

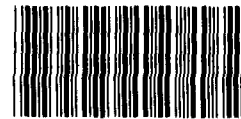
GAO

Report to the Chairman, Subcommittee
on International Trade, Committee on
Finance, U.S. Senate

June 1990

EUROPEAN SINGLE MARKET

U.S. Government Efforts to Assist Small and Medium-Sized Exporters



141636

176



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

National Security and
International Affairs Division

B-237894

June 21, 1990

The Honorable Max Baucus
Chairman, Subcommittee on International
Trade, Committee on Finance
United States Senate

Dear Mr. Chairman:

This is our second report responding to your August 9, 1989, request that we identify and evaluate trade issues related to the European Community's Single Internal Market Program, known as EC 1992. This report focuses on European Community efforts to enhance the competitiveness of its small and medium-sized enterprises, U.S. government activities that support U.S. small business exporters in the EC 1992 environment and on areas in which collaboration with the EC could assist these firms. On February 13, 1990, we provided you our first report, European Single Market: Issues of Concern to U.S. Exporters, (GAO/NSIAD-90-60).

Copies of this report are being sent to the Secretaries of Commerce and State, to the Small Business Administrator, and to other interested parties. Please call me on (202) 275-4812 if you or your staff have any questions. The major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads 'Allan I. Mendelowitz'.

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

Executive Summary

Purpose

The impact of the European Community's (EC) 1992 Single Market Program on U.S. small and medium-sized businesses that do not have European subsidiaries is of particular concern to the Congress. At the request of the Chairman of the Subcommittee on International Trade, Senate Committee on Finance, GAO has identified concerns of U.S. small and medium-sized enterprises regarding market opportunities and changes in light of EC 1992. GAO also has examined the roles of the EC and the U.S. government regarding these enterprises' concerns. This report concentrates on EC and U.S. support for their respective small and medium-sized enterprises in the EC 1992 environment, and opportunities for U.S. government collaboration with the EC.

Background

The Omnibus Trade and Competitiveness Act of 1988 requires agencies of the federal government to take specific actions to assist U.S. small and medium-sized enterprises so they can compete in international markets. The EC is the largest U.S. trading partner, and trade-related events there have a major impact on U.S. business. EC 1992 will bring about many trade-related changes in the EC and is expected to make EC companies more competitive at home and abroad. Understanding these developments can help U.S. exporters compete in EC markets.

Results in Brief

Both the United States and the EC have begun projects to help their small and medium-sized enterprises profit from the expected benefits of EC 1992. The EC has created a directorate-general specifically to address small and medium-sized enterprise issues. In addition, European information centers and a computerized Business Cooperation Network have been set up to assist EC small and medium-sized enterprises in obtaining information they need, and in forging cooperative links with each other.

The U.S. government has started a Single Internal Market Information Service to inform U.S. small and medium-sized enterprises about EC activities that will affect them. U.S. agencies carry out export promotion programs available to small and medium-sized enterprises, including marketing services and a variety of loan guarantee, insurance, and loan programs. In addition, an Interagency Task Force on EC 1992 has been established to identify and address EC 1992 problem areas for U.S. business.

The core concern of U.S. small and medium-sized enterprises is one of market access in post-1992 Europe. Obtaining the information they need in a simple, timely, and cost-effective manner is the key to addressing

this concern. U.S. small and medium-sized enterprises are interested in cooperative activities with EC small and medium-sized enterprises, but to date, collaboration has been limited.

GAO identified several ways that U.S. small and medium-sized enterprises can collaborate with their EC counterparts. The EC's computerized Business Cooperation Network and European information centers represent potential methods for obtaining information on business opportunities in Europe. The Department of Commerce has decided that it cannot directly participate in the development of the network in the United States; however, State Department officials are continuing inquiries regarding U.S. access to the information centers and the network.

GAO's Analysis

EC Support for Its Small and Medium-Sized Enterprises

The EC is working to improve the competitiveness of its small and medium-sized enterprises. In 1989, the EC created a directorate-general that implements a small and medium-sized enterprise action program that provides information, encourages cooperation between companies, plans training and employment initiatives, and conducts innovation and technology transfer activities. In addition, the EC provides both financing and export assistance to its small and medium-sized enterprises. These EC programs complement individual member state programs.

U.S. Support for Its Small and Medium-Sized Enterprises

In the United States, both federal and state agencies are actively assisting small and medium-sized enterprises to plan for EC 1992. The Office of the U.S. Trade Representative chairs an Interagency Task Force on EC 1992. The function of the task force is to identify and address EC 1992 problem areas for U.S. business. Although the task force has formed 11 working groups, none have a specific focus on small and medium-sized enterprises.

The Small Business Administration has been alerting small and medium-sized enterprises to the importance of exporting and to the significance of the EC 1992 program; it refers to Commerce those companies that are interested in EC 1992. Commerce's Single Internal Market Information Service, begun in August 1988, disseminates EC 1992 information and

resolves problems of small and medium-sized exporters. Commerce has also been carrying out an export promotion program stressing the benefits of EC 1992. The Export-Import Bank has export credit insurance, guarantees, and direct and intermediary loans to encourage U.S. small businesses to sell internationally.

Using their trade promotion offices located in the United States and in other countries, many state governments are active in providing constituents with information on EC 1992. They also help their small and medium-sized clients to export to Europe. These offices participate in trade-related events in conjunction with the Department of Commerce's Foreign Commercial Service.

Opportunities for Increased Cooperation Between U.S. and EC Small and Medium-Sized Enterprises in the EC 1992 Context

One cooperative effort for both the U.S. and EC small and medium-sized enterprise communities was EXPORT '89, the American-European Small Business Trade Congress held in Frankfurt in October 1989. The purpose of the event was to help forge links between U.S. and EC small and medium-sized enterprises. While many attendees were pleased with the results of their participation in EXPORT '89, others with whom GAO spoke expressed reservations about the usefulness of this type of event. For example, some individuals believed that the event was too diffuse and should have been more industry-specific. On the other hand, Commerce received complimentary letters from exhibitors who were pleased with the results of their participation indicating that they made useful contacts and sales.

