the AITS software to develop new client files and update existing ones.

- Training: At the completion of our audit work, all 17 of the designated overseas regional automation coordinators had received basic CIMS training at headquarters. Following a cascade approach, as CIMS software is installed at posts in their regions, these coordinators will train the staff on its use. The coordinators came to headquarters for training in November 1987 but because of travel fund constraints, CIMS' implementation overseas has been delayed.
- Creation of a central data base: The central data base will contain three major files—the client/organization file (AITS), the events file, and the market research file. Most of the domestic offices' old AITS files have been updated and converted to the CIMS format and entered into the central data base. Some overseas posts have also sent in their AITS files to be converted and added to the central data base. By the end of our audit work, the client/organization file contained about 46,000 U.S. exporters and 45,000 foreign importers—about two-thirds of its expected size. In addition, some market research had been entered into the CIMS data base, but there was still a backlog of trade information documents, including market research studies, to be entered.
- Operability: Our observations on system operations are limited because CIMS had not been installed at any of the posts we visited. According to US&FCS, as of September 1988 all district offices (except Alaska), four branch offices and 16 overseas posts were using CIMS to communicate with the central data base. We were advised that some district offices are having difficulty performing certain functions within their own data bases. According to US&FCS officials, it is taking longer than expected to create data files, system downtime has been high, and technical assistance from the software contractor is frequently needed. US&FCS advised us that it has now provided systems manuals to all operating locations, established a CIMS "Hotline" for daily assistance, and periodically updates system information through CIMS "Alerts".

System Support and Resource Issues Have Yet to Be Addressed

Although data base development and system maintenance issues plagued the AITS system, we found that little attention has been devoted to these issues under CIMS. The status of data base development varies from post to post and it is not yet clear how data will be updated and maintained. We believe that it will require substantial resources to keep

¹The State Department must approve installation of automated systems and applications in U.S. overseas facilities. This is discussed in more detail in the section on system capabilities.

the system current. Many posts had very limited AITS files and those that had large files could not keep them current because of resource problems.

At the time of our review, the various overseas posts and domestic district offices had not been instructed on how to develop and maintain their data bases (e.g., what files to include, how to obtain information, how often to update) as required by OMB Circular No. A-130.² According to US&FCS officials, this was also the case with AITS. As a result, the various posts and offices were using different criteria in developing their data bases. For example, we were told that one large post was building some files from advertisements in trade magazines while another purportedly purchased and converted a standardized industrial directory. The senior officer at one post told us that based on his perception of the reliability of the host-country's directories, he had arbitrarily decided to include only a certain number of firms in the data base. At the time of our review, neither the overseas posts nor the district offices had been provided guidance on what type of firms to include in their data bases.

The status of data base development varies widely from post to post. Some posts we visited have created thousands of records while others have made only minimal efforts. It appears that data base development has been based on the interest or perception of the different commercial officers as to the priority this task should be accorded. One post had sent out 1,500 questionnaires to host-country firms and was using the responses to update its files. Another had dedicated three contract employees to the task of updating and entering about 2,900 AITS files, representing one-third to one-half of the total expected entries. On the other hand, in one country we visited some posts had not updated their AITS files in over 2 years. In another country, a post was only entering and updating AITS files as new information was received from new World Traders Data Reports, magazine articles, or other sources. Two posts had developed procedures for systematically updating the AITS client files, but none of the other 18 posts we visited mentioned that they had such procedures.

Studies by Commerce's Inspector General in 1987 and 1988 found that AITS files were not routinely updated due to the posts' lack of resources,

²OMB Circular No. A-130 requires federal agencies to ensure that information systems operate effectively and contain accurate data. This requirement applies to data collection, processing, transmission, and dissemination. User groups should be given technical and management support as well as guidance on how to develop, implement, and operate the information system.

and as a result, they contained information that was incomplete, inaccurate, and of limited use. The posts believed they would need more resources than were currently allocated to AITS in order to successfully integrate CIMS into their day-to-day operations and to keep the CIMS files current.

In discussions with US&FCS officials, we were told that all domestic offices and overseas posts that have CIMS installed have received training on entering data and operating the CIMS data base. Still there have been questions on what constitutes an "export capable" firm and how to code various pieces of company data. US&FCS plans to query regional managers and post commercial officers on these issues and, based on their input, will issue more detailed guidance on the type of organizational data to enter and how to properly code and maintain it. US&FCS officials stated that they also have recently taken steps to ensure that higher quality market research is entered into the CIMS data base and to expedite its processing and prevent future backlogs³.

System Capabilities Are Less Than Expected

According to key US&FCS officials, the CIMS system that is expected to be operational in February 1989 will be significantly less capable than was originally planned. Although billed as a direct link system connecting major overseas posts and domestic district offices to a central data base, it is not clear when this capability will be achieved and at what cost. Some of the CIMS software shortcomings are being addressed in what is now being called CIMS II. Major resource, technical, and information security issues affecting system capability have not been resolved and will be addressed as funds and other resources become available.

The Department of State must approve the installation and operation of any automated information system in most U.S. overseas buildings and facilities. Moreover, if co-located, the State Department provides procurement and maintenance support. For each new installation or upgrade, a determination is made as to the additional burden that will be placed on the State Department's system maintenance resources and equipment. If new installations require resources beyond existing capabilities, the responsible federal agency generally has to bear the cost.

³All market research must now be reviewed and approved by either the senior commercial officer or commercial attache before it is sent to Washington. Headquarters will then perform random quality control checks before entering the information into the CIMS data base. To speed processing of market research, a "keywording" test is now being run at selected posts and if successful, all market research will be keyworded by the posts, thereby improving the data's timeliness.

Such decisions are made by State Department computer system managers at each location. For these reasons, CIMS software is being installed in a cautious manner on a post-by-post basis. The State Department is monitoring usage and maintenance requirements to determine how much additional storage capacity, maintenance, and communication capability will be needed to support CIMS.

US&FCS has explored several options regarding telecommunication links, which are necessary for the overseas posts to communicate directly with the central data base and with each other. For example, the use of commercial networks creates information security concerns with the State Department, and the purchase of dedicated phone lines is prohibitively expensive. US&FCS plans to use State Department high-speed lines and cables to transfer batches of information between the overseas posts and the central data base. Discussion of options for in-country communications are still in the preliminary stage and largely depend on local communications capabilities. As of September 1988, the overseas posts could not yet communicate interactively with each other or with the central data base. Moreover, it is not yet clear how much it would cost to achieve this capability.