Other methods of obtaining information are available to small and medium-sized U.S. companies. For example, they can obtain access to the Business Cooperation Network infrastructure through a U.S. subsidiary of an EC firm that acts as an EC business "adviser." The Business Cooperation Network is a database that links small and medium-sized enterprises through solicitation for cooperative efforts. U.S. companies are not currently listed on the EC's database; however, the firm compiles its own database and sends U.S. company profiles to advisers in the EC countries in which the U.S. companies are interested.

In October 1989, the EC approached the U.S. government to discuss U.S. participation in the network. Commerce held preliminary discussions with EC officials about joining the network, but Commerce officials decided that Commerce could not directly participate in the network's development in the United States, in part because of doubts concerning its authority to do so. Also, the question of how network operations in

the United States could be funded had not been fully addressed. However, Commerce is encouraging the EC to seek alternative arrangements for making this network available to U.S. companies.

The European information center network, which offers extensive information and documentation services to the local business community as well as access to the Business Cooperation Network, is another potential cooperation vehicle. State Department and EC representatives in Brussels are continuing discussions about the possibility of cooperative agreements so that U.S. exporters can access this information center network from the United States.

Faced with the EC's program to improve the competitiveness of its small and medium-sized enterprises and the uncertainties brought about by the EC 1992 program, the U.S. government has an important role in helping to ensure that EC 1992 does not adversely affect U.S. exporters. One way for the federal government to assist U.S. exporters would be to arrange for U.S. participation in the EC's Business Cooperation Network and European information center network. However, questions relating to potential government sponsorship and the ways and means of establishing the business network in the United States need to be resolved.

Recommendations

In light of the federal government's role in assisting U.S. small businesses to obtain the information they need in the EC 1992 environment, GAO recommends that the Secretary of Commerce resolve the issues that inhibit extension of the EC Business Cooperation Network to the United States. More specifically, GAO recommends that the Secretary determine (1) whether Commerce can sign an agreement with the EC to provide for U.S. participation; (2) whether Commerce or some other entity would be the appropriate U.S. sponsor; and (3) the feasibility of and potential sources of funds to support initiation of the network in the United States.

Agency Comments

As requested, GAO did not obtain formal agency comments on this report; however, GAO did discuss its contents with officials from the Department of Commerce and the Small Business Administration and incorporated their comments where appropriate.

Contents

Executive Summary		2
Chapter 1		8
Background	Objectives, Scope, and Methodology	9
Chapter 2		11
EC Support for Its Small and Medium-Sized Enterprises	EC Measures to Enhance Cooperation	11
	Improving the Business Environment for EC Small and Medium-Sized Businesses	14
Chapter 3		17
U.S Support for Its Small and Medium-Sized Enterprises	Federal Government Support	17
	State Government Support	23
	Improving the Business Environment for U.S. Small and Medium-Sized Businesses	24
	Conclusion	28
	Recommendations	28
Appendixes		
	Appendix I: Categories for Matching Services in BC-NET Database	30
	Appendix II: Major Contributors to This Report	32

Abbreviations

BC-NET	Business Cooperation Network
DG	Directorate-General
EC	European Community
EC-NET	European Cooperation Network
ECU	European Currency Unit
Eximbank	Export-Import Bank of the United States
GAO	General Accounting Office
ITA	International Trade Administration
SBA	Small Business Administration
SME	Small and Medium-Sized Enterprise
SPRINT	Strategic Programme for Innovation and Technology Transfer
U.K.	United Kingdom
US&FCS	United States and Foreign Commercial Service
USTR	United States Trade Representative

Background

The Omnibus Trade and Competitiveness Act of 1988 requires agencies of the federal government, through the Small Business Administration (SBA), acting in cooperation with the Department of Commerce and other relevant federal and state agencies, to take specific actions to assist small and medium-sized enterprises (SMEs) to compete in international markets.

According to Commerce, the two-way commercial relationship between the European Community (EC) and the United States reached an annual value of about \$1 trillion in 1988. EC exports and sales by EC companies' subsidiaries in the United States were close to \$400 billion, while U.S. exporters and U.S. subsidiaries overseas sold a total of \$600 billion in the EC. Approximately \$75 billion of U.S. merchandise exports went to the EC in 1988, making the EC the United States' largest trading partner.

In 1985, the EC approved the Single Internal Market, commonly known as EC 1992, with the goal of removing all barriers to the free movement of goods, services, capital, and people among the 12 EC member states by the end of 1992. A White Paper, entitled "Completing the Internal Market," prepared by the EC Commission, the executive arm of the EC, listed almost 300 measures needed to achieve the single internal market. These measures are divided into the three following parts:

1. Elimination of physical barriers to reduce transport costs and result in significant time savings. Eliminating or reducing customs procedures between EC member states should enable products to move as freely within the EC as they do in the United States.
2. Elimination of technical barriers to open previously closed national markets in areas such as insurance and public procurement. The single industrial standards for products with health, safety, or environmental implications should make it easier to market products throughout the EC.
3. Elimination of fiscal barriers to facilitate intra-EC trade. Different indirect tax rates among member states, such as differing value-added and excise taxes, necessitate border controls to avoid tax evasion. Harmonization of these indirect tax rates is one aspect of eliminating fiscal barriers. EC officials have said that fiscal barriers will be the most difficult barriers to eliminate.

Other anticipated benefits for Europe from this program include economies of scale in production for a larger market, increased competition in

some sectors, greater research and development expenditures, lower prices, a greater variety of products to stimulate consumer demand, and lower budgetary expenditures on government regulations.

In June 1989, the EC reported that the process of completing the internal market was irreversible. At the end of 1989, about 93 percent of the legislation needed for the program had been proposed, and 51 percent had been adopted.