Overseas Posts Are Skeptical of CIMS Success

At the time of our review, the overseas posts had little information on the system's capability and were apprehensive about implementation because previous efforts to automate had met with little success. Moreover, in the past many posts had been unable to keep their AITS files updated due to a lack of resources. Based on the amount of effort being expended to update the files in preparation for CIMS conversion, officers were concerned that CIMS would place an extra burden on an already overextended staff.

US&FCS headquarters officials told us that they had kept the overseas posts informed about CIMS' implementation, but this was not apparent at the posts we visited. Overseas staff told us that they had very limited knowledge of why CIMS was created, when it would be implemented overseas, how it would work, and what benefits were expected. They did not know what the posts would be required to do to implement CIMS or when necessary hardware, software, and training would be provided. This information void generated skepticism and uncertainty about CIMS among the staff. One officer characterized CIMS as a very high-tech approach to information processing that in the initial stages would require many hours of training, data transfer, data update, and system integration.

At the conclusion of our review, US&FCS acknowledged that data base maintenance (collection, entry, coding, updating) may require more exacting, timely, and time-consuming attention than AITS manual records, and plans to review budget and staff resources to ensure that data can be adequately maintained. US&FCS also acknowledged that the inclusion of CIMS in the newly legislated National Trade Data Bank may require more resources to meet expanded requirements.

Questionable Revenue Projections From Sales of CIMS-Generated Information Products

US&FCS planned to use some CIMS proceeds to fund market research studies and to offset reductions in appropriated funds. However, initial revenue projections of \$4 million for fiscal year 1988 from the sale of CIMS information to businesses, trade associations, and state development agencies and publishers did not materialize. Early revenue estimates did not take into account provisions of relevant statutes which limit fees that can be assessed requesters of publicly available information. As of September 1988, US&FCS did not yet have an approved pricing structure for the various expected CIMS products. Since CIMS is not yet operating at the level expected, it is still not clear how much demand there will be for CIMS information.

Several approaches to selling CIMS information have been considered. At one time, US&FCS considered offering a "basket of information" to the business community on a subscription basis. For an annual fee of \$150, a firm would be able to get customized commercial information products. Other options have included a per-package fee based on the type of data extracted and a simple "per item" charge.

Much of the early deliberations on the costs and benefits of CIMS centered on the revenues that the system would generate. It was thought that revenues would be sufficient to fund market research to keep the system current and to offset expected reductions in appropriated funds for export promotion activities. However, early deliberations apparently did not take into account the significant statutory restrictions limiting the amounts ITA may collect as user fees. On January 6, 1987, Commerce's General Counsel stated in an opinion that under 15 U.S.C. 1525 fees collected for information products and services must be limited to actual or estimated costs. According to US&FCS officials this will have a significant impact on revenues earned and system capabilities.

Management Control and Oversight

As with its predecessors, CIMS is being planned, implemented and evaluated by US&FCS' Office of Export Promotion Services—with programming and technical support from contractors. System oversight is provided by ITA's Office of Information Resources Management and Commerce's Information Policy and Planning Division. Each of these organizations said they have provided technical and management guidance to the CIMS project. However, neither group has the necessary authority to address the types of problems that have delayed CIMS' full implementation or to make a definitive judgement about its continued viability.

Officials in ITA's Office of Information Resources Management described their role in CIMS development and implementation as advisory. Their oversight has been limited to annual reviews of OMB-required paperwork submitted by the CIMS project manager and of procurement actions, to ensure that they are consistent with ITA policies. Officials in this office acknowledged that CIMS needs more management attention but stated that it should come from higher levels within Commerce. They further stated that conceptually CIMS was not technically sophisticated and that resource constraints, which can only be addressed by higher level officials, have mainly encumbered CIMS' implementation. They surmised that the lack of Commerce-level management attention probably stems from the fact that the focus has been on implementation problems of larger automated systems where there are defined, high-interest constituencies (e.g., systems in the Bureau of the Census, the Patent and Trademark Office, and the Bureau of Export Administration).

Officials in Commerce's Information Policy and Planning Division told us that they provide management control and oversight for all Commerce information management systems, including CIMS. This includes ensuring that systems are developed according to OMB guidelines and approving procurement actions over \$250,000. They also review long-range plans for system development and implementation and provide input on whether projected costs are reasonable and justified. As an example of their oversight, they cited their opposition to a US&FCS proposal to use commercial value-added networks to transmit CIMS data from the overseas posts to the central data base. According to these officials, the proposal was premature given that questions remain as to the quality of information in the data base and CIMS data manipulation capabilities. This high-cost option for transmitting CIMS data was eventually tabled.

Unlike ITA's Office of Information Resources Management, officials in this office have concerns about CIMS design. They believe that CIMS design has been driven by logistic problems, State Department requirements and system limitations rather than good automated data processing strategic planning. For example, these factors led to the development of three different versions of CIMS software and this has created serious system maintenance problems.

Both oversight organizations stated that a serious commitment to CIMS development and implementation by both ITA and Commerce management is necessary to rescue the CIMS project which is currently viewed by management officials as a US&FCS initiative.

Conclusions

US&FCS needs to establish projections of how much time and staff resources will be required to fully implement and maintain CIMS. This information should be part of any deliberations on future CIMS expenditures or system expansions. Tradeoffs could be made between the amount of staff resources available and the quality and size of the data base that can be supported. We are concerned that, without such an assessment, and a resulting commitment of resources, the automation effort started in 1978 will be drawn out even further and produce few concrete results.

Past Office of Inspector General reports have shown that due to the posts' lack of resources, the AITS files were not being routinely updated and that as a result they contained information that was incomplete, inaccurate, and of limited use. US&FCS stated that it plans to review budget and staff resources to ensure adequate data base maintenance. Steps must be taken to address the resource issue, because inaccurate and incomplete data can minimize the value of the CIMS system and reduce demand for its output.

In addition, to ensure that the business community and other potential users have complete, accurate, consistent, and up-to-date information, US&FCS needs to issue guidelines to the overseas posts and domestic district offices on how their data bases should be developed and maintained.

Commerce needs strong management commitment and oversight to ensure timely and cost effective system development and implementation. It is not clear that current management is fully committed to the

full development of CIMS and its expansion as required in the Omnibus Trade and Competitiveness Act of 1988.

Recommendation

We recommend that the Secretary of Commerce commission an independent expert review of CIMS's technical status and the potential to overcome technical problems and develop projections of total costs to fully implement and maintain the system. The Secretary should then direct the Under Secretary for International Trade to establish a new management structure to provide oversight of system implementation and expansion as required by the 1988 Act.

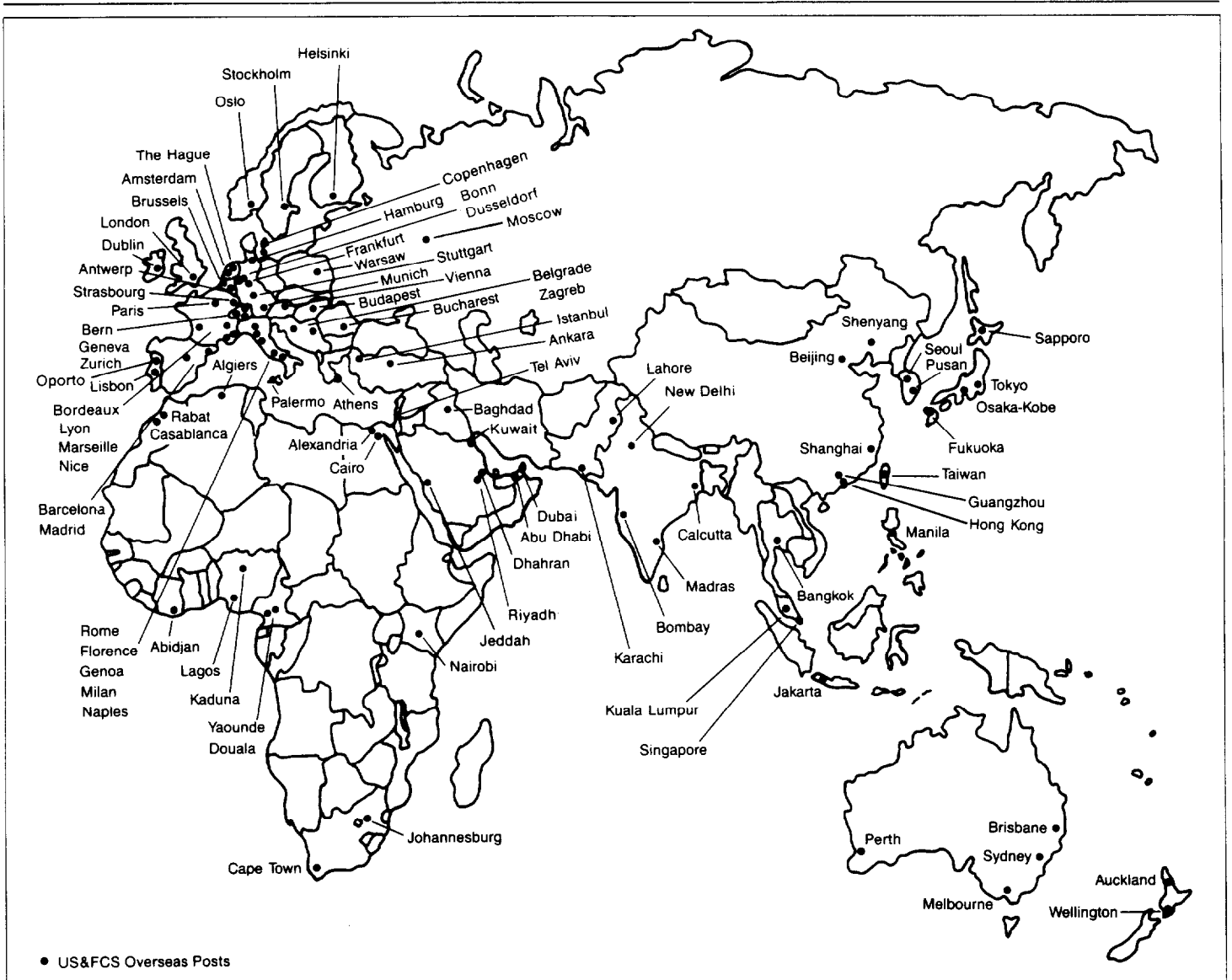
Agency Comments and Our Evaluation

Commerce stated that since the passage of the omnibus trade law in August 1988, it has begun a formal review of all economic trade data that is required to establish the National Trade Data Bank. Commerce plans to address the management structure necessary for the Data Bank, CIMS' current technical status and implementation schedule, and issues associated with CIMS' expansion to create the commercial portion of the Data Bank and to meet other legislated requirements. We continue to believe that the review group should include independent information system experts.

Map of Overseas Post Locations



Appendix I
Map of Overseas Post Locations



Letter From Director General of the U.S. and Foreign Commercial Service



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230
DIRECTOR GENERAL OF THE U.S. AND
FOREIGN COMMERCIAL SERVICE

JUN 29 1988

Mr. Allan I. Mendelowitz
Senior Associate Director
General Accounting Office
National Security and International
Affairs Division
Room 4148
Washington, D. C. 20548

Dear Allan:

In response to the personnel management issues raised by the General Accounting Office, the U.S. and Foreign Commercial Service has taken the following action:

- o Implemented a Certificate of Need for Limited Appointments which documents the need for and qualifications of each limited appointee.
- o Reviewed the Department Administrative Order 202-900, Subchapter 100-2 to assure that it is clear and comprehensive that a non-career limited appointee must be hired at the same level as that of the position.
- o Developed and distributed a detailed PCS Operational Policy entitled "Open Assignments Process" which outlines the open assignment bid/paneling process, including the method for appealing a proposed assignment.
- o Documented in the Assignment Panel minutes, the names of the attendees at the panel meetings.
- o Amended bidding process to require that all bids from domestic employees seeking exchange assignments overseas must be in writing.
- o Amended Assignment Panel minutes to include for the record the granting of tour curtailments and the reason they were curtailed.
- o Increased efforts in the open assignments bid cable to assure that every officer shares in the burden of serving at hardship posts.