EC 1992 will bring about many changes in how U.S. companies trade with the EC. The EC is working to improve both the competitiveness of its own SMEs and their opportunity to profit from EC 1992. EC 1992 is expected to make EC companies more competitive at home and abroad, and U.S. firms should be prepared to meet that challenge.

Objectives, Scope, and Methodology

The Chairman of the Subcommittee on International Trade, Senate Committee on Finance, requested that we identify how EC 1992 will affect U.S. trade interests. Specifically, we were asked to determine which issues could have an impact on U.S. businesses, particularly small and medium-sized merchandise exporters. We identified concerns of U.S. SMEs regarding market opportunities and changes in light of EC 1992. We examined the roles of the EC and the U.S. government in providing support for their respective SMEs in the EC 1992 environment, and opportunities for U.S. government collaboration with the EC. This is the second report responding to the request. The first, entitled European Single Market: Issues of Concern to U.S. Exporters, (GAO/NSIAD-90-60) was issued in February 1990.

To determine their role in monitoring EC 1992 and in disseminating that information to SMEs, we reviewed documents and interviewed officials of the U.S. Departments of Commerce and State, the Office of the United States Trade Representative (USTR), and the Small Business Administration. We talked with private sector associations, particularly those with many SME members, and with small business owners to determine their views on EC 1992 and its potential impact on SMEs.

We obtained information from U.S. embassy, Department of Commerce Foreign Commercial Service, and American Chamber of Commerce officials in Brussels, Frankfurt, London, Paris, and Madrid about how EC 1992 could affect U.S. SMEs and how the competitive situation will change for SMEs.

In Brussels, officials from the U.S. Mission to the EC gave us information on what steps they were taking to monitor EC 1992 and to be attentive to U.S. SMES' interests. We interviewed officials in the EC directorate-general concerned with SMES to obtain information about specific programs the EC has for its SMES and the relationship of the programs to EC 1992. We also met with a Belgian government official to gain an EC member's viewpoint on SMES and with a private sector consultant and attorneys to learn what advice they are giving clients, especially SMES, on how EC 1992 will change future business practices in Europe.

In Brussels and Frankfurt, officials from seven state trade promotion offices told us how EC 1992 is affecting their export promotion activities. We also obtained responses to questions from 11 additional state trade promotion offices in Europe and the United States. In addition, we attended the EXPORT '89 trade congress in West Germany in October 1989 to learn about market opportunities for U.S. SMES in the EC 1992 environment.

We obtained information from representatives of various private sector organizations including trade associations, businesses, a research institute, and a magazine publisher in New York City. We met in both New York and the United Kingdom (U.K.) with representatives of an EC firm that acts as an EC business adviser.

We attended congressional and International Trade Commission hearings on EC 1992. We also obtained and analyzed documents, studies, books, and reports on EC 1992.

As requested, we did not obtain formal agency comments on this report, but we did discuss its contents with Commerce and SBA officials and incorporated their comments where appropriate. Our work was performed from March 1989 through March 1990 in accordance with generally accepted government auditing standards.

EC Support for Its Small and Medium-Sized Enterprises

In 1986, an EC task force was established to actively encourage cooperation between European SMEs.¹ In February 1989, this task force was formally elevated to the status of a full Directorate-General (DG), DGXXIII, in the EC Commission, the executive arm of the EC, demonstrating the EC's longer-term commitment to helping SMEs. Later in 1989, the EC approved a 4-year program of measures that DGXXIII might enact to enhance SME competitiveness and to provide cooperation mechanisms.

EC Measures to Enhance Cooperation

The SME Action Programme sets out a series of services to SMEs to be developed or extended to improve their flexibility. These services to SMEs focus on providing information, encouraging cooperation, giving financing and export assistance, preparing training and employment initiatives, and fostering innovation and technology transfer activities.

Providing Information

A DGXXIII official stated that the new SME program focuses on providing information to SMEs, such as those in the high-technology manufacturing area where SME participation has increased. DGXXIII has organized a network of European information centers, known as Euro Info Centres, that disseminate material about EC legislation, programs, and funds. These information centers numbered about 40 in the pilot phase, and the EC plans to expand to 180 in 1990.

In addition, DGXXIII provides public on-line access to public and private databases of interest to SMEs. The database catalog is indexed by economic sectors and/or type of activity and includes material on commerce (imports/exports), law, agriculture, technology, energy, environment, science, and general information. Some databases do not charge for access, while others do.

Encouraging Cooperation

DGXXIII's Business Cooperation Centre coordinates cooperative activities for the SME action program. To provide help for businesses that are seeking partners, the EC Commission set up the computerized Business Cooperation Network (BC-NET). BC-NET became operational in mid-1988,

¹The EC defines an SME as any firm with a labor force of less than 500 employees, net fixed assets of less than 75 million European Currency Units or ECU (around \$79 million), and not more than one-third of its capital held by a larger company. This definition encompasses more than 95 percent of all companies within the EC. These SMEs provide more than two-thirds of total EC employment. An ECU is made up of a weighted average of EC member country currencies. The weight of each currency depends on the size of the country's national economy.

and about 400 EC "advisers" administer it. Many of these advisers are chambers of commerce that act as consultants to SMEs.

BC-NET is a matching service for SMEs interested in pursuing cooperative efforts such as joint ventures, joint research and development, mergers, distribution arrangements, product promotions, and so forth. In all, the database classifies 40 such operations. (See app. I.) Advisers send SME company profiles to Brussels via computer or mail. The system automatically compares requests with all the other profiles in the database in an effort to find matches. When the search is positive, the requesting advisers receive the results, and the firms offering the cooperation are also informed that their offers have been matched with a request. If no matches are found and if the company wishes, a request can be automatically distributed, in the form of a "flash profile," to business advisers located in the specified geographic area. These advisers then have a limited time in which to consult their portfolios and reply to the BC-NET system. By circulating information and by linking business advisers, the BC-NET system seeks to aid SMEs' participation in EC 1992. According to an official of an EC adviser, as of February 1990, approximately 6,000 company profiles were on the BC-NET system.

Another EC Commission program to encourage cross-border business links, called Europartnership, also became operational in 1988. This program aims to stimulate cooperation between regions with development problems and other EC regions. Europartnership action has three stages: identification and selection of projects for cooperation in the chosen area; distribution in other EC countries of a catalog of these projects; and meetings between companies in the chosen area and those that have shown an interest in cooperation.

The Business Cooperation Centre also encourages transnational subcontracting by making available to both sides glossaries of standard technical terms for various sectors. These glossaries have been translated into nine languages. They are used for setting up databases and for administering grants. The EC Commission believes that expanding the use of transnational subcontracting is closely related to EC 1992 because transnational subcontracting will help remove technical barriers such as national product standards.

Financing Assistance

The EC Commission has undertaken several projects to help solve SME financing problems. Typical financing problems include finding start-up capital and dealing with higher interest rate costs for small as compared

to large companies. EC projects include (1) the formation of transnational risk capital pools for innovative undertakings, (2) the creation of a public company to offer financial support services for SME transnational transactions, (3) the proposal for a new EC instrument to provide loans to finance SME investments, and (4) the plan to encourage financing of transnational technology projects with SME participation.

Export Assistance

Another DGXXIII project helps SMES gain access to nonmember country markets, principally by working through trading houses (i.e., export trading companies). According to a DGXXIII official, export promotion is viewed as a national responsibility within the EC; therefore, the EC Commission decided to encourage EC-wide involvement in an organization called the Confederation of International Trading Houses. The EC Commission held a seminar in London with chambers of commerce, national trade promotion organizations, and selected SMES to publicize the benefit to SMES of exporting through a trading house. One of the meeting's recommendations was to produce a practical handbook on national trade organizations. Accordingly, a three-part handbook was published that compiles information on national trade promotion organizations and describes the trading environment in a unified EC market, gives advice on how to export, and discusses assistance available in different EC countries.

The EC Commission is working with the Confederation of International Trading Houses to study the Japanese market to establish a trading house in Japan. The EC Commission is supporting this endeavor because the Confederation felt the effort would be better received in Japan if it had EC support. The DGXXIII official stated that EC exporters do not need assistance to enter the U.S. market.

In addition, EXPORT '89, a joint U.S.-EC initiative with EC Commission support, was held in Frankfurt in October 1989; its goal was to examine new trade opportunities between the EC and the United States for small and medium-sized businesses.

Training and Employment Initiatives

In late 1988, the EC Commission adopted a program to prepare SMES for EC 1992 by (1) training SME owners or managers in strategic management, (2) analyzing the sectoral and regional impact of EC 1992 on SMES, and (3) establishing an exchange and cooperation network of training institutes. The EC Commission has also continued to develop activities

that help create jobs in SMEs. These activities include holding conferences, examining employment problems in specific industries, providing support for the information exchange network to promote local employment initiatives, and helping women who want to set up their own businesses.

Innovation and Technology Transfer

The EC Commission has set up Business and Innovation Centres to support SME development with special projects on training, technology transfer, access to finance, and export assistance. These centers help establish high-growth and export-oriented SMEs and also assist existing SMEs that want to obtain similar status. According to the EC Commission, these centers have been effective in mobilizing local financial resources and technical expertise.

The EC Commission believes SMEs can be important contributors to the development of new products, systems, and techniques; therefore the EC Commission has started programs to strengthen the EC's technological base. Furthermore, the EC believes that an adequate level of basic research and development and a favorable environment for innovation are necessary, and that all firms should have access to new technologies. One such initiative to assist SMEs in particular is the Strategic Programme for Innovation and Technology Transfer, or SPRINT. The program began in 1983, and by 1988 more than 200 consultants were involved in networks. The aim of the networks, which consist mainly of technology brokers, is to promote transnational technological cooperation among SMEs. SPRINT has supported actions to protect patents, to provide training on the management of innovation and technology transfer, to implement advanced technologies such as robotics in SMEs, and to make SMEs aware of the merits of quality control and industrial design.

Improving the Business Environment for EC Small and Medium-Sized Businesses

The EC believes improving the environment in which business operates in the EC is necessary for the development of the economy and the improvement of the EC's competitiveness. To this end, the EC Commission has undertaken initiatives for SMEs in the areas of competition policy, company law and taxation, and undue administrative burdens.

Competition Policy

EC legislative and regulatory actions for SMEs seek to ensure that cooperation agreements are not affected by the prohibitions contained in the EC's competition policy. Specifically, the EC authorizes cooperation agreements between SMEs when the market shares for the products involved do not exceed 5 percent of the EC market and when the total annual turnover of the participating companies is below ECU 200 million. The EC Commission has also granted various specific exemptions to encourage particular forms of collaboration between companies, such as research and development projects with joint exploitation of the results, subcontracting, and licensing of patent rights. The majority of these exemptions favor agreements between SMEs.

Company Law and Taxation

The EC Commission has also undertaken initiatives in the areas of company law and taxation aimed at improving the environment for the creation and development of SMEs. For example, in 1988, the EC adopted a proposal which allows for the creation of single-person private companies throughout all member states.

Beginning in July 1989, as a result of a 1985 EC regulation, a new legal instrument for encouraging transnational cooperation became available to businesses. Called the European Economic Interest Grouping, this new instrument enables SMEs from different EC countries to cooperate in joint activities such as research and development, purchasing, production, sales, and multidisciplinary consortia. The economic interest grouping structure has full legal standing as a transnational entity, yet individual country members continue to retain their independence. In addition, the organization is fiscally transparent, very flexible in terms of its membership, and open to U.S. subsidiaries that may want to join. The EC Commission believes this instrument will help European firms, particularly SMEs, improve their competitiveness.