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Appendix II
Letter From Director General of the U.S. and
Foreign Commercial Service

- o Improved the selection board process documentation, including the requirement to provide the promotion numbers to the Under Secretary for ITA prior to convening the selection boards.
- o Reviewed the Time-in-Class policy and identified possible revisions to be implemented after the report to the Congress on 12/22/88 by the Special Commission authorized by Public Law 100-204.

I am confident that these modifications will improve the personnel management process.

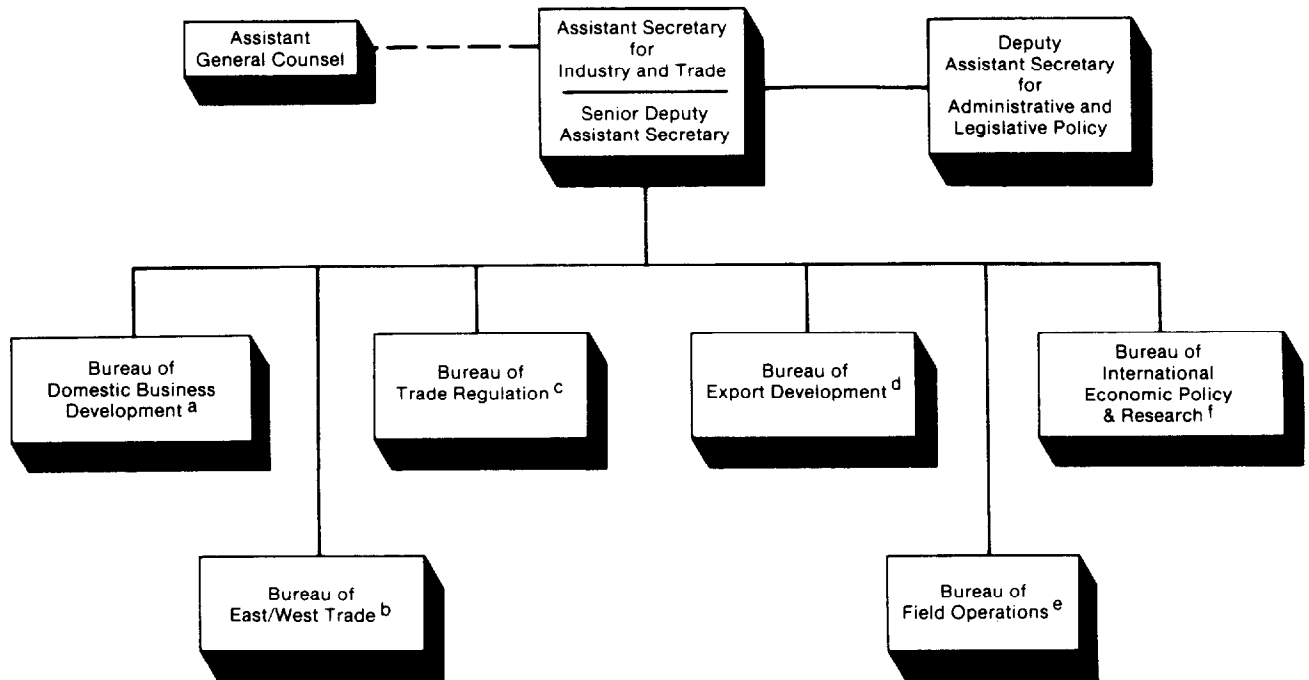
Sincerely,



Alexander H. Good
Director General of the
U. S. and Foreign Commercial Service

1980 Organization Chart

Industry and Trade Administration



^aOffices of Business Programs, Ombudsman, Textiles, Business Policy Analysis, Basic Industries, Producer Goods, and Consumer Goods and Service Industries

^bOffices of East-West Country Affairs, East-West Trade Development, and East-West Policy and Planning