Administrative Constraints

The EC Commission feels strongly that its proposals for legislation should be made only where necessary and should not impose undue regulatory and administrative burdens on business. In 1986, it introduced a system whereby all legislative proposals for decision-making are assessed from the viewpoint of their likely impact on business. This was to minimize any unnecessary costs for business.

With regard to constraints imposed by existing EC legislation, the EC Commission undertook a study which analyzed the impact of such legislation on SMEs. It concluded that businesses are often unaware of or misunderstand EC legislation, and that burdens often arise from national implementation of EC legislation rather than the legislation itself. In 1988, the EC Commission published a report on simplifying administrative procedures in the EC.

U.S Support for Its Small and Medium-Sized Enterprises

U.S. federal agencies and state governments are actively assisting SMES² to plan for EC 1992. The core concern of U.S. SMES is one of market access in post-1992 Europe. Obtaining information on changes in market access and business opportunities in a fairly simple, timely and cost-effective manner is the key to addressing this concern. The U.S. government, as well as state and local governments, has been heavily involved in trying to answer this concern. We found that while much has been done, other opportunities were still available.

Federal Government Support

The federal government has established a program to monitor developments, work with industry, provide information, and formulate a policy on EC 1992. USTR chairs an interagency task force on EC 1992. In addition, SBA, the Departments of Commerce and State, and the Export-Import Bank of the United States (Eximbank) all have programs to assist SMES in the EC 1992 environment.

Interagency Task Force on EC 1992

In February 1988, a USTR-chaired interagency task force on EC 1992 was formed to identify and address EC 1992 problem areas for U.S. business. The main focus of the task force is to (1) understand the legislative measures and nature of EC 1992 proposed changes, (2) provide a mechanism by which the U.S. government could stay on top of the events as they unfold, and (3) identify and address problem areas.

In December 1988, the task force published a document defining the U.S. position on the main EC 1992 issues, such as reciprocity, national treatment, mergers, quantitative restrictions, local content, product standards, services, and government procurement. The task force next established the following 11 subsidiary working groups to concentrate on specific EC issues:

1. Product standards development, testing, and certification;
2. Health and the environment;
3. Services (except banking and securities);
4. Social dimension and labor law;

²In the United States, SBA defines a small business, in general, as having 500 employees or less. This definition covers about 98 percent of U.S. businesses; however, small businesses do not account for a large volume of U.S. exports.

5. Agriculture;
6. Rules of origin;
7. Investment issues;
8. Existing U.S. treaty rights;
9. Residual quantitative restrictions;
10. Third-country relations; and,
11. Civil aviation.

A USTR official on the task force stated that it is generally believed that EC 1992 will be good for multinational corporations, however, EC 1992's possible effect on SMES is not clear. Officials from Commerce and SBA disagreed with each other about the degree to which small business interests have been adequately represented on the task force. Initially, Commerce believed it represented those interests; however, about a year after the task force was formed, SBA was asked to join and now participates in task force activities.

Small Business Administration

An SBA official testified at a congressional hearing that SBA's main objective with regard to EC 1992 is to educate small businesses about the program and train them to compete in a global market. An SBA official told us that the SBA has been alerting small businesses to look toward Europe as an export market and that, because of the changes EC 1992 will make in trading rules, they should plan to get into the European market before the EC 1992 program is in place.

SBA provides information through its network of conferences, through written material, and through counseling and assistance. Through an agreement with the Federal Bar Association, SBA's Export Legal Assistance Network provides free, initial consultations to small companies on the legal aspects of exporting. SBA also works with Commerce to co-sponsor matchmaker trade missions whereby U.S. firms meet foreign firms that might be interested in their products.

In addition to its 107 regional, district, and branch offices, SBA works through the Small Business Development Center network to deliver export counseling and assistance. Individual assistance is provided by

the Service Corps of Retired Executives and the Active Corps of Executives who have practical experience in international trade.

The SBA official we spoke with felt that SBA capabilities are not comparable to those of Commerce in helping SMES. SBA gets the small business constituency interested in exporting, then refers them to other resources, such as Commerce, which has people all over the world to conduct market research and trade missions.

SBA also provides loan guarantees to small businesses that want to take advantage of the EC market or that face increased foreign competition as a result of EC 1992. In addition, SBA's Export Revolving Line of Credit program provides credit lines for up to 18 months to develop new markets.

SBA and the American Telephone and Telegraph Corporation sponsored EXPORT EXPO '90, a small business world trade conference and exhibition in Seattle in March 1990. The fair was designed to highlight three major industries—health care; process and pollution control equipment; and computers, software and peripherals. The goal of the fair was to match up foreign buyers with U.S. exporters. SBA also viewed the fair as an opportunity for small business exhibitors to showcase their products and services to the trade delegations, including some from EC countries, that were invited to attend.

The Omnibus Trade and Competitiveness Act of 1988 required that SBA conduct a National Seminar on Small Business Exports to develop recommendations designed to stimulate exports from small companies. According to SBA officials, the report resulting from EXPORT EXPO '90's policy seminars will fulfill this requirement.

Department of Commerce

Commerce's International Trade Administration (ITA) has several efforts underway to analyze and provide information on EC 1992. Three different ITA units—International Economic Policy, Trade Development, and the U.S. and Foreign Commercial Service (US&FCS)—have EC 1992 activities. Commerce testified at a congressional hearing that its three-tiered approach, geared to help the small business community respond to EC 1992, consists of (1) an awareness and information program, (2) a problem-solving program, and (3) a market development and export promotion program.

In the International Economic Policy unit, the Single Internal Market Information Service was begun in August 1988. The information service is located in the Office of European Community Affairs. The mission of the information service is to provide the U.S. business community with information and assistance to prepare for EC 1992. Information is disseminated primarily through the "Europe Now" business counseling program and speaking engagements. Staff refer detailed inquiries to various Commerce specialists for counseling and assistance. In 1989, information service officials gave almost 150 speeches on EC 1992. In addition, ITA publishes a quarterly Europe Now newsletter updating EC 1992 information for exporters.