^cOffices of Export Administration and Industrial Mobilization

^dOffices of International Marketing, Export Development, and Market Planning

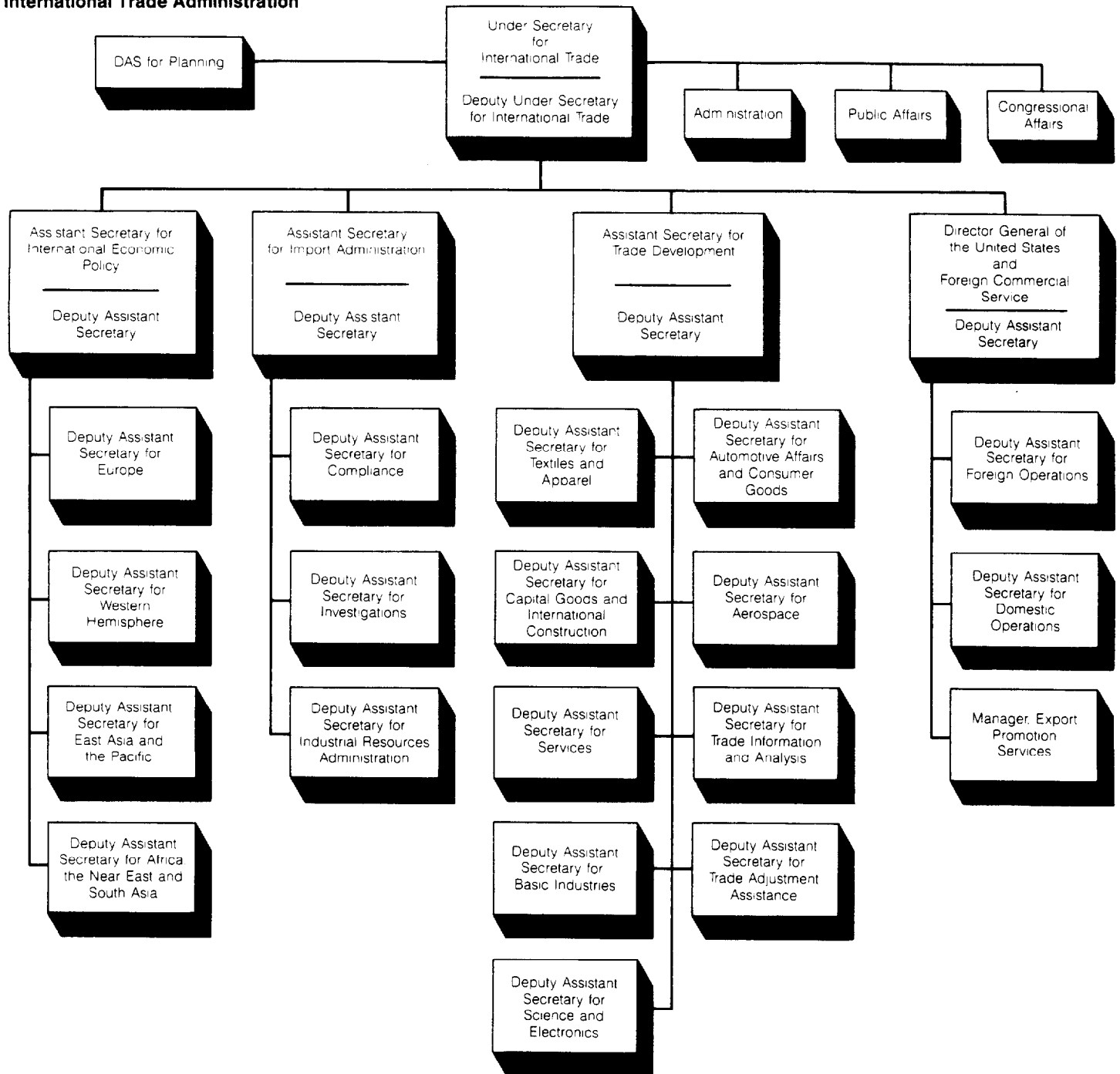
^eIncludes the District Offices

^fOffices of International Economic Research, International Finance and Investment, International Trade Policy, Foreign Investment in the U.S., and Country Affairs

Source: Department of Commerce Congressional Budget Submission for FY 1980

Proposed 1989 Organization Chart

International Trade Administration



Source: Department of Commerce Congressional Budget Submission for FY 1989

Comments From the Department of Commerce



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

25 OCT 1988

Mr. Frank Conahan
Assistant Controller General
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

The International Trade Administration has reviewed your draft report, EXPORT PROMOTION: PROBLEMS IN COMMERCE'S PROGRAMS, dated August 30, 1988. At the outset, we commend the thoroughness of the GAO's research; it is evident that a lot of time and effort went into the production of this report.

The report touches on many of the issues that ITA faces in its trade promotion programs. As our comments regarding particular emphases and inaccuracies in the report are being addressed separately, this letter focuses solely on the specific recommendations in the draft report. Each of the recommendations is addressed in turn below.

TRADE EVENTS MANAGEMENT

The GAO recommends that ITA be reorganized to increase accountability and control over trade events management. We acknowledge the GAO's concerns regarding trade event planning and management. Given the critical importance of trade promotion to ITA, we will institute a task force chaired by the Deputy Under Secretary to undertake a comprehensive review of trade event planning and management. Each of the units within ITA will be involved in addressing the problems highlighted in the GAO report.

Upon completion of the review, formal guidelines better outlining the duties and responsibilities of each ITA unit will be implemented in order to improve accountability in the trade events planning process. The new guidelines will encompass the following:

1. The trade event scheduling process will be documented, and periodic reports will be issued on the status of each event.
2. Management controls over event cancellations and additions will be established at the Assistant Secretary level.



Appendix V
Comments From the Department
of Commerce

3. Industry input will be provided in the trade event planning process.

In addition, the criteria for the country marketing plan will be modified to eliminate what has been construed as a mandate for annual trade events at every foreign post.

TRADE FAIR CERTIFICATION

The GAO recommends that the US&FCS require applicants for certification to meet participation targets for small and new-to-export firms.

We do not think that such a requirement is practical for these reasons:

1. It would put an undue burden on the private sector organizer who is bearing all of the risk associated with certification. This could result in many organizers going forth without the ITA certification altogether. If this occurs, both ITA and the organizer lose.
2. The number and proportion of small and new-to-market firms varies greatly from industry to industry; thus any requirement would have to be set on an industry-by-industry basis.
3. Such a proposal would be difficult and resource-intensive to enforce.

Given the limited resources available to ITA for trade promotion, it is imperative that we work better with the private sector in order to achieve our goal of expanding U.S. exports. A better solution would be to encourage but not require more private sector organizers to include small and new-to-export firms in certified shows.

Presently the Federal Register Notice for trade fair certification includes recruitment of small and new-to-market firms as one of the goals of certification. Additionally, in our consultation prior to the granting of certification, we will establish the need for small and new-to-market firms to be recruited for the event in question, given ITA's mandate to assist small and new-to-export firms. Through Trade Development, we can provide the names of individuals to contact within the various trade associations that will be represented at the event. We can also provide the organizer with ITA mailing lists of small and new-to-market firms that should be targeted for recruitment. In our follow-up with the organizer, we will include feedback on small and new-to-market firm participation as a criterion for evaluation.

Appendix V
Comments From the Department
of Commerce

GAO's second recommendation is that ITA establish a process to evaluate the trade fair certification program's effectiveness in meeting congressional and ITA export promotion objectives with regard to small and new-to-export firms.

Our surveys indicate that private organizers currently include at least as high a percentage of small and new-to-export businesses in their trade fairs as ITA does (if catalog/video catalog shows and Matchmaker events are excluded.) However, we will analyze the trade fair certification program to confirm this. At present, we are awaiting OMB approval of an evaluation form (Enclosure) that specifically captures information on small/new-to-export participation in certified events, along with other data which we can use to assess the program.

POST COMMERCIAL ACTION PLANS

The GAO suggests that the quarterly PCAP reports should be eliminated. While we share some of the GAO's concerns about the current statistical reporting process, we do not think that eliminating the PCAPs outright is a viable solution. This would mean that there would be no system in place to track such statistical information as: the number of counseling sessions, the number of event participants, the number of post initiated promotions, and the time spent on export licensing support. In the absence of any reporting system, we would have to frequently cable the posts with requests for this information in order to answer legitimate inquiries from various quarters within and outside of the Department. This would be disruptive and in all probability would produce information less accurate than that in the quarterly reports.

As the draft report indicates, a number of improvements have been made over the years, and more are underway. The US&FCS has developed and is currently implementing "Core Program Operating Instructions" for FY 1989 which will establish a more logical critical element structure and define the activities in each critical element. Moreover, the report format itself has been redesigned to clearly identify core program activities and to simplify report preparation. We will continue to refine the PCAPs in order to improve the quality of information provided and to reduce the posts' workload, and we would welcome any suggestions the GAO has on this matter.

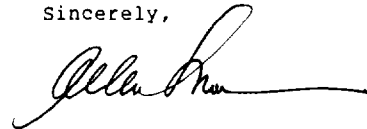
COMMERCIAL INFORMATION MANAGEMENT SYSTEM (CIMS)

The GAO recommends that the Department of Commerce commission an independent expert review of CIMS's technical status and the potential to overcome problems, and then establish a new management structure to provide oversight of system implementation and expansion as required by the Omnibus Trade and Competitiveness Act of 1988.

Appendix V
Comments From the Department
of Commerce

With the passage of the Omnibus Trade and Competitiveness Act of 1988 (the "Act"), the Department of Commerce has instituted a formal review of all economic trade data required by the Act for the establishment of the National Trade Data Bank. The management structure necessary for the National Trade Data Bank has been and will continue to be a critical issue for this review. In addition, this review will include an examination of CIMS' current technical status and implementation schedule, and will address the issues associated with expanding CIMS to create the commercial portion of the National Trade Data Bank and to meet other requirements of the Act.

Sincerely,



Allen Moore

Enclosure

Appendix V
Comments From the Department
of Commerce

ENCLOSURE

ITA-4103P
OMB No. 0625-0130
Exp. Date _____

TRADE FAIR CERTIFICATION
AFTER SHOW REPORTING FORM

This report is authorized by law (15 U.S.C. 1512 et seq.; 15 U.S.C. 171 et seq.) While you are not required to respond, your cooperation is needed in evaluating export expansion results under the TFCP

Revised Certification Program Guidelines, Federal Register, Vol. 52, No. 149, Aug. 4, 1987, requires organizer to give the Department of Commerce an end-of-show review within 14 days of show closing. (Following outline is suggested so organizer's critique can be incorporated into overall Post report.)

PLEASE COMPLETE PART (A) AND SUBMIT TO THE SENIOR COMMERCIAL OFFICER AT HOST POST TO BE INCORPORATED INTO OVERALL POST REPORT. SEND A COPY TO YOUR COMMERCE PROJECT OFFICER ALSO.

A. Organizer's Critique

1. Name of Show:
2. Show dates:
3. Venue:
4. U.S. Organizer:
U.S. Address:
.....
Telephone No. Telex
- Additionally note if there is an overseas office
5. Products Promoted:
.....
.....
6. Off-the-floor sales:
 Estimated additional 12 month sales:

(See reverse)

Appendix V
Comments From the Department
of Commerce

7. Total estimated fair attendance:

Registered attendance at USA Pavilion (if special area was set
aside) otherwise estimate.

U.S. exhibitors (NTM):

U.S. exhibitors (OTM):

Total U.S. exhibitors:

U.S. firms represented by representatives

U.S. firms represented by principal from U.S. company.....

U.S. firms whose exhibition includes equipment.....

U.S. firms represented by catalog and video alone.....

8. Number of business leads exhibitors obtained:

9. Evaluation of US&FCS assistance to organizer
and U.S. exhibitors:.....

B. Post Assessment

10. Post assessment of event as opportunity for U.S. firms to pursue
export sales and develop other business contacts.

11. Evaluation of organizer services to U.S. participants prior to, during,
and following.

12. Should event be granted recertification if organizer requests?

Signature of reviewer

Date completed

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Comptroller

Washington, D.C. 20520

October 19, 1988

Dear Mr. Conahan:

I am replying to your letter of August 31, 1988 to the Secretary which forwarded copies of the draft report entitled Export Promotion: Problems in Commerce's Programs (GAO Code 483467) for review and comment.

The enclosed comments on this report were prepared in the Bureau of Economic and Business Affairs.

We appreciate the opportunity to review and comment on the draft report.

Sincerely,

A handwritten signature in black ink that reads "Roger B. Feldman".

Roger B. Feldman

Enclosure:
As stated.

Mr. Frank C. Conahan,
Assistant Comptroller General,
National Security and
International Affairs Division,
U.S. General Accounting Office,
Washington, D.C.

Appendix VI
Comments From the Department of State

GAO DRAFT REPORT COMMENTS: EXPORT PROMOTION: PROBLEMS IN
COMMERCE'S PROGRAMS (CODE 483467)

PROVIDED BY THE BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S.
DEPARTMENT OF STATE.

The Department of State has examined this draft report on the Department of Commerce's export promotion programs and submits the following comments and recommendations. We have chosen only to address points that relate specifically to State's continuing role in assisting in export promotion.

General Comments:

The State Department continues to devote considerable human and financial resources to the overseas export promotion programs of Commerce worldwide. This GAO draft study does not reflect the Department of State's continuing responsibility for the overseas export promotion program in 76 countries where the US & FCS does not have a presence. These are often difficult developing markets where U.S. business requires extraordinary assistance from our Embassies to gain market access. While limited market potential in most non-FCS countries results in a commensurately lower level of trade promotion activity, U.S. businessmen are provided the full range of export services cited on page 12 of the study. In many non-FCS countries State has officers devoting up to 50% of their time and one or more FSNs 100% of their time to commercial activities. ITA/IEP backstops these non-FCS posts, and the US & FCS includes them in trade promotion event schedules as appropriate. For instance non-FCS posts manage major annual trade fairs in East Berlin, Sofia, Prague, La Paz, Bahrain, Tunis, Khartoum, Harare, Libreville, and Maputu, and participate in numerous video catalogue shows and trade missions worldwide.

On page 42 of the report the GAO suggests the US & FCS needs to reconsider its post structure and staffing pattern, and questions the efficacy of one-officer and FSN-only posts in countries with limited business opportunities. The US & FCS' response to the specific questions posed on this page will have a significant impact on the use of State Department resources abroad. Certainly in those countries where FCS decides to withdraw the commercial activity level must be picked up and sustained by State. A recent example is Cameroon where the Embassy transferred a State officer to Consulate Douala to pick up the work load after US & FCS decided not to staff its positions owing to budget constraints.

Now on p. 28.

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Comments From the Department of State

- 2 -

The President's Reorganization Plan No. 3 of 1979 "initially" transferred only the full-time commercial positions to Commerce, but it clearly charges Commerce with "responsibility for commercial representation abroad" and does not limit it to FCS countries only. State has continued to provide commercial services in well over half the countries of the world. If Commerce should decide to adopt "a commercial organization that follows the pattern of economic activity" as suggested in this report, then it should do so only after full consultations with State and consideration of the resource implications for State.