According to a Trade Development unit official, the EC 1992 activities in this unit have three main functions: (1) to analyze the key legislative measures that the EC has proposed or ratified, (2) to manage Commerce's outreach program to sectoral trade associations, and (3) to contribute to EC 1992 policy formulation.

The Trade Development unit analyzed over 185 EC 1992 legislative measures it determined to be key for U.S. business. It received input from its outreach program to sectoral trade associations on which measures will have the greatest impact on their industries.

The results of the analyses were published in three volumes. Volume I, released in May 1989, includes nonfinancial services and industrial products. Volume II, released in September 1989, includes processed food, trademarks, and company law. Volume III, released in April 1990, includes additional industrial standards, government procurement, and financial services.

Trade Development has started an outreach program to major industry sectors. The purpose of the program is to identify specific opportunities and risks that the EC program poses to the ability of U.S. firms to compete in the EC market. Specifically, trade associations were asked to designate a contact person who could communicate each association's concerns to Commerce. The trade associations were also asked to assess the potential impact of various legislative measures on their industries and to provide these analyses to Commerce. According to Commerce, as of March 1990, 120 trade associations have joined the industry outreach program.

In addition, the Office of European Community Affairs coordinates the various Commerce units to help formulate U.S. commercial policy alternatives in response to EC 1992. All of the Commerce units participate actively in the Interagency Task Force working groups which develop overall U.S. government positions on trade matters.

ITA launched a major trade promotion program, "Europe '92," to promote U.S. businesses' entry into European markets before 1992 and to aid in finding agents and distributors for U.S. exporters. US&FCS was the primary focal point for this program. In the United States, US&FCS district offices sent information to 100,000 U.S. SMEs on the potential positive impact of EC 1992. According to a US&FCS official, US&FCS answered over 100,000 inquiries in 1989. US&FCS district offices have helped coordinate 30 seminars nationwide targeted to small business. The US&FCS Europe Now booklet stresses the importance of establishing relationships as soon as possible in the EC in order to take advantage of the market.

These EC 1992 activities supplement the standard US&FCS services for U.S. companies interested in exporting. For example, the US&FCS offers a comparison shopping service to assess how a product will sell in a given market. The Foreign Market Research and Trade Statistics services provide in-depth market data on selected products and industries. The World Traders Data Reports program assesses an exporter's potential customer's reputation and recommends whether to trade with the firm. US&FCS conducts Matchmaker trade delegations, trade missions, and trade shows abroad. In addition, US&FCS offers a Foreign Buyer Program which invites foreign buyers to U.S. trade shows featuring products and services in specific U.S. industries with high export potential. The Agent Distributor Service locates, screens, and assesses agents, distributors, representatives, and other foreign partners for exporters. The Export Contact List Service is a database of thousands of foreign companies interested in doing business with U.S. firms. Finally, U.S. firms can receive leads for foreign sales electronically through the Trade Opportunities Program.

Department of State

The Department of State has several people focusing on EC 1992 issues in Washington, D.C., and they participate in the Interagency Task Force on EC 1992. Overseas, the U.S. Mission to the EC is the front-line diplomatic post for working with EC institutions and with EC member state delegations in Brussels. The mission provides information and analysis of EC developments. It has recently been reporting specifically on SME

programs. It also communicates U.S. public and private sector views to EC officials. Another function of the mission is to coordinate visits of Americans to Brussels on EC 1992-related business, the majority of which are SME officials. In addition, mission officials provide visitors with information and materials related to their visits.

U.S. diplomatic posts in the 12 EC member states provide information and analysis from member state perspectives and monitor the implementation of the EC 1992 program in each country. In addition, State officials convey U.S. views and represent U.S. interests to the member state officials.

The Eximbank

The Eximbank is responsible for aiding the export of U.S. goods and services through a variety of loan guarantee, insurance, and loan programs. According to Eximbank publications, in recent years the Eximbank has undertaken a major overhaul of its programs to provide greater risk protection for lenders and to be accessible to the widest variety of potential sources of export finance.

To encourage small businesses to sell internationally, Eximbank maintains its Small Business Advisory Service to provide information on the availability and use of export credit insurance, guarantees, and direct and intermediary loans extended to finance the sale of U.S. goods and services abroad. Eximbank also offers briefing programs that are available to the small business community.

Eximbank's financial programs are generally available to any U.S. exporter regardless of size; however, certain programs are particularly helpful to small business exporters. For example, an exporter may reduce its risks by purchasing export credit insurance from Eximbank's agent, the Foreign Credit Insurance Association. Policies available include, but are not limited to, insurance for financing or operating leases, medium-term insurance, the new-to-export insurance, and insurance for the service industry.

The Working Capital Loan Guarantee Program assists SMEs in obtaining working capital to fund their export activities. Direct and intermediary loans are available to foreign buyers of U.S. exports and to responsible parties that extend loans to foreign buyers of U.S. capital goods and services. Finally, Eximbank's guarantee provides repayment protection for private sector loans to creditworthy buyers of U.S. capital equipment and related services.

State Government Support

Many state governments are involved in assisting SMEs to export their products and in providing information on EC 1992. The states not only help SMEs to understand the EC 1992 process but also, in some cases, provide business planning assistance.

In a 1988 study of state foreign sales efforts, the Center for Urban and Regional Grants of the University of Minnesota stated that all states with export promotion activities conduct much of their activity in their home state as opposed to abroad. More than 45 states provide written material for exporters such as newsletters and handbooks that include information on the export process, sources of official help, and the availability of private firms that support foreign trade such as freight forwarders and law firms. Other state activities include providing special credit facilities, advertising the availability of state products to foreign purchasers or potential distributors, hosting foreign trade delegations, providing individual counseling, and sponsoring seminars.