Specific Comments Keyed To Report:

Now on p. 12.

Page 12, end of second para, insert -

"The State Department continues to manage commercial programs in 76 countries as an additional duty for its economic/commercial officers and FSNs. State officers are backstopped as appropriate by FCS, IEP, and TD, and by their own regional bureaus and the Bureau of Economic and Business Affairs in the Department of State. These posts offer the full range of services noted above for FCS posts, but with a substantially lower activity level owing to the limited market potential in most of the non-FCS countries."

Now on p. 12.

Page 22, end of second para, insert -

"It is common practice for State Department economic/commercial officers to back-up FCS officers in one(FCS)officer posts, and to give daily guidance to FSNs in FSN-only constituent posts, under the overall supervision of the SCO in country. For instance, a State economic officer has managed U.S. participation in the last two Baghdad International Fairs owing to staffing gaps in the FCS position at the post."

See comment 1.

Page 44, end of para one, insert -

"In countries or posts where the US & FCS are not present State officers continue to fill this role."

See comment 1.

Page 49, end of para one, insert -

"Video catalog shows organized by ITA are also used in non-FCS posts abroad as vehicles to promote U.S. business interests and often serve as a catalyst for outreach to the local business community in these often difficult developing markets."

See comment 1.

Page 73, middle of last para, insert -

"US & FCS posts, and non-FCS posts, identify trade leads"

See comment 1.

Page 112, end of second para, insert -

"US & FCS needs also to consider how TOPS, ADS, WTDrs, and other data bases from non-FCS posts will be entered into the CIMS central data base."

Appendix VI
Comments From the Department of State

- 3 -

Conclusion:

State Department officers have worked closely and constructively with the US & FCS since its inception and continue to do so. Economic and commercial efforts are mutually reinforcing. Commercial staff members continue to perform certain economic functions, and State economic staffs in turn contribute extensively to commercial activities.

The delivery of commercial promotion programs worldwide is a Commerce responsibility, implemented in some instances abroad by State department personnel in places where there is not a full-time US & FCS presence, much in the same manner as was done before the 1979 reorganization. As noted above, in non-FCS posts the State officers rely heavily on Commerce headquarters for support and guidance on implementing commercial promotion programs. The Department has recently begun a working level dialogue with Commerce on ways to enhance our cooperation in delivering commercial services in non-FCS posts.

In a broader context assistance to U.S. business abroad and promotion of U.S. exports remain a major duty of all elements of U.S. diplomatic missions, in all countries. One of Secretary Shultz' first messages to Ambassadors underscored the importance of the Ambassador's role in export promotion and support for American businesses abroad. He reiterated that view in a message in May, 1987 which noted all employees of the Department of State at home, and all members of U.S. diplomatic missions abroad have a clear responsibility to support American business activities that contribute to our national well-being and advance the public interest. A copy of both messages is attached. A specific recent example of this Mission-wide approach is found in Guatemala where the Ambassador has formed an Embassy Economic Team, including representatives from FCS, the economic section, FAS, and AID's private sector office, to explore possible mechanisms to promote wider private sector involvement in bilateral trade and investment programs. The US & FCS was designated as the coordinator of the Embassy team.

Specific US & FCS export promotion programs are an essential part of this Administration's export enhancement efforts. The Department of State favors an active and continuing US & FCS presence abroad, based on long term commitments to developing markets and supported by export promotion programs and events worldwide. An FCS commercial organization which follows the pattern of economic activity as suggested in this report would require a reconsideration of resource allocations to the Department of State.

Alan Larson

Alan Larson
Acting Assistant Secretary
Bureau of Economic and Business Affairs

**Appendix VI
Comments From the Department of State**



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OUTGOING

**DEPARTMENT OF STATE
ECON. / BUS. AFFAIRS**

PAGE 01 STATE 145226 8554 EB9038 STATE 145226 8554 EB9038

ORIGIN EB-00
INFO EB-01 EBL-01 OIA-01 TOC-01 BEA-02 FILE-01 /007 A1 BETA
INFO LOG-00 ADS-00 AID-00 EOP-00 SS-00 AF-00 MMO-01
TO-19 NEA-07 ARA-00 COM-00 SSC-00 L-03 AMAD-01
EAP-00 CIP-06 AIT-02 PA-01 PEP-02 OES-05 AS-02
SP-02 M-01 SPPP-03 DIG-01 DOL R

DRAFTED BY: EB/BEA.JUSTOHN.JMN
APPROVED BY: THE SECRETARY
EB/DMMN
EB/TOC.RJOHNSON
M/RSP/ERS
D/MCROSSMAN
S/P.RYAUZLARICH
M/DG/QUEST
L/JHESSIN
P/LG/HIGH
A/D JHARRIS
E/R JWILKINSON
NEA/MCREE/MORE
AP-4 F/AL/OB
EAP/W/ELZ
OF W/DEERITSON
DES/R/SMITH
DIP/R/TAYLOR
EB/L/MADAIR
S/S/M/LEVITSKY
S/S/O/REDOWNEY

EB/DLAME
S/PPR/W/ARPOF
M/MO/W/DEPREZ
E/R/HECK/W/GER

R 130513Z MAY 87 ZEA
FM SECSTATE WASHDC
TO ALL DIPLOMATIC AND CONSULAR POSTS

UNCLAS STATE 145226
FOR CHIEF OF MISSION OR PRINCIPAL OFFICER FROM THE SECRETARY

E.O. 12958: N/A
TAGS: BEAP, XX
SUBJECT: POLICY STATEMENT ON ASSISTANCE TO U.S. BUSINESS
INFORM CONSULS

1. LAST NOVEMBER I COMMUNICATED WITH YOU ABOUT ASSISTANCE TO U.S. FIRMS WITH EXPORT OR INVESTMENT INTERESTS ABROAD. I CONTINUE TO BE PLEASED BY YOUR OVERALL PERFORMANCE AND THAT OF YOUR STAFFS IN THIS REGARD. NEVERTHELESS, I AM PERSUADED THAT ISSUANCE OF A FORMAL POLICY STATEMENT WILL HELP TO SOLIDIFY UNDERSTANDING OF OUR RESPONSIBILITIES IN THIS AREA AND THE RATIONALE FOR THEIR EXISTENCE. PLEASE SEE TO IT THAT THE FOLLOWING STATEMENT OF POLICY IS BROUGHT TO THE ATTENTION OF ALL MEMBERS OF YOUR MISSION (NOT JUST THOSE FOR WHOM ASSISTANCE TO BUSINESS IS A PRIMARY RESPONSIBILITY).