The study identified two other state activities that promote exports, but are less frequently practiced. First, states can provide special tax treatment for export earnings. Second, states can encourage the development of export trading companies, especially through port authorities.

Over half of the states have overseas trade promotion offices that offer services to potential exporters from that state. For example, the Council of American States in Europe, an umbrella organization for 26 overseas state trade promotion offices, focuses its export promotion efforts primarily on SMEs. The traditional function of these state offices was to attract investment by encouraging European companies to locate their U.S. facilities in their respective states. In recent years, state officials have recognized that export promotion has generally become more important; therefore the state offices have become more involved in this area.

State export promotion activities conducted in conjunction with Commerce's Foreign Commercial Service include participating in trade shows and missions, and setting up catalog shows and trade days. These events are targeted at finding European agents or distributors for their client SMEs' products. These events provide SMEs with exposure that they would not otherwise have received. In addition, these offices provide marketing assistance to individual companies.

To obtain information on EC 1992 for U.S. SMEs, the overseas state trade promotion officials interact with Foreign Commercial Service personnel

and American and local chambers of commerce. State officials indicated that, in general, they have limited contact with the American chambers of commerce because American chambers' interests are geared to U.S. firms already in Europe.

We found instances of state programs that are aggressively encouraging SMEs to export to the EC. For example, Maryland's Office of International Trade recently launched "Maryland Opportunity '92," an intensive program designed to stimulate exports to the EC. It includes an educational component, trade promotion, market research, and business counseling. Maryland's EC Assistance Center provides information on new EC regulations, standards, and market developments. In 1989, Maryland issued an Exporters' Guide that takes the client through the export process and notes contacts for local organizations that can provide further assistance. The office also has a newsletter that now includes an EC 1992 section. According to a Maryland trade official, if a client had a problem or expressed a concern over an EC legislative measure, Maryland would help to identify the appropriate EC-related organization or official. Maryland would also encourage the business to make use of its agents or distributors in Europe to advance the client's concerns.

In another example, the state of California published an EC 1992 guidebook in May 1989 which is designed to persuade California businesses that enormous business expansion opportunities will exist because of the EC 1992 program, and that an active response to the program is necessary to protect existing markets and to start new ones. The guidebook also provides basic information about the legislative processes now occurring in Europe and the points where California firms can attempt to influence these processes, either individually or through associations. The guidebook lists information sources on EC 1992 in California, the United States, and Europe.

Improving the Business Environment for U.S. Small and Medium-Sized Businesses

In the view of both U.S. public and private sector officials working on European trade policy issues, EC 1992 is expected to make EC companies more competitive at home and abroad, and the United States should be prepared to meet that challenge. Furthermore, expanding their markets may be key to the survival of some U.S. SMEs.

Trade shows are one way that opportunities for cooperation between U.S. and EC small and medium-sized businesses can be enhanced. One such event, EXPORT '89, was held in 1989 and was designed specifically

for small businesses to forge links with each other while learning how to export to each other.

In addition, the EC has developed a database network to match SMES interested in similar activities, and an information center network to provide materials to SMES interested in EC activities. U.S. exporters currently have limited access to these networks; however, greater U.S. access could help U.S. SMES compete in EC markets.

Results of EXPORT '89 Were Mixed

EXPORT '89 combined a trade fair with a conference on exporting. It was a government/industry partnership supported by the EC Commission and Commerce. While many attendees were pleased with the results of their participation in EXPORT '89, others expressed reservations about the usefulness of this type of event. For example, some individuals with whom GAO spoke believed that the fair was too diffuse and should have been more specialized. Although EXPORT '89's objective was to expose U.S. and EC businesses to the various opportunities available in each market, they felt that specialized trade fairs have a better potential for matching exhibitors with business partners.

On the other hand, other attendees, particularly some exhibitors, were pleased with the results of their participation in EXPORT '89 and believe the event should be repeated in the future. Those who wrote follow-up letters to Commerce said they made useful contacts, and some made sales. Those who did a lot of marketing in advance of the fair were more successful at the fair than those who did nothing beforehand.

EC Database Network and Information Centers Could Be Useful for U.S. SMEs

Another means of increasing U.S. and EC cooperative opportunities for SMES is through the sharing of computerized databases. For example, U.S. participation in BC-NET could assist U.S. exporters in locating distributors in the EC. Currently, U.S. companies with European offices can make use of BC-NET, but U.S. exporters can receive only limited access through an EC adviser with a U.S. subsidiary office. Because the United States does not participate in the network, U.S. firms cannot be listed on the BC-NET database, nor are SMES in the EC consulted about any interest in U.S. partners.

We met with officials of this EC adviser in the United States and the U.K. Through its corporate affiliation, the U.S. subsidiary offers U.S. companies access to EC information databases and the BC-NET infrastructure. The firm also offers clients access to the EC's database that lists certain

public procurement contracts, including those published in the Com-
merce Business Daily.

At EXPORT '89, both EC and U.S. government representatives discussed access to BC-NET for U.S. firms, and the EC has stated it is willing to negotiate an extension of the network to the United States and allow U.S. SMES to access the system directly from the United States. Since then, Commerce and EC Commission officials have held preliminary discussions concerning U.S. participation in the network; however, according to Commerce officials, Commerce has determined that the department cannot directly participate in the development of BC-NET in the United States.

According to an official in Commerce's International Economic Policy unit who has been involved in the discussions, the EC Commission wants a government-to-government agreement to provide for U.S. participation in BC-NET. The U.S. government entity signing the agreement would be responsible for choosing the U.S. version of EC advisers. He believes BC-NET would be in keeping with Commerce's congressional mandate to advance the interests of small business and to promote exports, but because BC-NET would also promote imports into the United States from the EC, he believes Commerce is not authorized to sign such an agreement.

Commerce is willing to assist the EC in linking up BC-NET with U.S. state and/or local governments, and is encouraging the EC to pursue such alternative outreach systems in the United States. In addition, Commerce believes its Agent Distributor Service system is more useful to U.S. exporters than BC-NET would be because the system contains information on 50,000 European companies looking for links to U.S. exporters. BC-NET, on the other hand, has a much lower participation rate, and not all companies included would be interested in a match with a U.S. company.

After EXPORT '89, the Industry Sector Advisory Committee on Small and Minority Business, which was the U.S.' private sector sponsor of EXPORT '89, concluded that it believes that the BC-NET program has the potential to benefit U.S. small business. In February 1990, the committee sent the Secretary of Commerce its resolution, which recommended that Commerce enter into negotiations with the EC on extending BC-NET to the

United States. In response, the committee was told that Commerce officials had decided it would not be appropriate for U.S. government agencies to play a direct role in the development, support, or accreditation of BC-NET in the United States as it was proposed by the EC Commission.

SBA has been working with Commerce to determine possible locations for BC-NET terminals. According to an SBA official, one possible location might be in small business development centers, which are private but receive some funding from SBA. Other possibilities include the National Governor's Council and private sector development programs such as metropolitan municipalities and regional port authorities, universities designated as EC depositories, umbrella industry sector associations, and the U.S. Chamber of Commerce.

As of March 1990, the question of how BC-NET operations in the United States could be funded had not been fully addressed. The EC Commission expects that U.S. business advisers (like those in the EC) would charge their customers fees sufficient to cover costs. The costs would include EC charges for evaluating the suitability of the adviser and its customer base, local installation of technical equipment and training, telecommunications link-up to Brussels, and ongoing administrative costs of entering company profiles into BC-NET and processing matches. The EC Commission currently subsidizes some of these costs for users within the EC, but has stated that other users should not expect EC subsidies.

The Euro Info Centres located in EC member states are another potential cooperation vehicle. These centers offer extensive information and documentation services to the local business community. The centers are able to retrieve specialized information and assist businesses in developing various forms of cooperation through their access to EC databases and to the Euro Info Centre network. Most centers also have access to BC-NET. Through a visit to a local center, U.S. government officials in Brussels determined that U.S. SMEs that are locally established or represented by a local agent or distributor may also use the services provided by the centers on a nondiscriminatory basis and have access to BC-NET. Officials from the U.S. Mission to the EC are continuing inquiries with the EC Commission about the possibility of cooperative agreements to help bring the Euro Info Centres and BC-NET to the United States, so that U.S. exporters can access this information from the United States.

The private sector is also involved in efforts to obtain access to EC databases. For example, in Virginia, George Mason University's Center for European Community Studies serves the educational needs of the

university and the professional needs of the business community through its activities. According to an official of the center, it is the first of its kind in the United States. It operates an EC Research Service and a European Documentation Center. In addition, the Center has access to EC documents and databases. It also organizes conferences, seminars, and workshops on the EC. Center officials have held discussions with DGXXIII officials about being designated as a Euro Info Centre but, according to a Center official, not much progress has been made to date.

Conclusion

Faced with the EC's program to improve the competitiveness of its SMEs and with the uncertainties brought about by the EC 1992 program, the U.S. government has an important role in helping to ensure that EC 1992 does not adversely affect U.S. exporters. Two ways to assist U.S. exporters would be participation in the EC's Business Cooperation Network and the establishment of U.S. equivalents of Euro Info Centres. The possibility of participation in the Business Cooperation Network is clouded by two questions: whether Commerce can sign a government-to-government agreement as proposed by the EC; and the ways and means of establishing the network in the United States.

Recommendations

In light of the federal government's role in assisting U.S. SMEs to obtain the information they need in the EC 1992 environment, we recommend that the Secretary of Commerce resolve the issues that inhibit extension of the EC Business Cooperation Network to the United States. More specifically, we recommend that the Secretary determine (1) whether Commerce can sign an agreement with the EC to provide for U.S. participation; (2) whether Commerce or some other entity would be the appropriate U.S. sponsor; and (3) the feasibility of and potential sources of funds to support initiation of the network in the United States.

Categories for Matching Services in BC-NET Database

The Business Cooperation Network, BC-NET, is an EC database for small and medium-sized businesses interested in finding business partners in other EC countries. U.S. firms are not yet listed on the database; however, U.S. firms can obtain access to the BC-NET infrastructure through the subsidiary of an EC firm (see chapter 3). The following is a list of the various categories of cooperation available on the database.

General

Joint creation of enterprise
Merger

Financial

Request to buy a complete company or part of a company (including shares)
Offer to sell a complete company or part of a company (including shares)
Request for equity capital
Offer to provide equity capital
Request for a loan
Offer to provide credit

Commercial

Joint marketing agreement
Request for marketing services
Offer of marketing services
Joint distribution agreement
Request for distribution services and outlets (wholesale or retail)
Offer to provide distribution services and outlets (wholesale or retail)
Request for agency
Offer to provide agency
Request for after-sales service representative
Offer to provide after-sales service representative
Request for franchise
Offer to provide franchise
Request for general commercial assistance
Offer to provide general commercial assistance

Technical

Reciprocal technical cooperation
Request for technical assistance
Offer to provide technical assistance
Request for research and development assistance
Offer to provide research and development assistance

**Appendix I
Categories for Matching Services in
BC-NET Database**

Joint production agreement
Request for subcontracting
Offer to provide subcontracting
Request for engineering capability
Offer of engineering capability
Request for manufacturing rights (producing under license or patent)
Offer of manufacturing rights (including patent/license)
Request for an Original Equipment Manufacturer dealer
Offer to be an Original Equipment Manufacturer dealer
Request to buy patents or licenses
Offer to sell patents or licenses
Request for technology transfer (know-how)
Offer of technology transfer (know-how)

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

Curtis F. Turnbow, Assistant Director
William M. Freeman, Project Director
Barbara I. Keller, Project Manager
Sara B. Denman, Evaluator

European Office

Jeffrey K. Harris, Evaluator

Requests for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877**

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

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

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100