... THE DEPARTMENT OF STATE AND AMERICAN BUSINESS

THE STRENGTH OF THE UNITED STATES IN WORLD AFFAIRS, INCLUDING THE ACHIEVEMENT OF OUR POLITICAL AND SECURITY INTERESTS, RESTS DIRECTLY UPON THE FOUNDATION OF A HEALTHY

ECONOMY. PARTICULARLY IMPORTANT IN THIS REGARD ARE OUR NATION'S VITALITY AND COMPETITIVENESS IN THE INTERNATIONAL MARKETPLACE.

FOREIGN ECONOMIC AND COMMERCIAL POLICY IS AN INTEGRAL AND IMPORTANT ELEMENT OF OVERALL FOREIGN POLICY. THE SUCCESS

ABROAD OF AMERICAN PRODUCERS OF GOODS, SERVICES AND AGRICULTURAL COMMODITIES--THROUGH ITS DIRECT IMPACT UPON OUR INTERNATIONAL PAYMENTS, GROSS NATIONAL PRODUCT AND EMPLOYMENT LEVEL--AFFECTS BOTH OUR NATIONAL WELL-BEING AND OUR ABILITY TO CONDUCT FOREIGN RELATIONS. ASSISTANCE TO U.S. BUSINESS MUST BE RECOGNIZED AS A MAJOR DUTY OF ALL BUREAUS OF THE DEPARTMENT, AND ALL ELEMENTS OF U.S. DIPLOMATIC MISSIONS ABROAD. CONGRESS AND THE PRESIDENT EMBODIED THIS RECOGNITION IN SECTION 207(C) OF THE FOREIGN SERVICE ACT, WHICH ASSIGNS TO CHIEFS OF MISSION AS "A PRINCIPAL DUTY", THE PROMOTION OF U.S. EXPORTS IN THEIR HOST COUNTRIES.

ALL EMPLOYEES OF THE DEPARTMENT OF STATE AT HOME, AND ALL MEMBERS OF U.S. DIPLOMATIC MISSIONS ABROAD, HAVE A CLEAR RESPONSIBILITY TO SUPPORT AMERICAN BUSINESS ACTIVITIES THAT CONTRIBUTE TO OUR NATIONAL WELL-BEING AND ADVANCE THE PUBLIC INTEREST. TO THIS END, THEY HAVE A CONTINUING OBLIGATION TO:

- (1) ASCERTAIN THE VIEWS OF THE AMERICAN BUSINESS SECTOR ON FOREIGN POLICY ISSUES THAT AFFECT THEIR INTERESTS; IN ORDER TO ENSURE THAT THESE VIEWS ARE FULLY CONSIDERED IN THE DEVELOPMENT OF POLICY;
- (2) SEEK TO ASSURE THAT THE GROUND RULES FOR THE CONDUCT OF INTERNATIONAL BUSINESS ARE FAIR AND NONDISCRIMINATORY;
- (3) BE RESPONSIVE WHEN U.S. FIRMS SEEK ASSISTANCE, PROVIDE THEM WITH INFORMATION AND PROFESSIONAL ADVICE AND ANALYSIS, AS WELL AS ASSISTANCE IN MAKING AND DEVELOPING CONTACTS ABROAD;
- (4) VIGOROUSLY ENCOURAGE AND PROMOTE THE EXPORT OF U.S. GOODS, SERVICES AND AGRICULTURAL COMMODITIES, AND REPRESENT THE INTERESTS OF U.S. BUSINESS TO FOREIGN GOVERNMENTS WHERE APPROPRIATE;
- (5) ASSIST U.S. BUSINESS TO ACHIEVE AMICABLE SETTLEMENT OF INVESTMENT DISPUTES WITH FOREIGN GOVERNMENTS AND, IN CASES OF EXPROPRIATION OR SIMILAR ACTION, TO OBTAIN PROMPT, ADEQUATE, AND EFFECTIVE COMPENSATION.

AT EACH POST ABROAD, THE AMBASSADOR OF THE PRINCIPAL OFFICER SHOULD TAKE THE LEAD AND BECOME PERSONALLY INVOLVED IN PROMOTING U.S. INTERESTS IN BUSINESS MATTERS. AMBASSADORS MUST, HOWEVER, ENSURE THAT ALL MEMBERS OF THEIR INTEGRATED MISSIONS DISCHARGE THIS MANDATE WITHIN THEIR RESPECTIVE AREAS OF COMPETENCE.

FINALLY, EACH OFFICER MUST CARRY OUT THIS POLICY IN ACCORDANCE WITH ALL PERTINENT STATUTES, REGULATIONS, AND GUIDELINES AND MUST AVOID ANY APPEARANCE OF IMPROPERITY, CONFLICT OF INTEREST, OR FAVORITISM AMONG U.S. FIRMS. SHULZ

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Appendix VI
Comments From the Department of State

Department of State

TELEGRAM

PAGE 01 STATE 216806 1802
ORIG: 0-01
INFO OCT-88 COPY-01 ADS-88 INR-18 SS-18 CIAE-88 PHO-81
NSAC-88 COME-87 CTAE-88 DOE-18 TRSE-88 STR-14 SIG-83
AGR-81 DOEE-88 /USA R

BUTED TO THIS SUBSTANTIAL IMPROVEMENT IN OUR PERFORMANCE ARE TO BE COMMENDED.

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

PRESIDENT REAGAN AND I COUNT ON YOUR HELP.

-----371371 041532Z /51
P 041424Z AUG 82 ZEX
FM SECSTATE WASHDC
TO ALL DIPLOMATIC POSTS PRIORITY

GEORGE SHULTZ. SHULTZ

UNCLAS STATE 216806

FOR THE AMBASSADOR OR PRINCIPAL OFFICER FROM THE SECRETARY

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

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

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

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

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

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

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

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

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Appendix VI
Comments From the Department of State

The following are GAO's comments on the United States Department of State letter dated October 19, 1988.

GAO Comments

1. We have considered the suggested inserts and incorporated the information in the report where appropriate.

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